

May 7, 2020


**NOTICE TO READER**

Re: NFI Group Inc.

To whom it may concern,

This document corrects and replaces the Management Discussion & Analysis that was inadvertently filed on SEDAR on May 7, 2020 at 7:41 AM EST.

The Management Discussion & Analysis is being refiled to add Appendix C 2020 First Quarter Order Activity which was not included in the earlier version. No other content has changed.

A blurred, high-speed photograph of a highway, likely taken from the perspective of someone inside a vehicle. The road stretches into the distance, with a guardrail on the right and a grassy shoulder on the left. The background shows a clear sky and some distant structures.

First Quarter 2020  
Financial Report  
May 6, 2020

# NOTES TO READERS

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED MARCH 29, 2020

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's unaudited consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ended March 29, 2020.

This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements" in Appendix B. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at [www.sedar.com](http://www.sedar.com). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, except where otherwise indicated, are presented in U.S. dollars, which is the functional currency of NFI. Unless otherwise indicated, the financial information contained in this MD&A has been prepared in accordance with IFRS and references to "\$" or "dollars" mean U.S. dollars.

### QUARTERLY AND ANNUAL REPORTING PERIODS

The quarterly and annual reporting periods for the current and prior year are as follows.

|             | Period from<br>December 30, 2019<br>to December 27, 2020<br>("Fiscal 2020") |             |                           | Period from<br>December 31, 2018<br>to December 29, 2019<br>("Fiscal 2019") |             |                           |
|-------------|---|-------------|---------------------------|---|-------------|---------------------------|
|             | Period End Date   |             | # of<br>Calendar<br>Weeks | Period End Date   |             | # of<br>Calendar<br>Weeks |
| Quarter 1   | March 29, 2020  | ("2020 Q1") | 13                        | March 31, 2019  | ("2019 Q1") | 13                        |
| Quarter 2   | June 28, 2020   | ("2020 Q2") | 13                        | June 30, 2019   | ("2019 Q2") | 13                        |
| Quarter 3   | September 27, 2020  | ("2020 Q3") | 13                        | September 29, 2019  | ("2019 Q3") | 13                        |
| Quarter 4   | December 27, 2020   | ("2020 Q4") | 13                        | December 29, 2019   | ("2019 Q4") | 13                        |
| Fiscal year | December 27, 2020   |             | 52                        | December 29, 2019   |             | 52                        |

Specific references and definitions are used throughout this MD&A, please see "Meaning of Certain References" and "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings per Share, and Regions including: North America, UK and Europe, Asia Pacific and Other" in Appendix B. References to LTM mean last-twelve months ("LTM"). Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share are non-IFRS measures and should not be considered substitutes or alternatives for IFRS measures. These are not defined terms under IFRS and do not have standard meanings, so may not be a reliable way to compare NFI to other companies. See "DEFINITIONS OF ADJUSTED EBITDA, ROIC, FREE CASH FLOW, ADJUSTED NET EARNINGS, ADJUSTED EARNINGS PER SHARE, REGIONS INCLUDING: NORTH AMERICA, UK AND EUROPE, ASIA PACIFIC, AND OTHER" in Appendix B for information about these measures, including how they are calculated and the ratios in which they are used.

Buses manufactured by New Flyer and ADL's single and double deck buses are classified as "transit buses". ARBOC manufactures body on-chassis or "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses". A "motor coach" or "coach" is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) one or two axles in the rear (related to the weight of the vehicle), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory and underfloor baggage compartments), and (v) no room for standing passengers. "Product lines" include heavy-duty transit buses, motor coaches, pre-owned coaches, cutaway and medium-duty buses. All of the data presented in this MD&A with respect to the number of transit buses, medium-duty buses, cutaways and motor coaches in service and delivered, is measured in, or based on, "equivalent units". One equivalent unit (or "EU") represents one production slot, being one 30-foot, 35-foot, 40-foot, 45-foot heavy-duty transit bus, one double deck bus, one medium-duty bus, one cutaway bus or one motor coach, whereas one articulated transit bus represents two equivalent units. An articulated transit bus is an extra-long transit bus (approximately 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

A summary of the Company's order, delivery and backlog information can be found in Appendix C.

# A LEADING INDEPENDENT GLOBAL BUS AND COACH MANUFACTURER

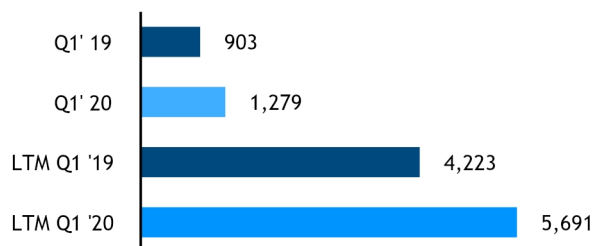


## 2020 Q1 LTM Highlights (US \$)

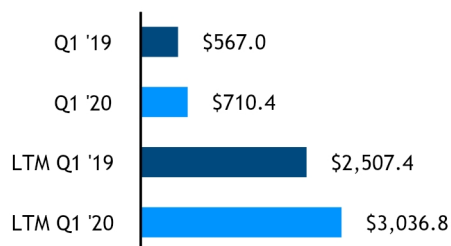


# KEY PERFORMANCE INDICATORS

## Deliveries (EUs)



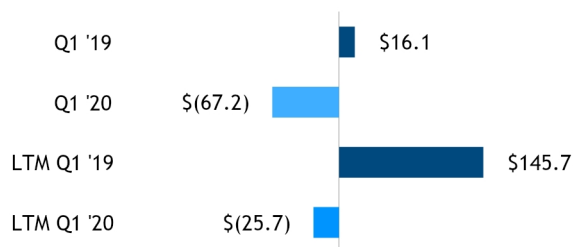
## Revenue (\$ millions)



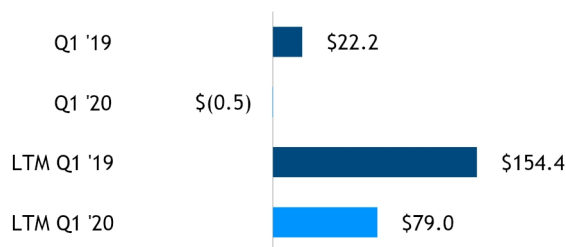
The increase in quarterly deliveries was driven by the acquisition of ADL and higher motor coach and medium-duty and cutaway deliveries as NFI had a consistent supply of chassis during 2020 Q1. On an LTM ("last twelve months") basis deliveries were up by 1,468 EUs, due to record fourth quarter 2019 deliveries and the acquisition of ADL.

Revenue increased by 25% from 2019 Q1 to 2020 Q1 due to the acquisition of ADL, higher motor coach and medium-duty and cutaway vehicle sales and higher public customer parts sales at NFI Parts. The increase of 21% on an LTM basis was driven by the acquisition of ADL.

## Net earnings (loss) (\$ millions)



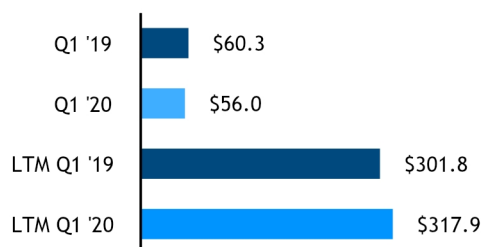
## Adjusted Net Earnings<sup>1</sup> (Loss) (\$ millions)



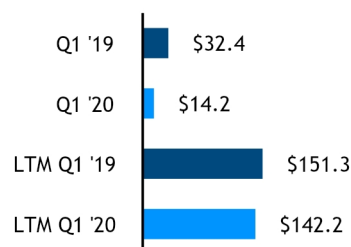
First quarter 2020 net earnings decreased by \$83.3 million driven by a \$50.8 million non-cash goodwill impairment related to MCI's private motor coach business. The goodwill impairment reflects the impact COVID-19 is having and is expected to have on the private coach market in 2020, including the cancellation or deferral of private customer orders for new and pre-owned coaches. The uncertainty surrounding the outbreak of COVID-19 also caused significant volatility in equity markets, resulting in a systematic increase in the cost of equity capital utilized in the calculation to determine the recoverable amount of the MCI Cash Generating Unit ("CGU"). The impairment is mostly caused by near-term cash flow impacts caused by COVID-19, as management believes MCI's longer-term cash flows are consistent with those forecasted prior to the pandemic. Net earnings was also lower due to higher depreciation and amortization and interest expense, including a \$22.5 million mark-to-market loss on interest rate swap.

First quarter 2020 Adjusted Net Earnings decreased by \$22.7 million. The decrease was primarily driven by higher interest and depreciation and amortization. Adjusted Net Earnings is adjusted for the \$50.8 million goodwill impairment, \$15.5 million of tax affected mark-to-market losses on interest rate swaps and \$1.4 million in mark-to-market losses on total return swap.

### Adjusted EBITDA<sup>1</sup> (\$ millions)



### Free Cash Flow<sup>1</sup> (\$ millions)

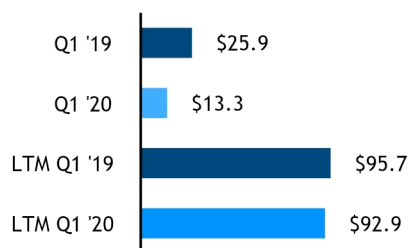


First quarter 2020 Adjusted EBITDA decreased by \$4.3 million, or 7%, as higher deliveries and improvement in Manufacturing and Aftermarket revenue were offset by lower gross margins within the Company's manufacturing segment plus higher SG&A costs from the addition of ADL. Offsetting the lower margins and higher SG&A costs were lower corporate expenses due to lower incentive and bonus costs.

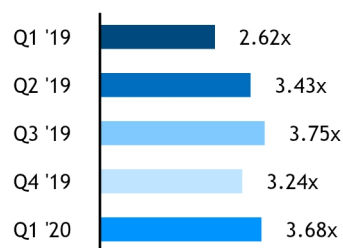
On an LTM basis Adjusted EBITDA is up by \$16.1 million, or 5%, driven by the Company's acquisition of ADL plus higher deliveries within the transit and medium-duty and cutaway business, offset by lower gross margins and higher SG&A costs.

Free cash flow in 2020 Q1 decreased by \$18.2 million, or 56.2%, when compared to 2019 Q1, primarily due to lower Adjusted EBITDA, and higher interest expenses. On an LTM basis Free Cash Flow decreased by 6.0%, as higher Adjusted EBITDA and lower capital expenditures were offset by higher interest and income taxes.

### Declared dividends (\$CAD millions)



### Total Leverage Ratio



2020 Q1 declared dividends decreased by 50% as a result of the Board of Directors ("Board") reducing the Company's quarterly dividend, for the period January 1 to March 31, 2020, to C\$0.2125 per common share in direct response to the impact of COVID-19 on the Company's operating businesses and end markets. While the dividend payment was reduced, the continued payment reflects the Board's confidence in the Company's business while maintaining the financial flexibility required to operate during a period of significant uncertainty. On an LTM basis dividends are down 3%, also driven by the first quarter 2020 reduction.

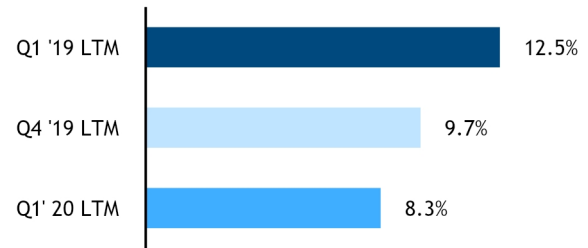
Total Leverage Ratio of 3.68x increased by 0.44x from 2019 Q4 to 2020 Q1. The increase in the Total Leverage Ratio is primarily driven by changes in non-cash working capital and lower Free Cash Flow. Working capital was impacted by increases to inventory balances and timing of receivable payments, with larger collections achieved subsequent to quarter-end which helped the company improve its liquidity position.

The Company's liquidity position, which combines cash on-hand plus available capacity on credit facilities, as at March 29, 2020 was \$146.6 million. Subsequent to the end of the quarter, on April 23, 2020, NFI Group announced that it had obtained covenant relief under the Company's existing \$1.25 billion unsecured senior credit facility and had entered into a new, additional \$250 million unsecured, one-year liquidity facility ("New Facility"). The New Facility can be used for general corporate purposes, thereby providing additional liquidity and flexibility should it be required. On May 1, 2020 the Company and its UK subsidiary, NFI International Limited, entered into a new strategic £50 million unsecured facility (the "UK Facility") that management expects may lower interest expenses and withholding tax exposure as it allows the Company to better manage international transactions and borrowings for ADL's operations. These two new facilities combined with cash generated subsequent to the quarter left the Company with a total liquidity position of \$550 million as of May 6, 2020. Further details on the facilities can be found on page 26 of this MD&A.

### Backlog (EUs)



### ROIC<sup>1</sup>



At the end of 2020 Q1, the Company's total backlog (firm and options) of 10,579 EUs (valued at \$5.1 billion) has decreased compared to 10,742 EUs (valued at \$5.2 billion) at the end of 2019 Q4. The decrease was driven by strong deliveries in the quarter of 1,279 EUs. The summary of the values is provided below. Compared to 2020 Q1, the backlog was relatively flat with a decrease of 8 EUs.

2020 Q1 LTM ROIC decreased 4.2 percentage points from 2019 Q1 LTM with overall improvements to Adjusted EBITDA from higher deliveries, aftermarket growth and lower corporate expenses offset by delivery challenges felt during 2019 Q2 and 2019 Q3 due to challenges at the Company's new parts fabrication facility, KMG, learning curve on new products, higher invested capital related to the acquisition of ADL, elevated working capital from higher inventory balances and margin pressure within the coach business. In addition, ROIC was also negatively impacted by accounting adjustments related to the ADL acquisition.

