Financial Results
Fiscal 2020

March 4, 2021

Leading the ZEvolution.™

NFI continues **changing the game**.

Leading the ZEvolution.™

We continue to innovate and drive forward.

Leading the ZEvolution.™

We provide comprehensive mobility solutions.

Leading the ZEvolution.™

We have more than 105,000 buses in service in 11 countries around the world.

Leading the ZEvolution.™

We are leading the evolution to a zero-emission future.

NOTES TO READERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 27, 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 audited consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 27, 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 such forward-looking statements, including, but not limited to, the factors described in the Company's public filings available on SEDAR at www.sedar.com. See "Forward-Looking Statements" in Appendix A. 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 December 30, 2019 to December 27, 2020 ("Fiscal 2020")				Period from December 31, 2018 to December 29, 2019 ("Fiscal 2019")		
	Period End Date		# of Calendar Weeks	Period End Date		# of Calendar 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

The quarterly and annual reporting periods for Fiscal 2021 will be as follows:

Period from December 28, 2020 to January 2, 2022 ("Fiscal 2021")			
	Period End Date		# of Calendar Weeks
Quarter 1	March 28, 2021	("2021 Q1")	13
Quarter 2	June 27, 2021	("2021 Q2")	13
Quarter 3	September 26, 2021	("2021 Q3")	13
Quarter 4	January 2, 2022	("2021 Q4")	14
Fiscal year	January 2, 2022		53

NOTES TO READERS

Specific references and definitions are used throughout this MD&A, please see "Meaning of Certain References" and "Definitions of Adjusted EBITDA, return-on-invested-capital ("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 A. 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 the heading entitled: “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 A for information about these measures, including how they are calculated and the way 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 (v) no room for standing passengers. “Product lines” include heavy-duty transit buses, motor coaches, pre-owned coaches, cutaway and medium-duty buses.

Zero-emission buses ("ZEBs") consist of trolley-electric, hydrogen fuel cell-electric, and battery-electric 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 B.

Dear Shareholders,

2020 is a year that none of us will ever forget.

As we began the year, we had a plan that would see us deliver record results, and were off to a great start with a solid first quarter. Then the COVID-19 global pandemic became our reality. As the pandemic took hold in our geographies, few of us could ever have imagined the dramatic impact it would have on our world, our customers, our people, and our business.

While **2020 was a period of challenges**, including an immediate standstill of private coach operations, delayed public customer orders, idled facilities and furloughs, organizational changes, economic shocks, closed borders, and stay-at-home orders, we were extremely proud to see the response of the NFI team around the world. In the midst of an unprecedented global pandemic, our people focused on the health and safety of their fellow team members and on delivering for our customers. **Transit is the spinal cord of cities**, and most of our customers provide an essential service - one that connects cities and people, drives economic activity, and improves congestion and air quality. Throughout the pandemic, these operators delivered for their customers and ensured that, while the world stopped, public transit kept moving. We're proud to be able to support these individuals in everything they do, and we remain committed to ensuring our vehicles perform safely, reliably and meet all of our customers' expectations.

Our team worked tirelessly to achieve a balance in our decision-making and in dealing with the realities of the pandemic. This included some very difficult decisions to reduce our operating costs, headcount and facility footprint. While there were no easy answers, our people responded to the challenge and drove the NFI Forward initiative ("NFI Forward"), a group-wide series of projects that is expected to transition NFI from a holding company structure into a more integrated and efficient systems-driven organization.

The pandemic continues to disrupt all aspects of our daily lives, but there is hope on the horizon. We are seeing ridership start to return and vaccines are now being deployed. There is enthusiasm and **desire to re-open cities and start moving again**. At NFI, we are committed to doing everything we can to make sure our vehicles are ready for the recovery by offering products to increase onboard safety and cleanliness for our customers.

Looking beyond the pandemic, we held our annual Investor Day on January 11, 2021, where we outlined the future of NFI and had an opportunity to successfully connect virtually with our stakeholder community. We received fantastic feedback from the event, so much so that we will aim to make this an annual virtual event to continue to provide you with quality information, insights and updates.