#### Footnotes

1. Non-IFRS Measure - See Appendix B

# 2020 Q1 HIGHLIGHTS

1,346 EUs

2020 Q1 New Orders

3.68x

Total leverage

86%

LTM Book-to-Bill

19%

YoY North American Public  
Bid Universe Growth

67%

Payout Ratio

\$550 million

Total liquidity<sup>(1)</sup>

The COVID-19 pandemic has resulted in an unprecedented global crisis impacting economies around the world including all of NFI's end markets and nearly every supplier partner. Local, regional and federal governments have imposed and increased restrictions and issued various orders to slow the spread of the virus, including, lockdowns, travel restrictions and border closures. In response to this changing environment the Company made the decision to idle its new vehicle production facilities, initially for a two-week period, which was then extended into May 2020. This decision was made to not only comply with various government mandates, but to also protect the Company's people and workforce who often work in close proximity to one another. While new vehicle production was idled, the Company maintained a complement of staff to ensure it continued to respond to active and new vehicle procurements, support vehicles in service, fulfill Aftermarket parts orders and complete and deliver vehicles that were in various stages of production. While most of our production staff were furloughed and not working within a facility, many of our team members continued to work remotely on various projects, respond to active procurements and execute strategic initiatives.

As the focus shifted from new vehicle production to cash conservation in the face of COVID-19, the Company implemented numerous initiatives at the beginning of 2020 Q2, including hiring freezes, suspension of salary increases and 2019 earned executive incentive bonuses, decreased operating and capital expenditures, including delays of several projects, increased focus on working capital management and temporary reductions in senior leadership salaries. In addition to these various measures, the Board also reduced the Company's quarterly dividend, for the period January 1 to March 31, 2020, to C\$0.2125 per Share. While the dividend payment was reduced, the continued payment reflects the Board's confidence in the Company's business while maintaining the financial flexibility required to operate during a period of significant economic uncertainty. To assist with cash management efforts, the Board also directed the Company to temporarily suspend Board fees payable on April 1, 2020 and directed the Company to temporarily lower future Board fees by 35%.

Subsequent to quarter end, the Company announced that it had obtained covenant relief under the Company's existing \$1.25 billion unsecured credit facility and had entered into two additional credit facilities, the New Facility and the UK Facility. These combined facilities provide NFI with additional liquidity and flexibility to navigate through the COVID-19 pandemic. The terms of the credit facilities do not restrict the payment of dividends, provided the Company is in compliance with the covenants under the facilities and the dividend payments remain at the current level. Covenants are discussed in detail on page 25 of this MD&A.

As a direct result of the COVID-19 pandemic's impact on the private motor coach market NFI has recorded a non-cash \$50.8 million goodwill impairment charge during 2020 Q1. The goodwill impairment reflects the impact COVID-19 is having and is expected to have on the private coach market in 2020, including the cancellation or deferral of private customer orders for new and pre-owned coaches. The uncertainty surrounding the outbreak of COVID-19 also caused significant volatility in equity markets, resulting in a systematic increase in the cost of equity capital utilized in the calculation to determine the recoverable amount of the MCI Cash Generating Unit. The impairment is mostly caused by near-term cash flow impacts caused by COVID-19, as management believes MCI's longer-term cash flows are consistent with those forecasted prior to the pandemic.

The first quarter of the year is typically NFI's seasonally slowest period, and this was again the case in Fiscal 2020. The Company had significant deliveries due to the addition of ADL in the first quarter, but overall activity was lower following a period of record deliveries in the fourth quarter of 2019. While the global pandemic impacted NFI's 2020 Q1 results, there were numerous positive events during the quarter including:

- New Flyer in partnership with the Transportation Diversity Council ("TDC"), launched a Community Benefits Framework ("CBF"). The CBF will complement local agreements that New Flyer establishes with transit agencies and community partners across America, and is the foundation that will govern, create, and implement robust programming at all New Flyer facilities with specific aim on workforce development and enhancing the hiring of underserved and underrepresented individuals.
- ADL continued to build its presence in growth markets, by entering into a framework agreement with the Republic of Ireland's National Transport Authority for the delivery of up to 600 Enviro400ER double deck hybrid buses over a five year period.
- MCI started 2020 by rolling out its largest number of new models and product upgrades in nearly nine decades. MCI debuted its new battery-electric vehicles aimed at public and private customers (specifically the employee shuttle and commuter space), plus the company also advanced its customer experience initiatives with new Advanced Driver Assistance Systems (ADAS) offerings and the launch of a new Operators mobile software application supported by NFI Parts.

- Plaxton coaches launched a program to build additional wheel-chair accessible Leopard coaches that comply with the United Kingdom's Public Service Vehicle Accessibility Regulations, including a new side lift option on the Plaxton Panther. This vehicle is especially popular with school hire coaches due to its accessibility options.
- Overall the Company received new orders (firm and option) for 1,346 EUs from several key customers and 139 option EUs were converted to firm orders. New Flyer was also selected as an approved supplier to the State of Florida Heavy-Duty Transit Bus Consortium. In addition, 566 EUs of new firm and option orders were pending from customers at the end of 2020 Q1, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog.
- The 2020 Q1 Canada and U.S. active Bid Universe continued to grow with active bids up by 2,077 EUs compared to 2019 Q1 and 772 EUs compared to 2019 Q4, representing an increase of 61% and 16%, respectively. See Appendix C for further details.
- During the quarter, the Company continued to realize upon its strategy to be the leader in zero-emission, battery-electric buses ("ZEBs") and coaches. ADL completed ZEB deliveries in London, UK and received new orders from Glasgow, Scotland and New Flyer received new ZEB orders in Rochester, NY, Seattle, WA and Oklahoma City, OK and delivered 10 hydrogen fuel-cell buses to Orange County, CA.

During the first quarter of 2020 the Company delivered 1,279 EUs.

2020 Q1 financial results were impacted by several non-cash accounting items for which the Company makes adjustments in calculating Adjusted Net Earnings. These adjustments include:

- \$50.8 million goodwill impairment charge
- \$15.5 million mark-to-market loss on interest rate swap
- \$1.4 million fair market value adjustment on total return swap

After adjusting for these items, Adjusted Net Earnings is (\$0.5) million or (\$0.01) per share.

#### Footnotes

1. Total Liquidity as of May 6, 2020 includes cash on hand and existing capacity on all of the Company's credit facilities, including those that were completed subsequent to the end of the quarter.

# FINANCIAL RESULTS

Driven by the transformative acquisition of ADL, NFI reported record deliveries of 1,279 EUs in 2020 Q1, an increase of 41.6% from the same period in 2019. All of NFI's vehicle product lines saw an increase in quarterly deliveries as transit bus and motor coach deliveries increased due to the acquisition of ADL and medium-duty and cutaway deliveries increased as ARBOC had a consistent supply of chassis during 2020 Q1.

While deliveries were up significantly in 2020 Q1 versus 2019 Q1, the Company began to experience the economic impact of COVID-19 in the quarter as ADL and MCI customers cancelled 166 EUs and deferred an additional 102 EUs that would have originally been delivered during Fiscal Year 2020.

Full details of the Company's orders, delivery and backlog information can be found in Appendix C.

| Deliveries (unaudited, EUs)   |              |            |               |                |                |               |
|-------------------------------|--------------|------------|---------------|----------------|----------------|---------------|
|                               | 2020 Q1      | 2019 Q1    | %<br>Change   | 2020 Q1<br>LTM | 2019 Q1<br>LTM | %<br>Change   |
| Transit buses                 | 958          | 693        | 38.2 %        | 4,196          | 2,803          | 49.7 %        |
| Motor coaches                 | 179          | 140        | 27.9 %        | 1,075          | 983            | 9.4 %         |
| Medium-duty and cutaway       | 142          | 70         | 102.9 %       | 420            | 437            | (3.9)%        |
| <b>New Vehicle Deliveries</b> | <b>1,279</b> | <b>903</b> | <b>41.6 %</b> | <b>5,691</b>   | <b>4,223</b>   | <b>34.8 %</b> |
| Pre-owned coach               | 65           | 83         | (21.7)%       | 451            | 487            | (7.4)%        |

| Revenue (unaudited, dollars in millions)                |                 |                 |               |                   |                   |               |
|---|-----------------|-----------------|---------------|-------------------|-------------------|---------------|
|   | 2020 Q1         | 2019 Q1         | %<br>Change   | 2020 Q1<br>LTM    | 2019 Q1<br>LTM    | %<br>Change   |
| Transit buses   | \$ 482.2        | \$ 382.9        | 25.9 %        | \$ 1,946.4        | \$ 1,527.2        | 27.4 %        |
| Motor coaches   | 90.1            | 74.1            | 21.6 %        | 542.5             | 513.6             | 5.6 %         |
| Medium-duty   | 15.5            | 7.3             | 112.3 %       | 58.1              | 38.0              | 52.9 %        |
| <b>Total new transit bus, coach and cutaway revenue</b> | <b>\$ 587.8</b> | <b>\$ 464.3</b> | <b>26.6 %</b> | <b>\$ 2,547.0</b> | <b>\$ 2,078.8</b> | <b>22.5 %</b> |
| Pre-owned coach revenue                                 | 6.0             | 10.0            | (40.0)%       | 41.9              | 48.2              | (13.1)%       |
| Fiberglass reinforced polymer components                | 1.3             | 2.0             | (35.0)%       | 5.8               | 12.7              | (54.3)%       |
| <b>Manufacturing Revenue</b>                            | <b>\$ 595.1</b> | <b>\$ 476.4</b> | <b>24.9 %</b> | <b>\$ 2,594.7</b> | <b>\$ 2,139.7</b> | <b>21.3 %</b> |
| Aftermarket   | 115.3           | 90.6            | 27.3 %        | 442.0             | 367.7             | 20.2 %        |
| <b>Total Revenue</b>                                    | <b>\$ 710.4</b> | <b>\$ 567.0</b> | <b>25.3 %</b> | <b>\$ 3,036.7</b> | <b>\$ 2,507.4</b> | <b>21.1 %</b> |
| <b>North America</b>                                    | <b>606.0</b>    | <b>567.0</b>    | <b>6.9 %</b>  | <b>2,547.2</b>    | <b>2,507.4</b>    | <b>1.6 %</b>  |
| <b>United Kingdom and Europe</b>                        | <b>99.3</b>     | <b>—</b>        | <b>—</b>      | <b>419.4</b>      | <b>—</b>          | <b>—</b>      |
| <b>Asia Pacific</b>                                     | <b>4.4</b>      | <b>—</b>        | <b>—</b>      | <b>68.1</b>       | <b>—</b>          | <b>—</b>      |
| <b>Other</b>  | <b>0.7</b>      | <b>—</b>        | <b>—</b>      | <b>2.1</b>        | <b>—</b>          | <b>—</b>      |

Manufacturing revenue for 2020 Q1 increased by \$118.7 million, or 24.9% compared to 2019 Q1. The increase is related to the acquisition of ADL. Also contributing to the increase is higher volumes in the motor coach and cut-away businesses somewhat offset by lower pre-owned coach revenue.

Revenue from Aftermarket operations in 2020 Q1 increased by \$24.7 million, or 27.3% compared to 2019 Q1. The acquisition of ADL plus higher public parts sales within the legacy NFI Parts business (being the Aftermarket business prior to the acquisition of ADL) resulted in the increase.

| Adjusted EBITDA <sup>(2)</sup><br>(unaudited, dollars in millions) |               |                        |               |                               |                               |               |
|--|---------------|------------------------|---------------|-------------------------------|-------------------------------|---------------|
|  | 2020 Q1       | 2019 Q1 <sup>(1)</sup> | %<br>Change   | 2020 Q1<br>LTM <sup>(1)</sup> | 2019 Q1<br>LTM <sup>(1)</sup> | %<br>Change   |
| Manufacturing  | 35.4          | 47.0                   | (24.7)%       | 244.5                         | 260.9                         | (6.3)%        |
| Aftermarket  | 20.9          | 17.9                   | 16.8 %        | 77.6                          | 71.7                          | 8.2 %         |
| Corporate  | (0.3)         | (4.6)                  | 93.5 %        | (4.2)                         | (30.7)                        | 86.3 %        |
| <b>Total Adjusted EBITDA</b>                                       | <b>\$56.0</b> | <b>\$60.3</b>          | <b>(7.1)%</b> | <b>\$317.9</b>                | <b>\$301.9</b>                | <b>5.3 %</b>  |
| <b>Adjusted EBITDA as a percentage of revenue</b>                  |               |                        |               |                               |                               |               |
| Manufacturing  | 5.9%          | 8.9%                   | (3.0)%        | 9.4%                          | 8.9%                          | 0.5 %         |
| Aftermarket  | 18.1%         | 19.8%                  | (1.7)%        | 17.6%                         | 19.8%                         | (2.2)%        |
| <b>Total</b>   | <b>7.9%</b>   | <b>10.6%</b>           | <b>(2.7)%</b> | <b>10.5%</b>                  | <b>10.6%</b>                  | <b>(0.1)%</b> |

<sup>(1)</sup> Amounts were restated to reallocate Adjusted EBITDA for corporate activities. Previously all amounts related to corporate activities were included within the Manufacturing and Aftermarket segments.

| Net Earnings<br>(unaudited, dollars in millions, except per<br>Share amounts) |                  |                        |                 |                               |                               |                 |
|---|------------------|------------------------|-----------------|-------------------------------|-------------------------------|-----------------|
|   | 2020 Q1          | 2019 Q1 <sup>(1)</sup> | %<br>Change     | 2020 Q1<br>LTM <sup>(1)</sup> | 2019 Q1<br>LTM <sup>(1)</sup> | %<br>Change     |
| Manufacturing   | (41.5)           | 18.4                   | (325.5)%        | 27.0                          | 205.6                         | (86.9)%         |
| Aftermarket   | 14.8             | 21.3                   | (30.5)%         | 53.6                          | 18.4                          | 191.3 %         |
| Corporate   | (40.6)           | (23.5)                 | (72.8)%         | (106.3)                       | (78.3)                        | (35.8)%         |
| <b>Net Earnings</b>   | <b>\$ (67.2)</b> | <b>16.1</b>            | <b>(517.4)%</b> | <b>\$ (25.7)</b>              | <b>\$ 145.7</b>               | <b>(117.6)%</b> |
| <b>Adjusted Net Earnings<sup>(2)</sup></b>                                    | <b>(0.5)</b>     | <b>22.2</b>            | <b>(102.3)%</b> | <b>79.0</b>                   | <b>154.4</b>                  | <b>(48.8)%</b>  |
| <b>Net Earnings Per Share</b>   | <b>(1.08)</b>    | <b>0.26</b>            | <b>(515.4)%</b> | <b>(0.41)</b>                 | <b>2.35</b>                   | <b>(117.4)%</b> |
| <b>Adjusted Earnings Per Share<sup>(2)</sup></b>                              | <b>(0.01)</b>    | <b>0.36</b>            | <b>(102.8)%</b> | <b>\$ 1.15</b>                | <b>\$ 2.49</b>                | <b>(116.7)%</b> |

<sup>(1)</sup> Amounts were restated to reallocate Adjusted EBITDA for corporate activities. Previously all amounts related to corporate activities were included within the Manufacturing and Aftermarket segments.

<sup>(2)</sup> Non-IFRS Measure - See Appendix B for details.

2020 Q1 Manufacturing Adjusted EBITDA decreased by \$11.6 million, or 24.7%, due to lower gross margins from the acquisition of ADL, unfavourable product mix in the transit business and lower gross margins within the private coach business. Also impacting Manufacturing Adjusted EBITDA were higher SG&A costs from the acquisition of ADL. Manufacturing 2020 Q1 net earnings decreased by \$59.9 million, or 325.5% due to the same items that impacted Adjusted EBITDA, a \$50.8 million non-cash goodwill impairment charge and higher depreciation and amortization related to the acquisition of ADL, which includes \$4.3 million of amortization of ADL related intangible assets.

2020 Q1 Aftermarket Adjusted EBITDA increased by \$3.0 million, or 16.8%, with volume increases from the acquisition of ADL and improved margins from NFI Parts product mix offset by increased SG&A costs from the addition of ADL's operations into the Aftermarket segment. Aftermarket 2020 Q1 net earnings decreased by \$6.5 million, or 30.5%, with the improvements in Adjusted EBITDA being offset by higher depreciation and expenses associated with accounting adjustments related to the acquisition of ADL.

The improvement in Corporate Adjusted EBITDA was driven by lower long-term and short-term incentive plan payments. Corporate net earnings decreased by \$17.1 million, or 72.8%, as lower long-term and short-term incentive payment plan payments were offset by higher interest costs, including a \$15.5 million mark-to-market loss on interest rate swaps.

| Free Cash Flow <sup>(2)</sup><br>(unaudited, dollars in millions, except Per share amounts) | 2020 Q1 | 2019 Q1 | %<br>Change | 2020 Q1<br>LTM | 2019 Q1<br>LTM | %<br>Change |
|---|---------|---------|-------------|----------------|----------------|-------------|
| Free Cash Flow  | \$ 14.2 | \$ 32.4 | (56.2)%     | \$ 142.2       | \$ 151.3       | (6.0)%      |
| Free Cash Flow (CAD dollars)  | 19.8    | 43.2    | (54.2)%     | 187.9          | 201.3          | (6.7)%      |
| Declared Dividends (CAD dollars)  | 13.3    | 25.9    | (48.6)%     | 92.9           | 95.7           | (2.9)%      |
| Free Cash Flow per Share (CAD dollars)  | \$ 0.32 | \$ 0.71 | (54.9)%     | \$ 3.02        | \$ 3.25        | (7.1)%      |
| Dividends per Share (CAD dollars)   | \$ 0.21 | \$ 0.42 | (50.0)%     | \$ 1.49        | \$ 1.54        | (3.2)%      |
| Payout Ratio (Declared Dividends divided by Free Cash Flow)                                 | 67.2%   | 60.0%   | 7.2 %       | 49.4%          | 47.5%          | 1.9 %       |

Free cash flow in 2020 Q1 decreased by \$18.2 million, or 56.2%, when compared to 2019 Q1, primarily due to lower Adjusted EBITDA, and higher interest expense and current income tax. 2020 Q1 declared dividends decreased by 50% as a result of the Board reducing the Company's quarterly dividend, for the period January 1 to March 31, 2020, to C\$0.2125 per common share in direct response to the impact of COVID-19 on the Company's end markets and operating businesses.

On an LTM basis Free Cash Flow is down \$9.1 million, or 6.0%, as higher Adjusted EBITDA and lower capital expenditures were offset by higher interest and current income taxes. LTM dividends declared decreased by 3.0% as increases made to the 2019 dividend rate in January 2019, were offset by the reduction in the quarterly dividend rate made in March 2020.

# OUTLOOK

In response to the COVID-19 pandemic, NFI chose to idle the majority of its new vehicle production facilities from the end of March 2020 into May 2020. NFI is now beginning the process of a planned restart of operations at idled production facilities on a site-by-site basis taking into account all government mandates and health and safety provisions. It will take time for operations to recover to normal levels as production resumes at the Company's various facilities.

Based on this site-by-site plan, management anticipates that the Company's North American manufacturing operations should resume throughout May 2020 and that all facilities will have resumed operations by early June. New Flyer, ARBOC and MCI will all follow a staggered and progressive restart schedule. MCI is expected to resume public motor coach production but will reduce its private motor coach production by approximately 62% to account for the impact of COVID-19.

The Company's part fabrication facilities, KMG and Carfair, began a staggered restart during the week of May 4th, 2020 to support vehicle production when those operations are expected to resume later in May. In the UK, manufacturing facilities are also targeting return to production later in May. ADL's third-party production partners in Asia resumed full operations nearly one month ago. The Company has also had in depth discussions with suppliers to ensure alignment on the planned restart of operations.

While management anticipates that operations will resume at the majority of NFI's facilities, the unpredictable effects of COVID-19 may limit the Company's ability to execute on its recovery plan, especially if there are additional government restrictions or mandates that limit production operations, customers' ability to accept vehicles and occurrences of supply chain disruptions. The effects of COVID-19 are expected to continue to impact deliveries and financial performance through the remainder of 2020, as some vehicles that were originally planned for 2020 delivery may move into 2021.

Management and the Board have managed through several economic cycles in the past and are confident that the Company has taken the necessary steps to position it well to successfully navigate through the pandemic. Management believes the Company's new credit facility, combined with credit covenant relief provided by its banking partners under its existing facility, provide the Company with sufficient financial flexibility and credit capacity to withstand the impacts of COVID-19. In addition, its strong backlog of \$5.1 billion and a customer base that is primarily driven by public transit agencies provide longer-term visibility. As of May 6, the Company now has total combined liquidity of more than \$550 million, which can be utilized to fund operations as required.

Governments around the world have announced or are assessing stimulus and COVID-19 relief programs. In certain cases, these programs will benefit NFI's customers, which may create future opportunities for the sale of NFI's products and services. One such program is the U.S. government's Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which includes dedicated support for transit agencies across the U.S., that continue to provide an essential service during the COVID-19 pandemic. Under the CARES Act, Congress appropriated USD \$25 billion to the Federal Transit Administration for urban and rural transit agencies to support operating and qualified capital expenses to prevent, prepare for, and respond to the COVID-19 pandemic.

Other government programs in Canada, the U.S. and the UK may help NFI offset costs incurred as a result of the COVID-19 pandemic. NFI is currently utilizing several programs in the UK that are reimbursing the Company for costs associated with employee salaries impacted by the pandemic. The Company is monitoring similar programs in the U.S. and Canada, including the Canada Emergency Wage Subsidy, and will avail of them where applicable.

Management remains optimistic with respect to the longer-term outlook for the majority of the Company's global end markets. The Company's vehicles (New Flyer, ARBOC, MCI public coach, ADL) are primarily used for public transit, which remains a primary method of transportation for millions of users and an economic enabler in cities. As numerous jurisdictions recover from COVID-19 and execute on strategies to improve accessibility and migrate to more ZEBs, the Company expects to be a beneficiary of this activity. Management's belief is supported by continued strong growth in the Company's North American Bid Universe, which remains at record levels, plus announcements from governments in Canada, the U.S. and the UK, regarding dedicated multi-year funding to support transit operations and vehicle procurements.

While the overall market demand outlook is positive, management does expect that the Company's private motor coach business, which represents approximately 12% of consolidated revenue and an even lower percentage of net earnings, will be negatively affected by the impact of COVID-19 during 2020. The Company has responded to this decrease in market activity by taking numerous measures to remove costs going forward from this segment of its operations, including permanent layoffs and a decrease in production levels, which are expected to save the Company in excess of \$10 million per annum. The Company is actively evaluating other options to lower its overhead costs.

## 2020 Financial Guidance

With the release of its Fiscal 2019 results the Company introduced Adjusted EBITDA guidance for Fiscal 2020 with a range of \$320 million to \$350 million. As the COVID-19 pandemic created significant uncertainty on 2020 operations and financial results, management made the decision in late March to withdraw its guidance. While the Company is executing on its risk mitigation plans and intends to resume operations at certain facilities as discussed earlier, the ongoing nature of the pandemic makes it difficult to accurately forecast the full year financial impact on 2020 results with any degree of certainty.

The Company's first quarter 2020 Adjusted EBITDA results were generally in-line with its original expectations, but the economic impact of COVID-19 began in the quarter as private customers at MCI and ADL began to cancel or defer orders originally planned for 2020 deliveries. Management expects that second quarter financial results, including Adjusted EBITDA, Free Cash Flow and net earnings, will all be significantly lower than originally planned and dramatically lower than 2019 Q2 due to the idling of facilities, the impact of a

decline in private customer activity and delays of public customer deliveries. Management expects deliveries and financial results for the third and fourth quarters of 2020 will also be impacted by the pandemic, but anticipates that the impact will not be as pronounced as the second quarter. NFI will provide further updates on its 2020 financial guidance when the situation stabilizes.

Based on expenditures made to date and the Company's lower anticipated expenditures for the remainder of 2020, management now expects Property, Plant and Equipment ("PPE") expenditures to be in the range of \$30 million to \$40 million for Fiscal 2020, primarily driven by maintenance capital with limited strategic projects. Management has withdrawn its adjusted effective tax rate ("ETR") guidance for 2020 due to the uncertainty created by COVID-19. Throughout this MD&A the Company has utilized a rate of 31% for balances that needed to be tax effected.

Management's primary focus at this time is on lowering cash expenditures during the COVID-19 pandemic and has taken numerous measures including hiring freezes, suspension of salary increases and 2019 earned executive incentive bonuses, decreased operating and capital expenditures (including delays of several projects), increased focus on working capital management and temporary reductions in senior leadership salaries all of which are expected to provide positive contribution to cash flow. In addition to those items, the reduction in the Company's dividend also generates \$10 million in quarterly cash savings. Management has been pleased with the results of these combined measures to date, as the Company has seen its liquidity improve by over \$90 million since quarter-end through positive cash flow generation.

## SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

The following selected unaudited interim condensed consolidated financial and operating information of the Company has been derived from and should be read in conjunction with the historical Financial Statements of the Company.

| Fiscal Period | Quarter | Revenue      | Earnings (loss) from Operations | Net earnings (loss) | Adjusted EBITDA <sup>(1)</sup> | Earnings (loss) per Share |
|---------------|---------|--------------|---------------------------------|---------------------|--------------------------------|---------------------------|
| <b>2020</b>   |         |              |                                 |                     |                                |                           |
|               | Q1      | \$ 710,384   | \$ (25,406)                     | \$ (67,239)         | \$ 56,071                      | \$ (1.08)                 |
|               | Total   | \$ 710,384   | \$ (25,406)                     | \$ (67,239)         | \$ 56,071                      | \$ (1.08)                 |
| <b>2019</b>   |         |              |                                 |                     |                                |                           |
|               | Q4      | \$ 917,741   | \$ 69,958                       | \$ 34,127           | \$ 103,875                     | \$ 0.55                   |
|               | Q3      | 725,347      | 25,200                          | (1,085)             | 76,868                         | (0.02)                    |
|               | Q2      | 683,353      | 37,000                          | 8,507               | 81,122                         | 0.14                      |
|               | Q1      | 566,995      | 40,906                          | 16,149              | 60,302                         | 0.26                      |
|               | Total   | \$ 2,893,436 | \$ 173,064                      | \$ 57,698           | \$ 322,167                     | \$ 0.93                   |
| <b>2018</b>   |         |              |                                 |                     |                                |                           |
|               | Q4      | \$ 662,020   | \$ 60,570                       | \$ 42,815           | \$ 79,868                      | \$ 0.69                   |
|               | Q3      | 605,342      | 53,469                          | 37,031              | 70,245                         | 0.59                      |
|               | Q2      | 673,025      | 72,063                          | 49,740              | 91,400                         | 0.81                      |
|               | Q1      | 578,634      | 51,753                          | 30,356              | 73,841                         | 0.48                      |
|               | Total   | \$ 2,519,021 | \$ 237,855                      | \$ 159,942          | \$ 315,354                     | \$ 2.56                   |

- (1) Adjusted EBITDA is not a recognized earnings measure and does not have a standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See “Definitions of Adjusted EBITDA, ROIC, Free Cash, Adjusted Net Earnings and Adjusted Net Earnings per share” in Appendix B. Management believes that Adjusted EBITDA and ROIC are useful supplemental measures in evaluating performance of NFI.