NFI is Leading the *ZE*volution™: the evolution to a zero-emission future. *(continued->)*

(-> continued)

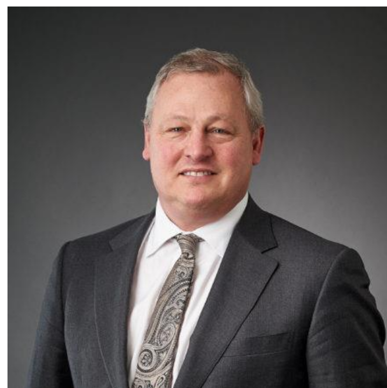
At NFI, we don't speak about hypotheticals or unfounded promises of growth or share or margin. **We're the leaders, and we deliver upon our commitments.** We will continue to innovate and lead the way to a zero-emission bus future. We have the largest vehicle production capacity in North America and the UK, the broadest propulsion offering, the deepest customer relationships and unmatched aftermarket and technical support. **And we aren't just a bus manufacturer—we are a mobility solutions provider**. We now offer telematics, connected vehicles, infrastructure solutions, aftermarket, battery-leasing, automated vehicles and advanced driver assistance systems. Our history is painted with innovation, and our focus on innovation will continue as we move forward and continuously disrupt ourselves - as we've done for more than a century.

There is a lot to look forward to. **We are really excited about where we are and where we are going.** We have exciting product launches ahead, which started with the launch of the Xcelsior AV in January 2021, North America's first fully operational heavy-duty Level 4 automated bus. Soon, we will launch new electric vehicle models at New Flyer, unveil the new D45 Commuter Rapid Transit battery-electric coach at MCI, and begin production of ARBOC's Equess CHARGE shuttle bus.

We are **committed to continuing to innovate** in order to ensure better, smarter, safer, more sustainable, and more connected public transportation. Environmental and social governance continues to drive our decision making, and NFI is extremely well positioned to capitalize on both our internal initiatives, including an increase in the diversity of our team, reduction of our carbon footprint, and through the environmental and social benefits created by our products. NFI's vehicles and solutions will enable smart city development, reduce the harmful impacts of climate change, traffic congestion and noise pollution, and create economic opportunity for current and future generations.

Sincerely,

The Honourable Brian V. Tobin
P.C., O.C. Chairman of the Board
NFI Group Inc.



Paul Soubry
President & Chief Executive Officer
NFI Group Inc.

Leading the ZEvolution.™

NFI is a leading global bus manufacturer of mass mobility solutions

NA Market Leader in Heavy-Duty Transit Buses and Infrastructure Solutions

NA Market Leader in Motor Coaches

World Leader in Double Deck Buses; UK Market Leader in Bus and Coach

NA market leader in Low-floor Cutaway and medium-duty Shuttle buses

Market leader in Bus/Coach Parts

Leading the *ZE*volution.™

NFI is leading zero-emission electric mobility

20 million +
Electric service miles driven

1,371
Zero-Emission Buses (ZEBs) delivered since 2015

389
ZEBs delivered in 2020 (9% of total deliveries)

34% improvement from 2019

80+
Cities with an NFI ZEB in service or on order

632
ZEBs in backlog (5.8% of total backlog)

$24.7 million
Infrastructure Solutions revenue in 2020

20% to 25%
of 2021 production is expected to be ZEBs

8,000
Annual ZEB production capacity

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FY 2020 Highlights (US$)

$2.4 billion
Revenue

4,371
EUs delivered

3,519
EUs in New Orders

24,378
Total Bid Universe

$233.5 million
Liquidity

$158 million
Adjusted EBITDA

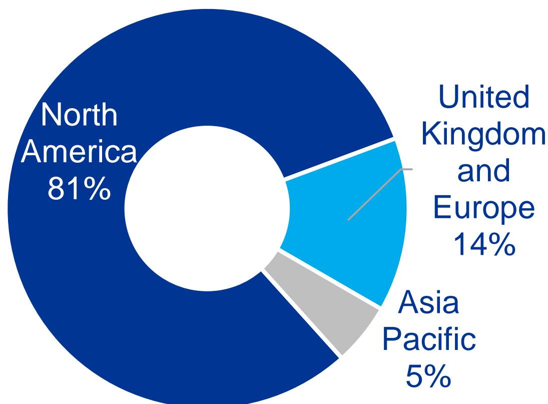
$27.5 million
Free Cash Flow

$18 million
NFI Forward

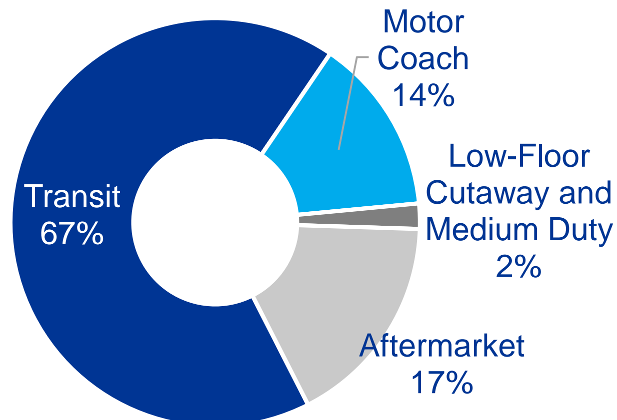
($0.75)
Adjusted Net Earnings per Share

$4.5 billion
Ending Backlog of 8,504 EUs

Revenue by Geography

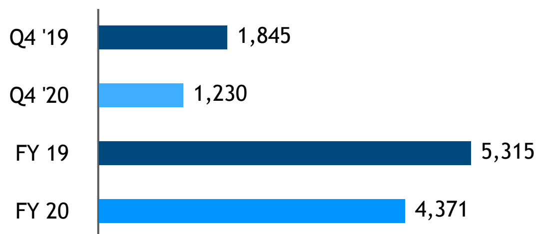


Revenue by Product

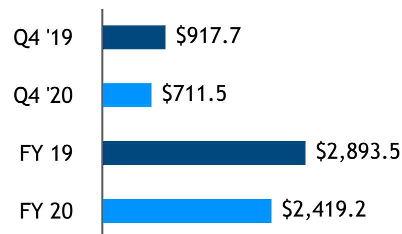


KEY PERFORMANCE INDICATORS

Deliveries (EUs)



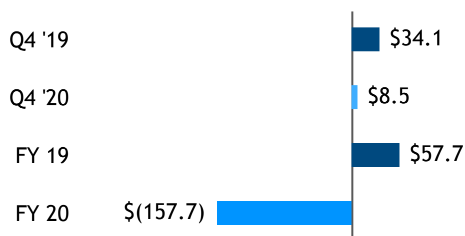
Revenue ($ millions)



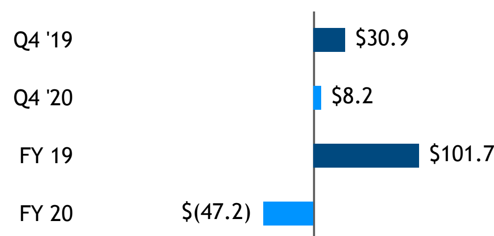
The decrease in deliveries from 2019 Q4 to 2020 Q4 was related to lower production volumes as a result of the ongoing impacts of the COVID-19 pandemic. Lower deliveries were experienced in all of NFI's product lines, with the largest decline seen in private motor coach. Fiscal 2020 new vehicle deliveries were down by 944 EUs, or 17.8%, from Fiscal 2019, with declines in heavy-duty transit and motor coach somewhat offset by increased deliveries of low-floor cutaway vehicles.

Total revenue decreased by 22.5% from 2019 Q4 to 2020 Q4 due to the decline in vehicle deliveries. Aftermarket parts sales were also lower by 11.4%, primarily due to private operators idling their fleets due to the COVID-19 pandemic. The comparative quarter decline is also partly a reflection of the record deliveries achieved in 2019 Q4. Fiscal 2020 revenues were down 16.4% from Fiscal 2019, due to the ongoing impacts of the COVID-19 pandemic, including lower vehicle deliveries and private sector aftermarket parts sales. The acquisition of ADL partially offset the COVID-19 related revenue decline in the fiscal-year comparative.

Net earnings (loss) ($ millions)



Adjusted Net Earnings[1] (Loss) ($ millions)



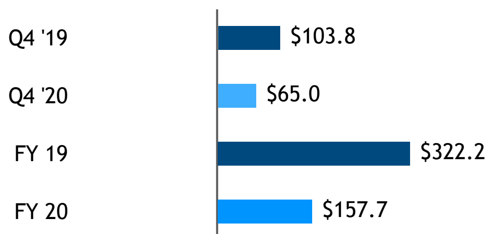
The 2020 Q4 net earnings of $8.5 million, a decrease of $25.6 million from 2019 Q4, was mainly driven by lower revenues mentioned above. The Company continued to lower variable overhead costs in step with lower production, but was unable to reduce fixed costs as quickly. Net earnings were impacted by $5.4 million in exceptional costs related to COVID-19 and $1.0 million in one-time, non-recurring restructuring charges primarily related to the NFI Forward initiative. Losses from operations were partially offset by government grants of $11.3 million received through the Canadian Emergency Wage Subsidy ("CEWS") and the UK Job Retention ("UK Furlough") program.