## COMPARISON OF FIRST QUARTER 2020 RESULTS

(U.S. dollars in thousands)

|  | 2020 Q1    | 2019 Q1    | 52-Weeks Ended March 29, 2020 | 52-Weeks Ended March 31, 2019 |
|--|------------|------------|-------------------------------|-------------------------------|
| <b>Statement of Earnings Data</b>                |            |            |                               |                               |
| <b>Revenue</b>                                   |            |            |                               |                               |
| North America                                    | \$ 513,788 | \$ 476,368 | \$ 2,180,315                  | \$ 2,139,656                  |
| United Kingdom and Europe                        | 81,005     | —          | 358,674                       | —                             |
| Asia Pacific                                     | 262        | —          | 55,718                        | —                             |
| Other  | —          | —          | —                             | —                             |
| Manufacturing operations                         | 595,055    | 476,368    | 2,594,707                     | 2,139,656                     |
| North America                                    | 92,225     | 90,627     | 366,902                       | 367,726                       |
| United Kingdom and Europe                        | 18,313     | —          | 60,760                        | —                             |
| Asia Pacific                                     | 4,131      | —          | 12,378                        | —                             |
| Other  | 660        | —          | 2,078                         | —                             |
| Aftermarket operations                           | 115,329    | 90,627     | 442,118                       | 367,726                       |
| Total revenue                                    | \$ 710,384 | \$ 566,995 | \$ 3,036,825                  | \$ 2,507,382                  |
| Earnings (loss) from operations                  | (25,406)   | 40,906     | 106,752                       | 227,008                       |
| Earnings (loss) before interest and income taxes | (25,526)   | 41,862     | 105,663                       | 231,561                       |
| Net earnings (loss)                              | (67,239)   | 16,149     | (25,690)                      | 145,735                       |
| Adjusted EBITDA <sup>(1)</sup>                   | 56,071     | 60,302     | 317,936                       | 301,815                       |
| Capital expenditures                             | 7,573      | 8,182      | 41,148                        | 78,588                        |

(Footnotes on page 17 and 18)

## RECONCILIATION OF NET EARNINGS TO ADJUSTED EBITDA

Management believes that Adjusted EBITDA is an important measure in evaluating the historical operating performance of the Company. However, Adjusted EBITDA is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with IFRS as indicators of the Company's performance, or cash flows from operating activities determined in accordance with IFRS as a measure of liquidity and cash flow. The Company defines and has computed Adjusted EBITDA as described under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share" in Appendix B. The following tables reconcile net earnings or losses to Adjusted EBITDA based on the historical Financial Statements of the Company for the periods indicated. See Appendix A for ADL Adjusted EBITDA reconciliation for information related to historical ADL performance.

(U.S. dollars in thousands)

|  | 2020 Q1     | 2019 Q1   | 52-Weeks<br>Ended<br>March 29,<br>2020 | 52-Weeks<br>Ended<br>March 31,<br>2019 |
|--|-------------|-----------|--|--|
| Net earnings (loss)  | \$ (67,239) | \$ 16,149 | \$ (25,688)                            | \$ 145,735                             |
| Addback <sup>(1)</sup>   |             |           |  |  |
| Income taxes   | 4,578       | 7,655     | 38,920                                 | 43,826                                 |
| Interest expense   | 37,135      | 18,057    | 92,432                                 | 41,999                                 |
| Amortization   | 30,140      | 18,981    | 115,729                                | 70,109                                 |
| Loss (gain) on disposition of property, plant and equipment  | 163         | (20)      | 137                                    | 261                                    |
| Fair value adjustment for total return swap <sup>(7)</sup>   | 1,970       | 44        | 2,875                                  | 8,222                                  |
| Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts | (43)        | (935)     | 952                                    | (2,675)                                |
| Costs associated with assessing strategic and corporate initiatives <sup>(4)</sup>                           | —           | 5         | 13,064                                 | 96                                     |
| Past service costs <sup>(9)</sup> and other pension costs (recovery)   | (463)       | —         | (2,064)                                | 672                                    |
| Non-recurring restructuring costs <sup>(5)</sup>   | 22          | —         | 387                                    | —                                      |
| Fair value adjustment to acquired subsidiary company's inventory and deferred revenue <sup>(6)</sup>         | —           | —         | 31,004                                 | —                                      |
| Proportion of the total return swap realized <sup>(8)</sup>  | (940)       | (53)      | (1,513)                                | (5,651)                                |
| Equity settled stock-based compensation  | 14          | 419       | 1,161                                  | 1,359                                  |
| Recovery on currency transactions <sup>(12)</sup>  | —           | —         | (4,287)                                | —                                      |
| Prior year sales tax provision <sup>(13)</sup>   | (56)        | —         | 4,038                                  | —                                      |
| Release of provisions related to purchase accounting <sup>(11)</sup>   | —           | —         | —                                      | (2,138)                                |
| Impairment loss on goodwill <sup>(14)</sup>  | 50,790      | —         | 50,790                                 | —                                      |
| Adjusted EBITDA <sup>(1)</sup>   | \$ 56,071   | \$ 60,302 | \$ 317,936                             | \$ 301,815                             |
| Adjusted EBITDA is comprised of:   |             |           |  |  |
| Manufacturing  | \$ 35,443   | \$ 47,012 | \$ 244,528                             | \$ 260,858                             |
| Aftermarket  | 20,937      | 17,912    | 77,597                                 | 71,657                                 |
| Corporate  | (308)       | (4,622)   | (4,188)                                | (30,700)                               |

See page 17 and 18 for footnotes.

## SUMMARY OF FREE CASH FLOW

Management uses Free Cash Flow as a non-IFRS measure to evaluate the Company's operating performance and liquidity and to assess the Company's ability to pay dividends on the Shares, service debt, and meet other payment obligations.

The Company generates its Free Cash Flow from operations and management expects this will continue to be the case for the foreseeable future. Net cash flows generated from operating activities are significantly impacted by changes in non-cash working capital. The Company uses its credit facilities to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash Flow.

The following is a reconciliation of net cash generated by operating activities (an IFRS measure) to Free Cash Flow (a non-IFRS measure) based on the Company's historical Financial Statements. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share" in Appendix B.

(U.S. dollars in thousands, except per Share figures)

|  | 2020 Q1          | 2019 Q1          | 52-Weeks<br>Ended<br>March 29,<br>2020 | 52-Weeks<br>Ended<br>March 31,<br>2019 |
|--|------------------|------------------|--|--|
| Net cash generated (used) in operating activities  | \$ (16,383)      | \$ (7,151)       | \$ 89,376                              | \$ 151,118                             |
| Changes in non-cash working capital items <sup>(3)</sup>   | 46,209           | 54,857           | 82,676                                 | 64,328                                 |
| Interest paid <sup>(3)</sup>   | 15,706           | 8,347            | 55,035                                 | 26,204                                 |
| Interest expense <sup>(3)</sup>  | (14,431)         | (8,489)          | (56,488)                               | (26,690)                               |
| Income taxes paid <sup>(3)</sup>   | 11,901           | 4,322            | 47,746                                 | 59,446                                 |
| Current income tax expense <sup>(3)</sup>  | (16,941)         | (9,577)          | (68,701)                               | (50,928)                               |
| Principal portion of finance lease payments  | (3,074)          | (2,899)          | (12,631)                               | (6,957)                                |
| Cash capital expenditures  | (7,573)          | (7,010)          | (38,138)                               | (66,136)                               |
| Proceeds from disposition of property, plant and equipment   | 100              | 28               | 246                                    | 239                                    |
| Costs associated with assessing strategic and corporate initiatives <sup>(7)</sup>                   | —                | 5                | 13,064                                 | 96                                     |
| Fair value adjustment to acquired subsidiary company's inventory and deferred revenue <sup>(9)</sup> | —                | —                | 31,004                                 | —                                      |
| Defined benefit funding <sup>(4)</sup>   | 1,520            | 1,405            | 8,255                                  | 14,433                                 |
| Defined benefit expense <sup>(4)</sup>   | (1,491)          | (1,472)          | (5,868)                                | (6,650)                                |
| Past service costs <sup>(11)</sup> and other pension costs (recovery)                                | (463)            | —                | (2,064)                                | 672                                    |
| Proportion of the total return swap <sup>(10)</sup>  | (940)            | (53)             | (1,513)                                | (5,651)                                |
| Recovery on currency transactions <sup>(13)</sup>  | —                | —                | (4,287)                                | —                                      |
| Prior year sales tax provision <sup>(14)</sup>   | (56)             | —                | 4,038                                  | —                                      |
| Non-recurring restructuring costs <sup>(8)</sup>   | 22               | —                | 386                                    | —                                      |
| Gain on release of provision related to purchase accounting <sup>(12)</sup>                          | —                | —                | —                                      | (2,138)                                |
| Foreign exchange gain (loss) on cash held in foreign currency <sup>(5)</sup>                         | 47               | 42               | 88                                     | (43)                                   |
| <b>Free Cash Flow<sup>(1)</sup></b>  | <b>\$ 14,153</b> | <b>\$ 32,355</b> | <b>\$ 142,224</b>                      | <b>\$ 151,343</b>                      |
| U.S. exchange rate <sup>(2)</sup>  | 1.3977           | 1.3363           | 1.3214                                 | 1.3298                                 |
| <b>Free Cash Flow (C\$)<sup>(1)</sup></b>  | <b>19,782</b>    | <b>43,236</b>    | <b>187,935</b>                         | <b>201,271</b>                         |
| <b>Free Cash Flow per Share (C\$)<sup>(6)</sup></b>  | <b>0.3165</b>    | <b>0.7085</b>    | <b>3.0225</b>                          | <b>3.2526</b>                          |
| Declared dividends on Shares (C\$)   | 13,283           | 25,866           | 92,879                                 | 95,744                                 |
| <b>Declared dividends per Share (C\$)<sup>(6)</sup></b>  | <b>\$ 0.2125</b> | <b>\$ 0.4239</b> | <b>\$ 1.4937</b>                       | <b>\$ 1.5378</b>                       |

(1) Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Therefore, Free Cash Flow may not be comparable to similar measures presented by other issuers. See Appendix B for "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share".

(2) U.S. exchange rate (C\$ per US\$) is the weighted average exchange rate applicable to dividends declared for the period.

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the credit facilities which is available to fund general corporate requirements, including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and incomes taxes paid.

(4) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.

- (5) Foreign exchange loss on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS; however, because it is a cash item, management believes it should be included in the calculation of Free Cash Flow.
- (6) Per Share calculations for Free Cash Flow (C\$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2020 Q1 was 62,499,060 and 61,022,400 for 2019 Q1. The weighted average number of Shares outstanding for the 52-weeks ended March 29, 2020 and March 31, 2019 are 62,178,644 and 62,258,729 respectively. Per Share calculations for declared dividends (C\$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.
- (7) Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
- (8) Normalized to exclude non-recurring restructuring costs.
- (9) The revaluation of ADL's inventory included an adjustment of \$31.0 million in Fiscal 2019. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.
- (10) A portion of the fair value adjustment of the total return swap is added to Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized.
- (11) In 2019 Q3, the Company received \$1.6 million recovery related to the closing of one of its pension plans. An additional amount of \$0.46 million was received in 2020 Q1. In 2018 Q2, the Company completed an actuarial valuation related to the past service costs of the new collective bargaining agreement at the Company's Winnipeg facility which resulted in an adjustment of \$0.7 million.
- (12) During the fourth quarter of 2018, purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Free Cash Flow.
- (13) Recovery of prior period banking fees related to foreign exchange transactions.
- (14) Provision for sales taxes as a result of an ongoing state tax review.

## RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

Adjusted Net Earnings and Adjusted Earnings per Share are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted Net Earnings and Adjusted Earnings per Share may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted Net Earnings and Adjusted Earnings per Share should not be construed as an alternative to net earnings, or net earnings per Share, determined in accordance with IFRS as indicators of the Company's performance. The Company defines and has computed Adjusted Net Earnings and Adjusted Earnings per Share under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share" in Appendix B. The following tables reconcile net earnings to Adjusted Net Earnings based on the historical Financial Statements of the Company for the periods indicated.

| (U.S. dollars in thousands, except per Share figures)  |             |         |  |  |
|--|-------------|---------|--|--|
|  | 2020 Q1     | 2019 Q1 | 52-Weeks<br>Ended<br>March 29,<br>2020 | 52-Weeks<br>Ended<br>March 31,<br>2019 |
| Net earnings (loss)  | \$ (67,239) | 16,149  | \$ (25,690)                            | \$ 145,735                             |
| Adjustments, net of tax <sup>(1) (10)</sup>  |             |         |  |  |
| Fair value adjustments of total return swap <sup>(7)</sup>   | 1,359       | 30      | 1,878                                  | 6,247                                  |
| Unrealized foreign exchange (gain) loss  | (30)        | (635)   | 640                                    | (1,824)                                |
| Unrealized loss on interest rate swap  | 15,510      | 6,415   | 21,816                                 | 8,462                                  |
| Impairment loss on goodwill <sup>(14)</sup>  | 50,790      | —       | 50,790                                 | —                                      |
| Portion of the total return swap realized <sup>(8)</sup>   | (649)       | (36)    | (975)                                  | (4,309)                                |
| Costs associated with assessing strategic and corporate initiatives <sup>(4)</sup>                   | —           | 3       | 13,066                                 | 72                                     |
| Fair value adjustment to acquired subsidiary company's inventory and deferred revenue <sup>(6)</sup> | —           | —       | 17,943                                 | —                                      |
| Equity settled stock-based compensation  | 10          | 284     | 632                                    | 972                                    |
| Gain on disposition of property, plant and equipment   | 112         | (14)    | 99                                     | 187                                    |
| Past service costs <sup>(9)</sup> and other pension costs (recovery)                                 | (319)       | —       | (1,246)                                | 506                                    |
| Gain on release of provision related to purchase accounting <sup>(11)</sup>                          | —           | —       | —                                      | (1,623)                                |
| Recovery on currency transactions <sup>(12)</sup>  | —           | —       | (2,481)                                | —                                      |
| Prior year sales tax provision <sup>(13)</sup>   | (39)        | —       | 2,330                                  | —                                      |
| Non-recurring restructuring costs <sup>(5)</sup>   | 15          | —       | 226                                    | —                                      |
| Adjusted Net Earnings  | \$ (480)    | 22,196  | \$ 79,028                              | 154,425                                |
| Earnings per Share (basic)   | \$ (1.08)   | \$ 0.26 | \$ (0.41)                              | \$ 2.35                                |
| Earnings per Share (fully diluted)   | \$ (1.08)   | \$ 0.26 | \$ (0.41)                              | \$ 2.33                                |
| Adjusted Earnings per Share (basic)  | \$ (0.01)   | \$ 0.36 | \$ 1.15                                | \$ 2.49                                |
| Adjusted Earnings per Share (fully diluted)  | \$ (0.01)   | \$ 0.36 | \$ 1.14                                | \$ 2.47                                |

1. Addback items are derived from the historical Financial Statements of the Company.
2. Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Net Earnings per Share" in Appendix B. Management believes that Adjusted EBITDA is a useful supplemental measure in evaluating performance of the Company.
3. As a result of the Company's multinational corporate structure, income taxes paid are subject to high degrees of volatility due to the mix of earnings within various jurisdictions and the timing of required installment payments.
4. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
5. Normalized to exclude non-recurring restructuring costs.
6. The revaluation of ADL's inventory included an adjustment of \$31.0 million in Fiscal 2019 after-tax value of \$17.9 million. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.
7. The fair value adjustment of the total return swap is a non-cash gain that is deducted from the definition of Adjusted EBITDA.