The Company reported a net loss of $157.7 million in Fiscal 2020, driven by lower production volumes, extraordinary COVID-19 costs, and non-recurring restructuring costs associated with production reductions and the NFI Forward initiative. Fiscal 2020 results were also lower as a result of a $50.8 million goodwill impairment charge related to MCI's private motor coach operations, incurred in 2020 Q1.

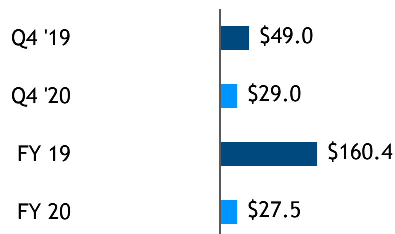
2020 Q4 Adjusted Net Earnings of $8.2 million was primarily driven by the same factors relating to net earnings, but adjusted for several normalizing tax affected items, including $0.7 million in one-time, non-recurring restructuring charges and $3.7 million in other COVID-19 related costs. Fiscal 2020 Adjusted Net Loss of ($47.2) million is normalized for tax-affected items including $19.0

million of one-time, non-recurring restructuring charges and $32.7 million of COVID-19 related costs, as well as the $50.8 million goodwill impairment and $12.2 million of mark-to-market losses on interest rate swaps.

Adjusted EBITDA[1] ($ millions)



Free Cash Flow[1] ($ millions)

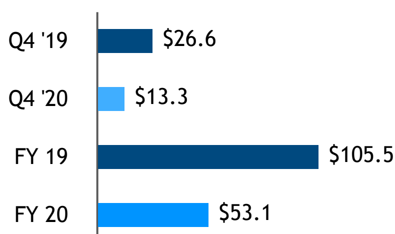


2020 Q4 Adjusted EBITDA of $65.0 million decreased by $38.9 million from 2019 Q4, or 37.4%, driven by the decrease in deliveries and aftermarket revenue mentioned above. In response to the decline in revenue the Company was focused on lowering both variable production costs and fixed general and administrative expenses. This included the transformational NFI Forward initiative, which is anticipated to lower both direct and fixed costs. NFI Forward achieved Adjusted EBITDA savings of $17.0 million, and a further $1.0 million of Free Cash Flow savings related to interest expenses and leases in Fiscal 2020.

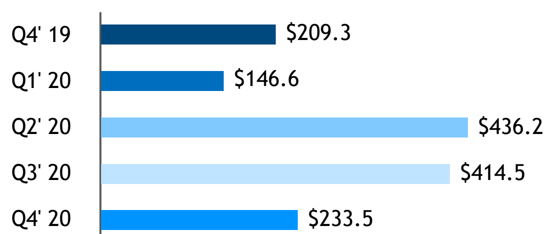
On a yearly basis, Adjusted EBITDA decreased by $164.5 million, or 51.1%, as NFI delivered fewer vehicles in 2020 due to the impacts of the COVID-19 pandemic. In addition, the Company continued to incur fixed operating costs on a lower revenue base. These negative impacts were somewhat offset by government grants of $53.5 million received through the CEWS and UK Furlough programs, and improvements at KMG. Despite headwinds from COVID-19 related absenteeism, KMG achieved positive Adjusted EBITDA for the second consecutive quarter, and despite the many operational challenges COVID-19 presented throughout Fiscal 2020, KMG achieved year-over-year Adjusted EBITDA improvement of $7.3 million.

Free Cash Flow in 2020 Q4 decreased by $20.0 million, or 40.8%, as compared to 2019 Q4, primarily due to lower Adjusted EBITDA and higher maintenance capital expenditures. On a yearly basis, Free Cash Flow decreased by 82.9%, primarily driven by the idling of production facilities in the second quarter, which resulted in second quarter Free Cash Flow losses of $43.1 million.

Declared dividends ($CAD millions)



Total Liquidity ($ millions)



Effective Q1 2020, quarterly dividends were reduced 50.0% to C$0.2125 per common share in direct response to the impact of the COVID-19 pandemic on the Company's end markets and operating business. On a yearly basis, dividends are down 49.7%. While the dividend payment was reduced, the continued payment reflects the confidence of the Board of Directors (the "Board") in the Company's business while maintaining the financial flexibility required to operate during a period of significant uncertainty.

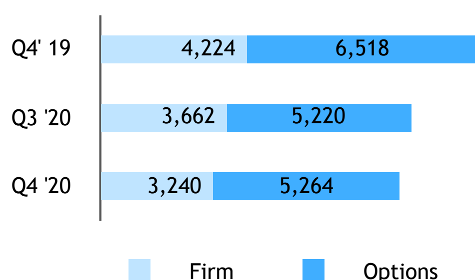
The Company's liquidity position, which combines cash on-hand plus available capacity under credit facilities, as at December 27, 2020 was $233.5 million, up $24.2 million from Q4 2019. On December 23, 2020, NFI announced amendments to its credit facilities: NFI amended the Company's existing $1.25 billion senior revolving credit facility (the "Credit Facility") and its £50 million revolving UK credit facility (the "UK Facility"), and the amended facilities provide NFI with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2021 and

2022 have been increased to a higher level. During 2021, the Company has received a waiver of the total net leverage covenant and will instead need to comply with a total net leverage ratio that is based on a financial projection for the Company's 2021 fiscal year. In addition to amending the facilities, NFI terminated the unused $250 million unsecured credit facility it entered into in April 2020 (the "Sidecar"), which was intended to provide additional liquidity, which the Company believes it no longer requires. Further details regarding the credit facilities and the Company's covenants can be found in the Capital Allocation section of this MD&A.

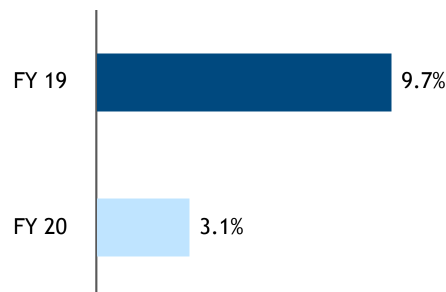
On March 1, 2021, NFI announced that it had closed a bought-deal equity offering (the "Offering") with a syndicate of underwriters (the "Underwriters") pursuant to which NFI issued 8,446,000 common shares at a price of C$29.60 per share for gross proceeds to the Company of C$250 million. The Company intends to use the net proceeds of the Offering to reduce the outstanding balances under its credit facilities, which is expected to strengthen NFI's balance sheet, reduce leverage and interest expense and significantly increase liquidity.

NFI believes that its existing liquidity combined with the additional financial flexibility provided from the Offering will allow it to pursue its operational and strategic goals, such as investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends.

Backlog (EUs)



ROIC[1]



At the end of 2020 Q4, the Company's total backlog (firm and options) of 8,504 EUs (valued at $4.3 billion) has decreased compared to 8,882 EUs (valued at $4.5 billion) at the end of 2020 Q3. The decrease was primarily driven by the Company delivering units in the backlog while new orders were lower during the period due to delays in new contract awards as a result of COVID-19 disruptions to public market customers. Backlog was also impacted by the expiry of 120 option EUs and the cancellation of 26 EUs.

FY 2020 ROIC decreased by 68.0% from 2019 Q4 LTM due to the decline in Adjusted EBITDA, driven by the impacts of COVID-19, combined with one-time non-recurring lower of cost or net realizable value adjustments in respect of the Company's pre-owned coaches, and goodwill impairment in the MCI business unit.

Footnotes

1. Non-IFRS Measure - See Appendix A

2020 Q4 HIGHLIGHTS

The fourth quarter of 2020 saw NFI continue to recover from the impacts of COVID-19 and deliver significant improvement over both the third quarter, as well as over the second quarter of idled production. While results improved in 2020 Q4, the ongoing COVID-19 pandemic continued to challenge NFI's customers and end markets. Rising COVID-19 rates in the U.S., Canada, and the UK, combined with mutations of the virus, ongoing work-from-home mandates and the dramatic decline in travel slowed the announcement of new vehicle awards, and delayed or deferred purchases, especially in private coach and UK transit markets.

As a result of the pandemic and in order to achieve the anticipated benefits from the ongoing NFI Forward initiative, the Company incurred several one-time costs that have been normalized within Adjusted EBITDA and Adjusted Net Earnings. These adjustments (tax effected) include:

- Restructuring
  - $1.0 million in severance costs and asset impairments primarily related to the NFI Forward initiative.
- COVID-19
  - $4.6 million in asset impairments from aftermarket parts inventory and ADL private coach.
  - $0.8 million of COVID-19 operating costs that include, but are not limited to, the purchase of personal protective equipment, plant sanitation activities and incremental cleaning activities.