8. A portion of the gain from the fair value adjustment of the total return swap is added to Adjusted EBITDA to match the equivalent portion of the related deferred compensation expense recognized.
9. In 2019 Q3, the Company received \$1.6 million recovery related to the closing of one of its pension plans. An additional amount of \$0.46 million was received in 2020 Q1. In 2018 Q2, the Company completed an actuarial valuation related to the past service costs of the new collective bargaining agreement at the Company's Winnipeg facility which resulted in an adjustment of \$0.7 million.
10. In 2020 Q1, the Company has utilized a rate of 31% to tax effect the adjustments.
11. During 2018 Q4 purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Adjusted EBITDA.
12. Recovery of prior period banking fees related to foreign exchange transactions.
13. Provision for sales taxes as a result of an ongoing state tax review.
14. Impairment charge on MCI's goodwill.

## Results of Operations

The discussion below with respect to revenue, operating costs and expenses and earnings from operations has been divided between the Manufacturing and Aftermarket operations segments.

### Revenue

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(U.S. dollars in thousands)

|  | 2020 Q1    | 2019 Q1    |
|--|------------|------------|
| Manufacturing Revenue                            | 595,055    | 476,368    |
| Aftermarket Revenue                              | 115,329    | 90,627     |
| Total Revenue                                    | \$ 710,384 | \$ 566,995 |
| Earnings (loss) from Operations                  | (25,406)   | 40,906     |
| Earnings (loss) before interest and income taxes | (25,526)   | 41,862     |
| Earnings (loss) before income tax expense        | (62,661)   | 23,804     |
| Net earnings (loss) for the period               | (67,239)   | 16,149     |

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Manufacturing revenue for 2020 Q1 increased by \$118.7 million, or 24.9% compared to 2019 Q1. The increase is related to the acquisition of ADL. Also contributing to the increase are higher volumes in the motor coach and cut-away businesses.

Revenue from aftermarket operations in 2020 Q1 increased by \$24.7 million, or 27.3% compared to 2019 Q1. The acquisition of ADL contributed to increased revenue during 2020 Q1.

### Cost of sales

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(U.S. dollars in thousands)

|                                   | 2020 Q1    | 2019 Q1    |
|-----------------------------------|------------|------------|
| Manufacturing                     |            |            |
| Direct cost of sales              | \$ 457,944 | \$ 346,342 |
| Depreciation and amortization     | 27,550     | 16,424     |
| Other overhead                    | 60,892     | 47,926     |
| Manufacturing cost of sales       | \$ 546,386 | \$ 410,692 |
| As percent of Manufacturing Sales | 91.8%      | 86.2%      |
| Aftermarket                       |            |            |
| Direct cost of sales              | \$ 77,724  | \$ 63,159  |
| Depreciation and amortization     | 2,589      | 2,557      |
| Aftermarket cost of sales         | \$ 80,313  | \$ 65,716  |
| As percent of Aftermarket Sales   | 69.6%      | 72.5%      |
| Total Cost of Sales               | \$ 626,699 | \$ 476,408 |
| As percent of Sales               | 88.2%      | 84.0%      |

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The consolidated cost of sales for 2020 Q1 increased by \$150.1 million or 31.5% compared to 2019 Q1.

Cost of sales from Manufacturing operations in 2020 Q1 were \$546.4 million (91.8% of manufacturing operations revenue) compared to \$410.7 million (86.2% of Manufacturing operations revenue) in 2019 Q1, an increase of \$135.7 million or 33.0%. Cost of sales increased as a percentage of revenue as a result of lower margins in the ADL business and unfavourable product mix in the transit business.

Cost of sales from Aftermarket operations in 2020 Q1 were \$80.3 million (69.6% of Aftermarket revenue) compared to \$65.7 million (72.5% of Aftermarket revenue) in 2019 Q1, an increase of \$14.6 million. The acquisition of ADL contributed to increased cost of sales during 2020 Q1.

## Gross Margins

(U.S. dollars in thousands)

|                                 | 2020 Q1          | 2019 Q1          |
|---------------------------------|------------------|------------------|
| Manufacturing                   | \$ 48,669        | \$ 65,676        |
| Aftermarket                     | 35,016           | 24,911           |
| <b>Total Gross Margins</b>      | <b>\$ 83,685</b> | <b>\$ 90,587</b> |
| <b>As a percentage of sales</b> |                  |                  |
| Manufacturing                   | 8.2%             | 13.8%            |
| Aftermarket                     | 30.4%            | 27.5%            |
|                                 | 11.8%            | 16.0%            |

Manufacturing gross margins for 2020 Q1 of \$48.7 million (8.2% of revenue), decreased by \$17.0 million, or 25.9% compared to \$65.7 million (13.8% of revenue) for 2019 Q1.

The decrease in gross margin as a percentage of revenue for 2020 Q1 period is primarily caused by lower margins in the ADL business and unfavourable sales mix in the transit bus business. In addition, included in the manufacturing gross margin is the amortization of intangible assets of \$4.3 million for 2020 Q1 related to the acquisition of ADL. This decreased gross margin as a percentage of revenue by 0.7% for 2020 Q1.

Gross margins from Aftermarket operations in 2020 Q1 of \$35.0 million (30.4% of revenue) increased by \$10.1 million, or 40.6% compared to 2019 Q1 gross margins of \$24.9 million (27.5% of revenue). The increase as a percentage of revenue is primarily due to favourable sales mix.

## Selling, general and administrative costs and other operating expenses ("SG&A")

(U.S. dollars in thousands)

|                                     | 2020 Q1          | 2019 Q1          |
|-------------------------------------|------------------|------------------|
| Selling expenses                    | \$ 6,527         | \$ 4,379         |
| General and administrative expenses | 53,330           | 44,748           |
| Other costs                         | (400)            | 230              |
| <b>Total SG&amp;A</b>               | <b>\$ 59,457</b> | <b>\$ 49,357</b> |

The consolidated SG&A for 2020 Q1 of \$59.5 million (8.4% of consolidated revenue) increased by \$10.1 million or 20.5% compared with \$49.4 million (12.0% of consolidated revenue) in 2019 Q1. The increase is mostly related to the acquisition of ADL, partially offset by lower incentive plans expense.

## Realized foreign exchange loss/gain

During 2020 Q1, the Company recorded a realized foreign exchange gain of \$1.2 million compared to a loss of \$0.3 million in 2019 Q1.

The Company uses foreign exchange forward contracts to buy various currencies in which it operates with U.S. dollars, Canadian dollars and British Pounds Sterling ("GBP"). The purchase of these currencies using foreign exchange forward contracts at favorable forward rates compared to the spot rates at settlement were the primary reason for the gains.

## Earnings (loss) from operations

Consolidated losses from operations in 2020 Q1 were \$25.4 million (-3.6% of consolidated revenue) compared to earnings of \$40.9 million (7.2% of consolidated revenue) in 2019 Q1, a decrease of \$66.3 million or -162.1%.

Losses from operations related to Manufacturing operations in 2020 Q1 were \$43.7 million (-7.35% of Manufacturing revenue) compared to \$24.3 million (5.2% of Manufacturing revenue) in 2019 Q1, a decrease of \$68.0 million or -277.8%. The decrease as a percentage of revenues is primarily due to the impairment loss on goodwill, lower margins in the ADL business and unfavourable product mix in the transit bus business.

Earnings from operations related to Aftermarket operations in 2020 Q1 were \$18.3 million (15.9% of Aftermarket revenue) compared to \$16.2 million (18.0% of Aftermarket revenue), an increase of \$2.1 million or 12.5%. The increase as a percentage of revenue is related to the favourable sales mix.

### **Unrealized foreign exchange gain/loss**

The Company has recognized a net unrealized foreign exchange (gain)/loss consisting of the following:

| (U.S. dollars in thousands)   | 2020 Q1    | 2019 Q1    |
|---|------------|------------|
| Unrealized (gain) loss on forward foreign exchanges contracts         | \$ (1,797) | \$ (1,183) |
| Unrealized (gain) loss on other long-term monetary assets/liabilities | 1,754      | 247        |
|   | \$ (43)    | \$ (936)   |

At March 29, 2020, the Company had \$167.8 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). The related liability of \$1.4 million (December 29, 2019: \$3.7 million) is recorded on the unaudited consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings and total comprehensive income.

### **Earnings (loss) before interest and income taxes ("EBIT")**

In 2020 Q1, the Company recorded EBIT of \$25.5 million loss compared to EBIT of \$41.9 million in 2019 Q1. EBIT has been impacted by non-cash and non-recurring items as follows:

| (U.S. dollars in thousands)   | 2020 Q1   | 2019 Q1   |
|---|-----------|-----------|
| Non-cash and non-recurring charges:                                 |           |           |
| Costs associated with assessing strategic and corporate initiatives | \$ —      | \$ 5      |
| Unrealized foreign exchange gain                                    | (43)      | (936)     |
| Equity settled stock-based compensation                             | 14        | 419       |
| Loss (gain) on disposition of property, plant and equipment         | 163       | (20)      |
| Fair value adjustment of total return swap                          | 1,970     | 44        |
| Past service costs recovery   | (463)     | —         |
| Recovery on currency transactions                                   | (56)      | —         |
| Impairment loss on goodwill   | 50,790    | —         |
| Amortization  | 30,140    | 18,981    |
| Total non-cash and non-recurring charges:                           | \$ 82,515 | \$ 18,493 |

### **Interest and finance costs**

The interest and finance costs for 2020 Q1 of \$37.1 million increased by \$18.1 million when compared 2019 Q1.

The increase is primarily due to a fair market value loss on interest rate swap of \$22.5 million in 2020 Q1 compared to a loss of \$9.5 million in 2019 Q1. In addition, interest on long-term debt also increased by \$4.5 million due to the higher average Credit Facility draws for the acquisition of ADL and to finance higher non-cash working capital, which is expected to be recovered as WIP levels are reduced.

The losses on the interest rate swap relate to risk management activities management has undertaken to reduce the uncertainty related to its cost of borrowing. The interest rate swap fixes the interest rate which the Company will pay on \$600 million of its long-term debt at 2.27% plus an applicable margin. The Company's accounting policy is to not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses.

### **Earnings (loss) before income taxes ("EBT")**

EBT for 2020 Q1 of \$62.7 million loss decreased by \$86.5 million compared to EBT of \$23.8 million in 2019 Q1. The primary drivers of the changes to EBT are addressed in the Earnings from Operations, EBIT, and Interest and finance costs sections above.

### **Income tax expense**

The income tax expense for 2020 Q1 was \$4.6 million compared to \$7.7 million in 2019 Q1. The ETR for 2020 Q1 was (7.3%) and the ETR for 2019 Q1 was 32.2%. The decrease in the overall income tax expense is due primarily to low earnings before tax. The ETR is negatively impacted by the incurrence of a non-deductible write-off of goodwill and non-deductible interest.

### **Net earnings (loss)**

The Company reported a net loss of \$67.2 million in 2020 Q1, a decrease of 516.4% compared to net earnings of \$16.1 million in 2019 Q1. The decrease in net earnings is a result of impairment loss on goodwill, lower gross margins, interest on long-term debt, and fair market value loss on interest rate swap.

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| <b>Net earnings (loss)</b><br>(U.S. dollars in millions, except per Share figures) | <b>2020 Q1</b> | <b>2019 Q1</b> |
|--|----------------|----------------|
| <b>Earnings from operations</b>  | \$ (25.4)      | \$ 40.9        |
| <b>Non-cash gain (loss)</b>  | (0.1)          | 1              |
| <b>Interest expense</b>  | (37.1)         | (18.1)         |
| <b>Income tax expense</b>  | (4.6)          | (7.7)          |
| <b>Net earnings (loss)</b>   | \$ (67.2)      | \$ 16.1        |
| <br>   |                |                |
| <b>Net earnings (loss) per Share (basic)</b>                                       | \$ (1.08)      | \$ 0.26        |
| <b>Net earnings (loss) per Share (fully diluted)</b>                               | \$ (1.08)      | \$ 0.26        |

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The Company's net loss per Share in 2020 Q1 of \$1.08 decreased from net earnings per Share of \$0.26 generated in 2019 Q1. Net earnings were lower in 2020 Q1 for the reasons discussed throughout the Results of Operation section in this MD&A, which decreased earnings per Share in 2020 Q1.

### **Cash Flow**

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)

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|   | <b>2020 Q1</b> | <b>2019 Q1</b> |
|---|----------------|----------------|
| Cash generated by operating activities before non-cash working capital items and interest and income taxes paid | \$ 57,432      | \$ 60,375      |
| Interest paid   | (15,706)       | (8,347)        |
| Income taxes paid   | (11,901)       | (4,322)        |
| Net cash earnings   | 29,825         | 47,706         |
| Cash flow used in changes in working capital  | (46,208)       | (54,857)       |
| Cash flow used in operating activities  | (16,383)       | (7,151)        |
| Cash flow from financing activities   | 33,515         | 12,931         |
| Cash flow used in investing activities  | (22,983)       | (6,999)        |

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#### **Cash flows from operating activities**

The 2020 Q1 net operating cash outflow of \$16.4 million is mostly comprised of \$29.8 million of net cash earnings and offset by \$46.2 million of cash outflows related to changes in working capital. The 2019 Q1 net operating cash outflow of \$7.2 million is comprised of \$47.7 million of net cash earnings offset by cash used for working capital of \$54.9 million.

#### **Cash flow from financing activities**

The cash inflow of \$33.5 million during 2020 Q1 is comprised of proceeds from long-term debt of \$56.8 million and offset by dividends paid to shareholders of \$20.3 million.

## Cash flow from investing activities

(U.S. dollars in thousands)

|  | 2020 Q1     | 2019 Q1    |
|--|-------------|------------|
| Acquisition of intangible assets                           | \$ —        | \$ (17)    |
| Proceeds from disposition of property, plant and equipment | 100         | 28         |
| Long-term restricted deposit                               | (15,510)    | —          |
| Acquisition of property, plant and equipment               | (7,573)     | (7,010)    |
| Cash from investing activities                             | \$ (22,983) | \$ (6,999) |

2020 Q1 investing activities have increased outflows compared to 2019 Q1 primarily due to increase in long-term restricted deposits.