Adjusted Net Earnings are also normalized for other related items including:

  - $2.3 million mark-to-market loss on interest rate swap
  - $2.2 million unrealized foreign exchange gains
  - $1.1 million fair value adjustments to the total return swap

After adjusting for these items, Adjusted Net Earnings is $8.2 million or $0.13 per share.

While the pandemic continued to create challenges during the fourth quarter, it was a busy period for NFI that saw the Company experience several events and achieve significant milestones, including the following:

- In November, ADL expressed support for the UK Government's Ten Point Plan for a Green Industrial Revolution and the commitment to invest £120 million to begin the introduction of at least 4,000 more British built ZEBs. ADL is the UK's leader in ZEBs and is extremely well positioned to capitalize on the transition to zero-emission vehicles. An example of this leadership position was the ADL BYD partnership's electric vehicles completing 600,000 zero-emission service miles in December 2020.

- NFI's North-American ZEB strategy continued in earnest with awards in Nashville for vehicles and the associated charging infrastructure. The California Air Resources Board also approved MCI's zero-emission coaches to be eligible to avail of the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Program.

- ADL's new market growth strategy continued with the delivery of the first Enviro500 double-deck vehicles to Berlin, Ireland and New Zealand. In Berlin, ADL expects to receive an order for an additional 198 units following completion of a testing program. In Ireland, there are another 180 EUs on order for 2021 delivery, and ADL delivered two electric vehicles to New Zealand.

- NFI's commitment to the communities in which it operates was more important than ever in 2020, and NFI and its employees were pleased to raise over C$400,000 through its annual United Way fundraising campaign, providing support to 19 communities across North America.

- In December, MCI announced that the MCI Academy had received its fourth consecutive ASE Training Managers Council National Excellence in Training Award, the Grand Award, for its High Voltage Safety Program.

- Throughout the quarter, NFI's Clean and Protect product line helped customers provide a safer transportation experience as customers equipped their vehicles with sanitization, cleaning and air purification products.

- ARBOC's low-floor cutaway growth strategy took significant steps forward as the Company received an order for 53 low-floor Spirit of Freedom buses from British Columbia's TransLink, and Transit St. Louis added 13 new Metro Call-A-Ride vans to its fleet.

- On December 23, 2020, NFI announced amendments to its $1.25 billion Credit Facility and its £50 million UK Facility. The amended facilities provide NFI with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. In addition to amending the facilities, NFI terminated the unused $250 million Sidecar, which was intended to provide additional liquidity in 2020, which the Company believes it no longer needs.

The Company continued to pay its quarterly dividend of C$0.2125 per share (annual rate of C$0.85 per share), resulting in a payout ratio for Fiscal 2020 of 153.0%%. The Board expects to maintain dividends on a quarterly basis, although such dividends are not assured.

Leading the *ZE*volution™

On January 11, 2021, NFI held its virtual Investor Day 2021, where NFI's Senior Leadership Team and Board provided detailed presentations regarding NFI's business and strategy, with a focus on NFI's vision to drive the increased adoption of ZEBs, what NFI is calling the ***ZE***volution™. The event also featured an informative discussion by a panel made up of mobility experts from Canada, the United States, and the United Kingdom. During the event, NFI announced its 2021 guidance, 2025 targets and longer-term financial outlook, details of which can be found in the Outlook section of this MD&A.

FINANCIAL RESULTS

Despite improvements from the third and second quarters, the COVID-19 pandemic continued to negatively impact NFI's 2020 Q4 results across all financial metrics, including the Company's deliveries, which declined by 615 EUs, or 33.3%, from 2019 Q4. Lower deliveries were experienced in all of NFI's product lines, but the most significantly impacted continued to be the private segments of MCI and ADL. Private market activity remained low as operators continued to idle their vehicles in response to government travel restrictions, social distancing and self-isolation requirements. The comparative quarter decline is also partly a reflection of the record deliveries achieved in 2019 Q4, following a significant build up of work-in-progress inventory ("WIP") in 2019 Q3. The comparative full year decline is partially offset by the acquisition of ADL.