### Interest rate risk

On January 20, 2016, the Company entered into a \$482 million interest rate swap designed to hedge floating rate exposure on the \$482 million Term Credit Facility under the Company's fifth amended and restated prior credit agreement. The interest rate swap fixes the interest rate at 1.154% plus the applicable interest margin. On February 13, 2019, the Company blended the unrealized gain from the existing swap into a \$600 million notional interest rate swap designed to hedge floating rate exposure on the Company's current Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023.

The fair value of the interest rate swap liability of \$37.9 million at March 29, 2020 (2019: \$15.4 million liability) was recorded on the unaudited consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period. The unrealized losses recorded on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

### Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management believes that the credit risk associated with accounts receivable is mitigated by the significant proportion of counterparties that are well established public transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. public sector customer payments - up to 80% of the capital cost of new transit buses, coaches or cutaways, while the remaining 20% comes from state and municipal sources. There are a few U.S. public sector customers that obtain 100% of their funding from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. The Company also does not expect significant credit risk due to the Covid-19 pandemic.

The purchase of new coaches, transit buses or cutaways by private fleet operators is paid from the operators' own capital budgets and funded by its own cash flow. A significant portion of private fleet operators choose to finance new coach purchases with lending organizations. In some cases, MCI assists in arranging this financing, and in some cases, it provides financing through its ultimate net loss program. The Company has experienced a nominal amount of bad debts with its private sales customers as most transactions require payment on delivery. As such, the Company also does not expect significant credit risk due to the Covid-19 pandemic.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within SG&A. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A in the unaudited consolidated statements of net earnings and total comprehensive income.

The following table details the aging of the Company's receivables and related allowance for doubtful accounts:

| U.S. dollars in thousands                | March 29, 2020 | December 29, 2019 |
|--|----------------|-------------------|
| Current, including holdbacks             | \$ 405,990     | \$ 487,807        |
| <u>Past due amounts but not impaired</u> |                |                   |
| 1 - 60 days                              | 29,908         | 37,413            |
| Greater than 60 days                     | 13,089         | 6,800             |
| Less: allowance for doubtful accounts    | (372)          | (284)             |
| Total accounts receivables, net          | \$ 448,615     | \$ 531,736        |

The counterparties to the Company's derivatives are chartered Canadian banks and international financial institutions. The Company could be exposed to loss in the event of non-performance by the counterparty. However, credit ratings and concentration of risk of the financial institutions are monitored on a regular basis.

## Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of accrued benefit liabilities as at March 29, 2020:

| U.S. dollars in thousands | Total      | 2020      | 2021      | 2022      | 2023      | 2024      | Post 2024  |
|---------------------------|------------|-----------|-----------|-----------|-----------|-----------|------------|
| Leases                    | 250,527    | 19,963    | 25,039    | 23,037    | 20,239    | 15,338    | 146,911    |
| Accrued benefit liability | 2,833      | 2,833     | —         | —         | —         | —         | —          |
|                           | \$ 253,360 | \$ 22,796 | \$ 25,039 | \$ 23,037 | \$ 20,239 | \$ 15,338 | \$ 146,911 |

As at March 29, 2020, outstanding surety bonds guaranteed by the Company amounted to \$402.0 million, representing an increase compared to \$384.5 million at December 29, 2019. The estimated maturity dates of the surety bonds outstanding at March 29, 2020 range from April 2020 to December 2026. Management believes that adequate facilities exist to meet projected surety requirements.

The Company has not recorded a liability under these guarantees as management believes that no material events of default exist under any applicable contracts with customers.

Under the Credit Facility, the Company had established a letter of credit sub-facility of \$100.0 million. As at March 29, 2020, letters of credit amounting to \$12.8 million (December 29, 2019: \$12.8 million) remained outstanding as security for the contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of \$63.6 million. As at March 29, 2020, letters of credit totaling \$20.8 million were outstanding under the bi-lateral credit facility. Additionally, there are \$30.0 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at March 29, 2020.

### Share Option Plan

The Board adopted a Share Option Plan (the "Option Plan") for NFI on March 21, 2013 (and amended and restated on December 8, 2015 and December 31, 2018), under which employees of NFI and certain of its affiliates may receive grants of options for Shares. Directors who are not employed with NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares are reserved for issuance under the Option Plan. The options become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date.

| Option Grant dates | Number    | Exercised   | Expired  | Vested    | Unvested  | Expiry date       | Exercise price | Fair Value at grant date |
|--------------------|-----------|-------------|----------|-----------|-----------|-------------------|----------------|--------------------------|
| March 26, 2013     | 490,356   | (483,030)   | —        | (7,326)   | —         | March 26, 2021    | C\$10.20       | C\$1.55                  |
| December 30, 2013  | 612,050   | (573,668)   | (9,631)  | (28,751)  | —         | December 30, 2021 | C\$10.57       | C\$1.44                  |
| December 28, 2014  | 499,984   | (252,233)   | (11,368) | (236,383) | —         | December 28, 2022 | C\$13.45       | C\$1.83                  |
| December 28, 2015  | 221,888   | (19,532)    | —        | (146,884) | 55,472    | December 28, 2023 | C\$26.75       | C\$4.21                  |
| September 8, 2016  | 2,171     | —           | —        | (1,086)   | 1,085     | September 8, 2024 | C\$42.83       | C\$8.06                  |
| January 3, 2017    | 151,419   | (1,610)     | (1,615)  | (73,299)  | 74,895    | January 3, 2025   | C\$40.84       | C\$7.74                  |
| January 2, 2018    | 152,883   | —           | (1,882)  | (37,754)  | 113,247   | January 2, 2026   | C\$54.00       | C\$9.53                  |
| January 2, 2019    | 284,674   | —           | (3,431)  | —         | 281,243   | January 2, 2027   | C\$33.43       | C\$5.01                  |
| July 15, 2019      | 2,835     | —           | —        | —         | 2,835     | July 15, 2027     | C\$35.98       | C\$4.90                  |
| December 31, 2019  | 519,916   | —           | —        | —         | 519,916   | December 31, 2027 | C\$26.81       | C\$3.36                  |
|                    | 2,938,176 | (1,330,073) | (27,927) | (531,483) | 1,048,693 |                   | C\$29.56       |                          |

The following reconciles the Share options outstanding:

|                                | 2020 Q1   |                                 | 2019 Q1   |                                 |
|--------------------------------|-----------|---------------------------------|-----------|---------------------------------|
|                                | Number    | Weighted average exercise price | Number    | Weighted average exercise price |
| Balance at beginning of period | 1,068,906 | C\$30.77                        | 946,306   | C\$27.02                        |
| Granted during the period      | 519,916   | C\$26.81                        | 284,674   | C\$33.43                        |
| Expired during the period      | —         | C\$0.00                         | (5,649)   | C\$39.63                        |
| Exercised during the period    | (8,646)   | C\$13.45                        | (10,758)  | C\$13.45                        |
| Balance at end of period       | 1,580,176 | C\$29.56                        | 1,214,573 | C\$28.58                        |

### **Restricted Share Unit Plan for Non-Employee Directors**

Pursuant to the Company's Restricted Share Unit Plan for Non-Employee Directors, a maximum of 500,000 Shares are reserved for issuance to non-employee directors. The Company issued approximately \$147 thousand of director restricted Share units ("Director RSUs") in 2020 Q1. Of these Director RSUs issued, approximately \$96 thousand were exercised and exchanged for 4,620 Shares.

### **Capital Allocation Policy**

The Company has established a capital allocation policy based on an operating model intended to provide consistent and predictable cash flow and maintain a strong balance sheet. This policy has established guidelines that are reviewed by the Board on a quarterly basis and provides targets for maintaining financial flexibility, business investment, and return of capital to shareholders.

#### Maintaining Financial Flexibility

The Company plans to prudently use leverage to manage liquidity risk. Liquidity risk arises from the Company's financial obligations and from the management of its assets, liabilities and capital structure. This risk is managed by regularly evaluating the liquid financial resources to fund current and long-term obligations, and to meet the Company's capital commitments in a cost-effective manner.

The main factors that affect liquidity include sales mix, production levels, cash production costs, working capital requirements, capital expenditure requirements, scheduled repayments of long-term debt obligations, funding requirements of the Company's pension plans, income taxes, credit capacity, expected future debt and equity capital market conditions and repurchase of equity through the Company's normal course issuer bid ("NCIB").

The Company's liquidity requirements are met through a variety of sources, including cash on hand, cash generated from operations, the credit facilities, leases, and debt and equity capital markets.

The liquidity position as at March 29, 2020 is \$146.6 million (December 29, 2019: \$209.3 million).

Within the capital allocation policy, management has targeted to maintain leverage between 2 times and 2.5 times Adjusted EBITDA, excluding IFRS 16 - leases ("IFRS 16"). The Company however, has and may in the future increase leverage beyond this range to fund accretive acquisitions that are capable of reducing leverage through earnings.

There are certain financial covenants under the Credit Facility that have to be maintained. These financial covenants include an interest coverage ratio and a total leverage ratio ("TLR"). The maximum total leverage ratio under the Credit Facility is 3.75 and increases to 4.25 for one year following a material acquisition. The acquisition of ADL on May 28, 2019 was a material acquisition. The terms of the Credit Facility provide relief from the impact of changes in accounting policies, including the impact of IFRS 16. At as March 29, 2020, the Company was in compliance with the ratios. In addition, as described below under Subsequent Events, these leverage ratios have been relaxed temporarily.

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|   | March 29, 2020 | December 29, 2019 |
|---|----------------|-------------------|
| Total Leverage Ratio (must be less than 4.25 for one year following a material acquisition) | 3.68           | 3.24              |
| Interest Coverage Ratio (must be greater than 3.00)   | 6.37           | 7.73              |

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#### Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in lean manufacturing operations to improve quality and cost effectiveness. In addition, business acquisitions will be considered to further grow and diversify the business and to contribute to the long-term competitiveness and stability of the Company. Investment decisions are based on several criteria, including but not limited to: investment required to maintain or enhance operations; enhancement of cost effectiveness through vertical integration of critical supply and sub-assembly in-sourcing; and acquisitions in current or adjacent markets that are considered accretive to the business.

#### Return of Capital to Shareholders

The Company intends to have a Share dividend policy that is consistent with the Company's financial performance and the desire to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities.

The Company's 2020 Q1 Free Cash Flow was C\$19.8 million compared to declared dividends of C\$13.3 million during this period. For 2019 Q1 Free Cash Flow was C\$43.2 million compared to declared dividends of C\$25.9 million. This resulted in a payout ratio of 67.1% in 2020 Q1 compared to 60.0% in 2019 Q1.

To support cash management efforts while the Company's operations are impacted by COVID-19 the Board reduced the Company's quarterly dividend, for the period January 1 to March 31, 2020, to C\$0.2125 per Share. While the dividend payment was reduced, the continued payment reflects the Board's confidence in the Company's business while maintaining the financial flexibility required to operate during a period of

significant economic uncertainty. In addition, the Board also directed the Company to temporarily suspend Board fees payable on April 1, 2020 and directed the Company to temporarily lower future Board fees by 35%.

On June 11, 2018, the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the previous Normal Course Issuer Bid (the "Former NCIB") to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. On January 17, 2019 the Company amended the Former NCIB. Pursuant to the amended Former NCIB, the Company was permitted to repurchase for cancellation up to 5,549,465 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2018. The Company was permitted to repurchase Shares commencing on June 14, 2018 up to June 13, 2019, or earlier should the Company have completed its repurchases prior to such date. The Former NCIB expired June 13, 2019.

On June 12, 2019 the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement the NCIB to replace the Former NCIB to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. The Company is permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2019. The Company is permitted to repurchase Shares commencing on June 17, 2019 up to June 16, 2020, or earlier should the Company complete its repurchases prior to such date.

The actual number of Shares to be purchased and the timing and pricing of any purchases under the NCIB will depend on future market conditions and potential alternative uses for cash resources. The Company may elect to modify, suspend or discontinue the program at any time without prior notice. During 2019 Q1, the Company repurchased 232,100 Shares under the Former NCIB at an average price of C\$31.82 per Share for a total repurchase of C\$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including 232,100 Shares purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the Former NCIB or the NCIB subsequent to 2019 Q1.

| Total Capital Distributions to Shareholders<br>(U.S. dollars in millions) | 2020 Q1 | 2019 Q1 |
|---|---------|---------|
| Dividends paid  | \$ 20.3 | \$ 16.8 |
| NCIB Share repurchase   | —       | 5.7     |
| Total   | \$ 20.3 | \$ 22.5 |

### Subsequent Events

The COVID-19 pandemic has resulted in governments worldwide introducing various recommendations and measures to limit the pandemic. These measures, which include travel restrictions, border closures, non-essential business closures, and social distancing became more pronounced in March 2020 when the World Health Organization declared COVID-19 a global pandemic. This has caused material disruption to businesses globally and created unprecedented economic slowdown and volatility in global financial markets. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. NFI group is diligently managing working capital and subsequent to quarter-end (March 29, 2020) implemented numerous measures in response to COVID-19, including idling the majority of its facilities since March 30, 2020. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the impact on the financial results and condition of the Company and its subsidiaries in future periods.

On April 23, 2020, NFI Group announced that it had obtained covenant relief under the Company's existing Credit Facility and had entered into the New Facility. The New Facility can be used for general corporate purposes, thereby providing additional liquidity and flexibility should it be required. The Company's banking partners have waived compliance with the total leverage ratio and interest coverage ratio covenants under the existing Credit Facility and the New Facility for fiscal periods up to September 28, 2020. As of that date, compliance with relaxed covenants will resume for the term of the New Facility. The New Facility also no longer permits NFI to repurchase Shares through its NCIB.