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

Deliveries (unaudited, EUs)	2020 Q4	2019 Q4	*% Change*	2020	2019	*% Change*
Transit buses	913	1,347	*(32.2)%*	3,318	3,931	*(15.6)%*
Motor coaches	221	389	*(43.2)%*	633	1,036	*(38.9)%*
Medium-duty and cutaway	96	109	*(11.9)%*	420	348	*20.7 %*
New Vehicle Deliveries	1,230	1,845	*(33.3)%*	4,371	5,315	*(17.8)%*
Pre-owned coach	133	176	*(24.4)%*	329	469	*(29.9)%*

Revenue (unaudited quarterly results, audited full year results, dollars in millions)	2020 Q4	2019 Q4	*% Change*	2020	2019	*% Change*
Transit buses	$ 457.6	$ 571.1	*(19.9)%*	$ 1,593.4	$ 1,841.1	*(13.5)%*
Motor coaches	121.9	192.0	*(36.5)%*	334.4	526.5	*(36.5)%*
Medium-duty	8.7	18.2	*(52.2)%*	41.7	49.8	*(16.3)%*
Total new transit bus, coach and cutaway revenue	**$ 588.2**	**$ 781.3**	***(24.7)%***	**$ 1,969.5**	**$ 2,417.4**	***(18.5)%***
Pre-owned coach revenue	9.0	13.7	*(34.3)%*	18.4	46.0	*(60.0)%*
Infrastructure solutions	9.0	3.8	*136.8 %*	24.7	6.1	*304.9 %*
Fiberglass reinforced polymer components	1.6	1.8	*(11.1)%*	5.1	6.6	*(22.7)%*
Manufacturing Revenue	**$ 607.8**	**$ 800.6**	***(24.1)%***	**$ 2,017.7**	**$ 2,476.1**	***(18.5)%***
Aftermarket	103.7	117.1	*(11.4)%*	401.5	417.4	*(3.8)%*
Total Revenue	**$ 711.5**	**$ 917.7**	***(22.5)%***	**$ 2,419.2**	**$ 2,893.5**	***(16.4)%***
North America	559.7	710.6	*(21.2)%*	1,966.6	2,508.2	*(21.6)%*
United Kingdom and Europe	106.6	174.4	*(38.9)%*	332.5	320.1	*3.9 %*
Asia Pacific	44.5	32.0	*39.1 %*	117.7	63.7	*84.8 %*
Other	0.7	0.8	*(12.5)%*	2.4	1.4	*71.4 %*

Manufacturing revenue for 2020 Q4 decreased by $192.8 million, or 24.1%, compared to 2019 Q4. The decrease is primarily driven by lower deliveries of both transit buses and motor coaches, as the Company lowered production volumes in response to public customer order deferrals and private customer order delays or cancellations, which were both attributable to the economic impacts of the COVID-19 pandemic. Pre-owned coach sales decreased due to a decline in deliveries and demand for vehicles as the majority of North American and UK private coach operators idled operations during the quarter. Due to these market conditions, the Company signed an agreement mid-quarter to sell MCI's pre-owned coach pool to a third party for total proceeds of approximately $19.0 million. The Company recognized $5.8 million of revenue related to the sale in 2020 Q4, and expects to recognize the remainder in the first half of 2021, depending on the timing of deliveries. Medium duty revenue was lower due to an unfavourable product mix.

Revenue from Aftermarket operations in 2020 Q4 decreased by $13.4 million, or 11.4% compared to 2019 Q4. The decline in revenue was primarily driven by lower private sector parts volumes within both the NFI aftermarket and ADL aftermarket businesses. Offsetting some of this pressure was increased sales to public customers for Clean and Protect™ products aimed at improving vehicle safety and cleanliness.

Adjusted EBITDA[1] (unaudited, dollars in millions)	2020 Q4	2019 Q4	% Change	2020	2019	% Change
Manufacturing	54.3	85.7	(36.6)%	102.0	256.1	(60.2)%
Aftermarket	17.1	18.4	(7.1)%	66.7	74.6	(10.6)%
Corporate	(6.4)	(0.3)	(2,033.3)%	(11.0)	(8.5)	(29.4)%
Total Adjusted EBITDA	**$65.0**	**$103.8**	***(37.4)%***	**$157.7**	**$322.2**	***(51.1)%***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	9.1 %	10.7 %	(15.0)%	5.1 %	10.3 %	(50.5)%
Aftermarket	16.5 %	15.7 %	5.1 %	16.6 %	17.9 %	(7.3)%
Total	**9.2 %**	**11.3 %**	***(18.6)%***	**6.5 %**	**11.1 %**	***(41.4)%***