Starting on September 28, 2020, there are certain financial covenants that must be maintained under the New Facility and the existing Credit Facility. The initial covenants will vary depending on whether or not the Company draws on the New Facility. If the Company does not utilize the New Facility, it must maintain a TLR of less than 4.75 to 1 for 2020 Q4. Alternatively, if the Company does utilize the New Facility then it must maintain a TLR of less than 5.5 to 1 for 2020 Q4. Starting with the first quarter of 2021 the covenants converge and are the same for both the Credit Facility and the New Facility regardless of whether or not the Company has drawn funds from the New Facility. The TLR is 4.5 to 1 for the first quarter of 2021, 4.25 to 1 for the second quarter of 2021 and, for the Credit Facility, 3.75 to 1 for the third quarter of 2021 and beyond. The Company must also maintain an interest coverage ratio of 3.0 to 1 starting September 28, 2020 and has to maintain a minimum liquidity of \$50 million at all times.

The terms of the New Facility and the Credit Facility do not restrict the payment of dividends, provided the Company is in compliance with the covenants under the facilities and the dividend payments remain at current levels (as of March 23, 2020). Copies of the New Facility and the amendment to the Credit Facility, which include additional details regarding the covenants and other terms and conditions, can be found on SEDAR.

### Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2019 Annual Financial Statements.

#### **New and amended standards adopted by the Company**

There are no significant new accounting standards adopted by the Company at the beginning of the year.

#### **Controls and Procedures**

##### ***Internal Controls over Financial Reporting***

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined under rules adopted by the Canadian Securities Administrators. ICFR were designed under the supervision of, and with the participation of, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS.

On December 15, 2014, management adopted the "Internal Control - Integrated Framework 2013" ("COSO 2013") from the Committee of Sponsoring Organizations of the Treadway Commission, which replaces the previously issued COSO framework, COSO 1992. This new framework necessitated a re-evaluation of the controls that management relies upon to support its conclusions, as well as changes to the Company's testing programs.

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of March 29, 2020 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

The Company has limited its design of ICFR to exclude controls, policies and procedures of ADL, as ADL was acquired not more than 365 days before the end of the financial period to which this MD&A relates.

ICFR, no matter how well designed, have inherent limitations. Therefore, ICFR can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

##### ***Disclosure Controls***

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at March 29, 2020 were effective.

There have been no changes in our internal control over financial reporting during the quarter ended March 29, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### ***Limitation of Disclosure Controls and Procedures & Internal Control over Financial Reporting***

As permitted by securities legislation, for the period ended March 29, 2020, the Company's management has limited the scope of its design of the Company's disclosure controls and procedures and the Company's ICFR to exclude controls, policies and procedures of ADL, which the Company acquired on May 28, 2019.

During the period between the acquisition date to December 29, 2019, ADL generated revenues of approximately \$449.1 million and comprehensive loss of approximately \$43.0 million, which have been recorded in the consolidated statements of net earnings and comprehensive income for Fiscal 2019. The comprehensive loss is impacted by \$31.0 million of charges related to the unwind of fair value adjustments of acquired assets and \$14.4 million of intangible amortization related to the purchase price accounting. During 2020 Q1, ADL generated revenues of approximately \$123.8 million and a net loss of approximately \$8.8 million. The comprehensive loss is impacted by \$6.5 million of intangible amortization related to the purchase price accounting.

## Appendix A - Acquisition of ADL

For the purposes of preparing the unaudited financial information of ADL presented below, adjustments have been made to the historical financial statements of ADL to convert its financial statements prepared in accordance with UK GAAP to IFRS and to conform its accounting policies and presentation to those used by the Company. The details of these adjustments are as presented in the following tables.

| (Unaudited, U.S. dollars in thousands unless noted) | UK GAAP      | IFRS Adjustments | IFRS (GBP)     | US Dollar<br>£1 = US<br>\$1.2663 | Fair Value<br>Adjustments | May 28, 2019<br>Opening<br>Balance<br>Sheet |
|---|--------------|------------------|----------------|----------------------------------|---------------------------|---|
| Cash and contingent consideration                   |              |                  | 267,578        | \$ 338,834                       |                           | 338,834                                     |
| NFI shares issued                                   |              |                  | 27,552         | 34,888                           |                           | 34,888                                      |
| <b>Purchase price</b>                               |              |                  | <b>295,130</b> | <b>373,723</b>                   |                           | <b>373,723</b>                              |
| Cash acquired                                       |              |                  | 36,614         | 46,364                           |                           | 46,364                                      |
| <b>Net purchase price</b>                           |              |                  | <b>258,516</b> | <b>327,359</b>                   |                           | <b>327,359</b>                              |
| <b>Net assets acquired</b>                          |              |                  |                |                                  |                           |   |
| Inventory   | 117,180      | 34,608           | 151,788        | 192,209                          | 29,367                    | 221,576                                     |
| Accounts receivable                                 | 66,167       | 5,283            | 71,450         | 90,477                           |                           | 90,477                                      |
| Prepaid expenses                                    | 8,243        | (4,068)          | 4,175          | 5,287                            |                           | 5,287                                       |
| Derivative financial instruments                    | 3,972        | (4,248)          | (276)          | (349)                            |                           | (349)                                       |
| Property, plant and equipment                       | 18,256       | 3,563            | 21,819         | 27,629                           | 16,020                    | 43,649                                      |
| Right-of-use assets                                 | –            | 13,581           | 13,581         | 17,198                           |                           | 17,198                                      |
| Accounts payable and accrued liabilities            | (151,309)    | 14,989           | (136,320)      | (172,622)                        |                           | (172,622)                                   |
| Income taxes payable                                | (1,286)      |                  | (1,286)        | (1,628)                          |                           | (1,628)                                     |
| Deferred revenues                                   | (1,565)      | (61,634)         | (63,199)       | (80,029)                         |                           | (80,029)                                    |
| Lease liability                                     | (177)        | (13,941)         | (14,118)       | (17,877)                         |                           | (17,877)                                    |
| Long-term debt                                      | (45,000)     | –                | (45,000)       | (56,984)                         |                           | (56,984)                                    |
| Provisions  | (5,871)      | –                | (5,871)        | (7,434)                          |                           | (7,434)                                     |
| Deferred tax liabilities                            | (1,211)      | 3,503            | 2,292          | 2,902                            | (44,636)                  | (41,734)                                    |
| <b>Net tangible assets acquired</b>                 | <b>7,399</b> | <b>(8,364)</b>   | <b>(965)</b>   | <b>(1,221)</b>                   | <b>751</b>                | <b>(470)</b>                                |
| Trade names   |              |                  |                |                                  | 43,181                    | 43,181                                      |
| Patent and licenses                                 |              |                  |                |                                  | 22,287                    | 22,287                                      |
| Customer relationships                              |              |                  |                |                                  | 123,844                   | 123,844                                     |
| Backlog of sales orders                             |              |                  |                |                                  | 14,689                    | 14,689                                      |
| <b>Identifiable intangible assets acquired</b>      |              |                  |                |                                  | <b>204,001</b>            | <b>204,001</b>                              |
| <b>Goodwill acquired</b>                            |              |                  |                |                                  | <b>134,210</b>            | <b>124,462</b>                              |

The goodwill acquired is largely attributable to NFI's opportunity to grow its geographical footprint, diversify its product offering and take leading positions in new markets. This goodwill is not expected to be deductible for tax purposes. Management continues to assess and value the purchase price allocation and as such remains subject to adjustments that could arise as a result of new information that would impact the determination of fair value of the assets acquired and liabilities assumed.

## Appendix B - Meaning of Certain References

References in this MD&A to the “Company” are to NFI and all of its direct or indirect subsidiaries, including New Flyer Industries Canada ULC (“NFI ULC”), New Flyer of America Inc. (“NFAL”), The Aftermarket Parts Company, LLC (“TAPC”), TCB Enterprises, LLC (“TCB”), KMG Fabrication, Inc. (“KMG”), Carfair Composites Inc. (“CCI”) and Carfair Composites USA, Inc. (“CCUI”, and together with “CCI”, “Carfair”), The Reliable Insurance Company Limited, ARBOC Specialty Vehicles, LLC (“ARBOC”), New MCI Holdings, Inc. and its affiliated entities (collectively, “MCI”), NFI Holdings Luxembourg s.a.r.l., and Alexander Dennis Limited and its affiliated entities (collectively, “ADL”) References to “New Flyer” generally refer to NFI ULC, NFAL, TAPC, KMG, CCI, CCUI and TCB. References in this MD&A to “management” are to senior management of NFI and the Company.

The common shares of NFI (“Shares”) are traded on the Toronto Stock Exchange (“TSX”) under the symbol “NFI”. As at March 29, 2020, 62,506,539 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI’s annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Buses manufactured by New Flyer and ADL’s single and double deck buses are classified as “transit buses”. ARBOC manufactures body-on-chassis or “cutaway” and “medium-duty” buses that service transit, paratransit, and shuttle applications. Collectively, transit buses, medium-duty buses and cutaways, are referred to as “buses”.

A “motor coach” or “coach” is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) one or two axles in the rear (related to the weight of the vehicle), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory and underfloor baggage compartments), and (v) no room for standing passengers.

All of the data presented in this MD&A with respect to the number of transit buses, medium-duty buses, cutaways and motor coaches in service and delivered, is measured in, or based on, “equivalent units”. One equivalent unit (or “EU”) represents one production slot, being one 30-foot, 35-foot, 40-foot, 45-foot heavy-duty transit bus, one double deck bus, one medium-duty bus, one cutaway bus or one motor coach, whereas one articulated transit bus represents two equivalent units. An articulated transit bus is an extra-long transit bus (approximately 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

### Forward-looking Statements

Certain statements in this MD&A are “forward looking statements”, which reflect the expectations of management regarding the Company’s future growth, results of operations, performance and business prospects and opportunities. The words “believes”, “anticipates”, “plans”, “expects”, “will”, “intends”, “projects”, “forecasts”, “estimates” and similar expressions are intended to identify forward looking statements. These forward-looking statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements.

Such differences may be caused by factors which include, but are not limited to, the magnitude and length of the global, national and regional economic and social disruption being caused as a result of the global COVID-19 pandemic; the impact of national, regional and local governmental laws, regulations and “shelter in place” or similar orders relating to the COVID-19 pandemic which may materially adversely impact the Company’s ability to continue operations; additional partial or complete closures of one, more or all of the Company’s facilities and work locations (including to protect the health and safety of the Company’s employees), the extension of such closures and the ability to execute planned return to production and the increase of production rates over time as a result of the COVID-19 pandemic; continuing and worsening supply delays and shortages of parts and components and disruption to labour supply as a result of the COVID-19 pandemic; the COVID-19 pandemic will likely adversely affect operations of customers as a result of shutdowns and/or disruptions to their operations and the services provided to their customers and end users and may delay, for an unknown period, customers’ purchases of the Company’s products; the Company’s ability to obtain access to additional capital if required; the Company’s financial performance and condition, obligations, cash flow and liquidity and its ability to maintain compliance with the covenants under its credit facilities, which may also negatively impact the ability of the Company to fund dividends. These above risks relating to the impact of the COVID-19 pandemic may materially adversely impact the Company’s business, operating performance and financial condition, including as a result of reduction to the Company’s cashflow, liquidity and its ability to maintain compliance with covenants under its credit facilities. There can be no assurance that the Company will be able to maintain sufficient liquidity for an extended period, obtain future covenant relief under its credit facilities or access to additional capital or access to government financial support or as to when production operations will commence or return to previous production rates.

The Company cautions that due to the dynamic, fluid and highly unpredictable nature of the COVID-19 pandemic and its impact on global and local economies, businesses and individuals, it is impossible to predict the severity of the impact on the Company’s business,

operating performance and financial condition and any material adverse effects could very well be rapid, unexpected and may continue for an extended and unknown period of time. The extent of such impact will depend on future developments, which are unpredictable, including new information which may emerge concerning the spread and severity of COVID-19 and actions taken by governments and health organizations around the world to address its impact, among others.

A number of other factors that may cause actual results to differ materially from the results discussed in the forward-looking statements include, but are not limited to, funding may not continue to be available to the Company's customers at current levels or at all; the Company's business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company's products and the results of its operations; currency fluctuations could adversely affect the Company's financial results or competitive position; interest rates could change substantially, materially impacting the Company's revenue and profitability; an active, liquid trading market for the Shares may cease to exist, which may limit the ability of shareholders to trade Shares; the market price for the Shares may be volatile; if securities or industry analysts do not publish research or reports about the Company and its business, if they adversely change their recommendations regarding the Shares or if the Company's results of operations do not meet their expectations, the Share price and trading volume could decline. In addition, if securities or industry analysts publish inaccurate or unfavorable research about the Company or its business, the Share price and trading volume of the Shares could decline; competition in the industry and entrance of new competitors; failure of the ratification of the United States-Mexico-Canada Agreement (USMCA) could be materially adverse to NFI; current requirements under "Buy America" regulations may change and/or become more onerous or suppliers' "Buy America" content may change; failure of the Company to comply with the DBE program requirements or the failure to have its DBE goals approved by the FTA; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; uncertainty resulting from the exit of the UK from the European Union; requirements under Canadian content policies may change and/or become more onerous; operational risk resulting from inadequate or failed internal processes, people and/or systems or from external events, including fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, floods, technology failures, processing errors, business integration, damage to physical assets, employee safety and insurance coverage; international operations subject the Company to additional risks and costs and may cause profitability to decline; dependence on limited sources or unique sources of supply; dependence on supply of engines that comply with emission regulations; a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company's products; the Company's profitability can be adversely affected by increases in raw material and component costs; the Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events may lead to production curtailments or shutdowns; the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour; the Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage; the Company may be adversely affected by rising insurance costs; the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts; the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability claims; the Company may have difficulty selling pre-owned coaches and realizing expected resale values; the Company may incur costs in connection with regulations relating to axle weight restrictions and vehicle lengths; the Company may be subject to claims and liabilities under environmental, health and safety laws; dependence on management information systems and cyber security risks; the Company's ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees; the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business; the Company's risk management policies and procedures may not be fully effective in achieving their intended purposes; internal controls over financial reporting, no matter how well designed, have inherent limitations; there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products or model variants; acquisition risk; reliance on third-party manufacturers; third-Party Distribution/Dealer Agreements; availability to the Company of future financing; the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt; the restrictive covenants in the Credit Facility could impact the Company's business and affect its ability to pursue its business strategies; payment of dividends is not guaranteed; a significant amount of the Company's cash is distributed, which may restrict potential growth; the Company is dependent on its subsidiaries for all cash available for distributions; future sales or the possibility of future sales of a substantial number of Shares may impact the price of the Shares and could result in dilution; if the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected; income tax risk due to the Company's operations being complex and income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change; investment eligibility and Canadian federal income tax risks; certain U.S. tax rules may limit the ability of NF Holdings and its U.S. subsidiaries (the "NF Group") to deduct interest expense for U.S. federal income tax purposes and may increase the NF Group's tax liability and certain financing transactions could be characterized as "hybrid transactions" for U.S. tax purposes, which could increase the NF Group's tax liability. NFI cautions that this

list of factors is not exhaustive. These factors and other risks and uncertainties are discussed in NFI's press releases, Annual Information Form and materials filed with the Canadian securities regulatory authorities which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

Although the forward looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements, and the differences may be material. These forward looking statements are made as of the date of this MD&A and NFI assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities laws.

#### **DEFINITIONS OF ADJUSTED EBITDA, ROIC, FREE CASH FLOW, ADJUSTED NET EARNINGS, ADJUSTED EARNINGS PER SHARE, REGIONS INCLUDING: NORTH AMERICA, UK AND EUROPE, ASIAPACIFIC, AND OTHER**

References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company. These adjustments include gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs and other pension costs, non-recurring restructuring costs, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation, recovery of currency transactions, prior year sales tax provision, impairment loss on goodwill, and release of provision related to purchase accounting.

"Free Cash Flow" means net cash generated by operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, defined benefit funding, defined benefit expense, past service costs, proportion of total return swap, recovery on currency transactions, prior year sales tax provision, non-recurring restructuring costs, gain on release of provision related to purchase accounting, foreign exchange gain (loss) on cash held in foreign currency.

References to "ROIC" are to net operating profit after taxes (calculated as Adjusted EBITDA less depreciation of plant and equipment, depreciation of right-of-use assets and income taxes at a rate of 31%) divided by average invested capital for the last twelve month period (calculated as to shareholders' equity plus long-term debt, obligations under leases, other long-term liabilities and derivative financial instrument liabilities less cash).

References to "Adjusted Net Earnings" are to net earnings after adjusting for the after tax effects of certain non-recurring and/or non-operational related items that do not reflect the current ongoing cash operations of the Company including: fair value adjustments of total return swap, unrealized foreign exchange loss or gain, unrealized gain or loss on the interest rate swap, portion of the total return swap realized, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, equity settled stock-based compensation, gain or loss on disposal of property, plant and equipment, past service costs and other pension costs, gain on release of provision related to purchase accounting, recovery on currency transactions, prior year sales tax provision, and non-recurring restructuring costs .

References to "Adjusted Earnings per Share" are to Adjusted Net Earnings divided by the average number of Shares outstanding.

Management believes Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share are useful measures in evaluating the performance of the Company. However, Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Readers of this MD&A are cautioned that ROIC, Adjusted Net Earnings and Adjusted EBITDA should not be construed as an alternative to net earnings or loss or cash flows from operating activities determined in accordance with IFRS as an indicator of NFI's performance, and Free Cash Flow should not be construed as an alternative to cash flows from operating, investing and financing activities determined in accordance with IFRS as a measure of liquidity and cash flows. A reconciliation of net earnings to Adjusted EBITDA, based on the Financial Statements, has been provided under the headings "Reconciliation of Net Earnings to Adjusted EBITDA". A reconciliation of Free Cash Flow to cash flows from operations is provided under the heading "Summary of Free Cash Flow". A reconciliation of net earnings to Adjusted Net Earnings is provided under the heading "Reconciliation of Net Earnings to Adjusted Net Earnings".

NFI's method of calculating Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Dividends paid from Free Cash Flow are not assured, and the actual amount of dividends received by holders of Shares will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings available on SEDAR at [www.sedar.com](http://www.sedar.com).

References to NFI's geographic regions for the purpose of reporting global revenues are as follows: North America refers to Canada, United States, and Mexico; United Kingdom and Europe refer to the United Kingdom and Europe; Asia Pacific refers to Hong Kong, Malaysia, Singapore, Australia, and New Zealand; and the Other category includes any sales that do not fall into the categories above.

## 2020 Appendix C - 2020 First Quarter Order Activity

### Demand for Transit Buses and Motor Coaches

The Company's "Bid Universe" metric estimates active public competitions in Canada and the United States and attempts to provide an overall indication of anticipated heavy-duty transit bus and motor coach public sector market demand. It is a point-in-time snapshot of: (i) EUs in active competitions, defined as all requests for proposals received by the Company and in process of review plus bids submitted by the Company and awaiting customer action, and (ii) management's forecast, based on data provided by operators, of expected EUs to be placed out for competition over the next five years.

The first quarter of 2020 saw significant growth in the Company's Bid Universe, with Active Bids up by 16.4%, or 772 EUs, from 2019 Q4 and 61.3%, or 2,077 EUs from 2019 Q1. The total Bid Universe was 29,236 EUs, an increase of 19.2% from 2019 Q1 and 5.7% from 2019 Q4. The Bid Universe EUs fluctuate significantly from quarter-to-quarter based on public tender activity procurement and award processes.

|                | Bids in Process (EUs) | Bids Submitted (EUs) | Active EUs   | Forecasted Industry Procurement over 5 Years (EUs) <sup>(1)</sup> | Total Bid Universe (EUs) |
|----------------|-----------------------|----------------------|--------------|---|--------------------------|
| 2019 Q1        | 1,350                 | 2,039                | 3,389        | 21,143  | 24,532                   |
| 2019 Q2        | 1,231                 | 2,929                | 4,160        | 20,686  | 24,846                   |
| 2019 Q3        | 1,216                 | 3,691                | 4,907        | 22,588  | 27,495                   |
| 2019 Q4        | 1,760                 | 2,934                | 4,694        | 22,954  | 27,648                   |
| <b>2020 Q1</b> | <b>2,005</b>          | <b>3,461</b>         | <b>5,466</b> | <b>23,770</b>   | <b>29,236</b>            |

(1) Management's estimate of anticipated future industry procurement over the next five years is based on direct discussions with select U.S. and Canadian transit authorities. This estimate includes potential activity for New Flyer and MCI vehicles, but excludes potential ARBOC and ADL U.S. and Canadian sales.

Procurement of heavy-duty transit buses and motor coaches by the U.S. and Canadian public sector is typically accomplished through formal multi-year contracts, while procurement by the private sector, in North America, the UK and Europe and Asia Pacific is typically made on a transactional basis. As a result, the Company does not maintain a Bid Universe for private sector buses and coaches.

The sale of cutaway and medium-duty buses manufactured by ARBOC is accomplished on a transactional purchase order basis through non-exclusive third-party dealers who hold contracts directly with the customers. Bids are submitted by and agreements are held with a network of dealers. Cutaway and medium-duty bus activity therefore is not included in the Bid Universe metric.

ADL does not currently have a Bid Universe metric for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe. Management does not believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2019, and was expected to remain flat, to slightly up in 2020 prior to the impacts of COVID-19. As the market has now been impacted by the COVID-19 pandemic, it is likely that the UK market will be down in 2020, with recovery in 2021 due to customers' fleet recovery plans and an aging vehicle fleet. In Asia Pacific, the Hong Kong market is highly cyclical, and following busier periods in 2015 through 2018, the market has declined as expected to stable annual deliveries, which is expected to continue. New Zealand and Singapore remain cyclical markets and both markets saw increased activity in 2017, 2018 and 2019.

### Order activity

New orders (firm and options) during 2020 Q1 totaled 1,346 EUs, an improvement of 48.1% from 2019 Q1 and 16.1% from 2019 Q4. The new firm and option orders awarded to the Company for 2020 Q1 LTM were 4,014 EUs. The Company was also successful at converting 139 EUs of options during 2020 Q1 to firm orders, an increase of 10.3% from 2019 Q1, but a decline from 2019 Q4. These conversions contributed to the 1,531 EUs of options converted to firm orders during 2020 Q1 LTM, an improvement of 3.4% from 2019 Q1 LTM and 0.9% from 2019 Q4 LTM.

|                | New Orders in Quarter (Firm and Option EUs) | LTM New Orders (Firm and Option EUs) | Option Conversions in Quarter (EUs) | LTM Option Conversions (EUs) |
|----------------|---|--------------------------------------|-------------------------------------|------------------------------|
| 2019 Q1        | 909   | 3,936                                | 126                                 | 1,480                        |
| 2019 Q2        | 474   | 2,998                                | 350                                 | 1,325                        |
| 2019 Q3        | 1,035                                       | 3,276                                | 229                                 | 1,554                        |
| 2019 Q4        | 1,159                                       | 3,577                                | 813                                 | 1,518                        |
| <b>2020 Q1</b> | <b>1,346</b>                                | <b>4,014</b>                         | <b>139</b>                          | <b>1,531</b>                 |

## Options

In 2020 Q1, 163 option EUs expired, compared to 248 option EUs that expired during 2019 Q1 and 159 EUs that expired in 2019 Q4.

A significant number of public transit contracts in the U.S. and Canada have a term of five years. In addition, some contracts in the UK and APAC also have multi-year terms. The table below shows the number of option EUs that have either expired or have been exercised annually over the past five years, as well as the current backlog of options that will expire each year if not exercised.

|  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023 | 2024 | Total |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|-------|
| A) Options Expired (EUs)                   | 965   | 504   | 550   | 331   | 741   | 512   | 163   |       |       |      |      | 3,766 |
| B) Options Exercised (EUs)                 | 1,149 | 1,339 | 2,064 | 1,404 | 1,795 | 1,518 | 139   |       |       |      |      | 9,408 |
| C) Current Options by year of expiry (EUs) |       |       |       |       |       |       | 1,616 | 1,473 | 2,086 | 638  | 237  | 6,050 |
| D) Conversion rate % = B / (A+B)           | 54%   | 73%   | 79%   | 81%   | 71%   | 75%   |       |       |       |      |      |       |

The Company's conversion rate can vary significantly from quarter-to-quarter and should be looked at on an annual or LTM basis.

In addition to contracts for identified public customers, the Company has focused on state procurements and cooperative purchasing agreements, with the objective of having available schedules from which customers within a prescribed region or defined list can purchase. The Company has successfully bid and been named on several state contracts. These contracts, however, are not recorded in backlog as they do not have defined quantities allocated to the Company or any other OEM. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order.

The Company's 2020 Q1 LTM Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 86%, an increase of 1% from 85% in 2019 Q4 LTM and a decrease of 4.8% from 2019 Q1 LTM.

In addition, 566 EUs of new firm and option orders were pending from customers at the end of 2020 Q1, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog.

## Backlog

The Company's total backlog consists of buses sold primarily to U.S. and Canadian public customers and private operators in the UK and Europe. The majority of the backlog relates to New Flyer transit buses for public clients with some of the backlog consisting of units from MCI, ADL and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as options in the NFI backlog, but are converted to firm backlog when vehicles are ordered by the dealer.

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas, diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses represent approximately 31.2% of the total backlog. ZEBs represent approximately 3.7% of total backlog.

|                               | 2020 Q1      |              |               | 2019 Q4      |              |               | 2019 Q1      |              |               |
|-------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|--------------|--------------|---------------|
|                               | Firm Orders  | Options      | Total         | Firm Orders  | Options      | Total         | Firm Orders  | Options      | Total         |
| Beginning of period           | 4,224        | 6,518        | 10,742        | 4,313        | 7,281        | 11,594        | 3,649        | 7,184        | 10,833        |
| New orders                    | 1,065        | 281          | 1,346         | 950          | 209          | 1,159         | 708          | 201          | 909           |
| Options exercised             | 139          | (139)        | –             | 813          | (813)        | –             | 126          | (126)        | 0             |
| Shipments <sup>(1)</sup>      | (1,279)      | –            | (1,279)       | (1,844)      | –            | (1,844)       | (903)        | –            | (903)         |
| Cancelled/expired             | (67)         | (163)        | (230)         | (8)          | (159)        | (167)         | (4)          | (248)        | (252)         |
| <b>End of period</b>          | <b>4,082</b> | <b>6,497</b> | <b>10,579</b> | <b>4,224</b> | <b>6,518</b> | <b>10,742</b> | <b>3,576</b> | <b>7,011</b> | <b>10,587</b> |
| <b>Consisting of:</b>         |              |              |               |              |              |               |              |              |               |
| Heavy-duty transit buses      | 3,150        | 5,683        | 8,833         | 3,236        | 5,722        | 8,958         | 2,878        | 6,035        | 8,913         |
| Motor coaches                 | 564          | 814          | 1,378         | 615          | 796          | 1,411         | 516          | 976          | 1,492         |
| Cutaway and medium-duty buses | 368          | –            | 368           | 373          | –            | 373           | 182          | –            | 182           |
| <b>Total Backlog</b>          | <b>4,082</b> | <b>6,497</b> | <b>10,579</b> | <b>4,224</b> | <b>6,518</b> | <b>10,742</b> | <b>3,576</b> | <b>7,011</b> | <b>10,587</b> |

(1) Shipments do not include delivery of pre-owned coaches as these coaches are not included in the backlog.

At the end of 2020 Q1, the Company's total backlog (firm and options) of 10,579 EUs (valued at \$5.1 billion) has decreased compared to 10,742 EUs (valued at \$5.2 billion) at the end of 2019 Q4. The decrease was driven by strong deliveries in the quarter of 1,279 EUs. The summary of the values is provided below.

|                      | 2020 Q1           |                  | 2019 Q4           |                  | 2019 Q1           |                  |
|----------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|                      |                   | Equivalent Units |                   | Equivalent Units |                   | Equivalent Units |
| Total firm orders    | \$ 1,833.9        | 4,082            | \$ 1,928.8        | 4,224            | \$ 1,815.1        | 3,576            |
| Total options        | 3,278.1           | 6,497            | 3,245.1           | 6,518            | 3,347.3           | 7,011            |
| <b>Total backlog</b> | <b>\$ 5,112.0</b> | <b>10,579</b>    | <b>\$ 5,177.9</b> | <b>10,742</b>    | <b>\$ 5,162.4</b> | <b>10,587</b>    |