Net Earnings (Loss) [2] (unaudited quarterly results, audited full year results, dollars in millions, except per share amounts)	2020 Q4	2019 Q4	% Change	2020	2019	% Change
Manufacturing	11.5	31.5	(63.5)%	(117.7)	83.3	(241.3)%
Aftermarket	11.2	15.5	(27.7)%	52.1	63.6	(18.1)%
Corporate	(14.2)	(12.9)	10.1 %	(92.1)	(89.2)	3.3 %
Net earnings (Loss)	**$ 8.5**	**$ 34.1**	***(75.1)%***	**$ (157.7)**	**$ 57.7**	***(373.3)%***
Goodwill impairment	—	—	N/A	50.8	—	N/A
Extraordinary COVID-19 costs	5.4	—	N/A	47.4	—	N/A
Non-recurring restructuring costs	1.0	—	N/A	27.5	—	N/A
Adjusted Net Earnings (Loss)[1]	8.2	30.9	(73.5)%	(47.2)	101.7	(146.4)%
Net earnings (Loss) Per Share	0.14	0.55	(74.5)%	(2.52)	0.93	(371.0)%
Adjusted Earnings (Loss) Per Share[1]	$ 0.13	$ 0.49	(73.5)%	$ (0.75)	$ 1.65	(145.5)%

[1] Non-IFRS Measure - See Appendix A for details.
[2] Comparative segment allocations have been restated to conform with current period presentation.

2020 Q4 Manufacturing Adjusted EBITDA decreased by $31.4 million, or 36.6%. The Company continued to lower variable overhead in step with production but was unable to reduce fixed costs as quickly, resulting in lower Adjusted EBITDA. The Company has initiated the NFI Forward initiative to reduce direct and general and administrative fixed costs. In 2020, NFI has achieved cost savings of $16.6 million in the Manufacturing Segment. The Q4 decrease in Adjusted EBITDA was partially offset by $11.3 million in government grants and improvements at the Company's parts fabrication facility ("KMG"). Despite challenges from COVID-19 related absenteeism, KMG achieved positive Adjusted EBITDA for the second consecutive quarter, and despite the many operational challenges COVID-19 presented throughout Fiscal 2020, KMG achieved year-over-year Adjusted EBITDA improvement of $7.3 million. Manufacturing 2020 Q4 net earnings decreased by $20.0 million, or 63.5%, due to the items that impacted Adjusted EBITDA, combined with $3.5 million in extraordinary costs related to COVID-19. The previously described extraordinary COVID-19 costs included a $2.7 million impairment charge on ADL's motor coach inventory. Net earnings were also impacted by one-time, non-recurring restructuring charges of $1.0 million. Restructuring charges are associated with production reductions and the NFI Forward initiative.

2020 Q4 Aftermarket Adjusted EBITDA decreased by $1.3 million, or 7.1%. The impact of lower revenue was offset by cost savings from headcount reductions, a favourable product mix, and NFI Forward savings of $0.4 million. 2020 Q4 net earnings decreased by $4.3 million, or 27.7%. The decrease was driven by the same factors that impacted Adjusted EBITDA, combined with a COVID-19 related inventory impairment charge of $1.9 million.

Corporate Adjusted EBITDA decreased by $6.1 million, primarily as a result of realized foreign exchange. Corporate expenses included in the calculation of net earnings decreased by $1.3 million, or 10.1%, primarily due to higher interest costs, partially offset by unrealized foreign exchange gains on non-current monetary items.

Free Cash Flow[1] (unaudited, dollars in millions, except per share amounts)	2020 Q4	2019 Q4	*% Change*	2020	2019	*% Change*
Free Cash Flow	$ 29.0	$ 49.0	*(40.8)%*	$ 27.5	$ 160.4	*(82.9)%*
Free Cash Flow (CAD dollars)	39.6	64.1	*(38.2)%*	34.7	211.4	*(83.6)%*
Declared Dividends (CAD dollars)	13.3	26.6	*(50.0)%*	53.1	105.5	*(49.7)%*
Free Cash Flow per Share (CAD dollars)	$ 0.63	$ 1.03	*(38.8)%*	$ 0.56	$ 3.42	*(83.6)%*
Dividends per Share (CAD dollars)	$ 0.21	$ 0.43	*(51.2)%*	$ 0.85	$ 1.71	*(50.3)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow	33.6 %	41.5 %	*(19.0)%*	153.0 %	49.9 %	*206.6 %*

[1]Non-IFRS Measure - See Appendix A for details.

Free Cash Flow in 2020 Q4 decreased by $20.0 million, or 40.8%, compared to 2019 Q4, primarily due to lower Adjusted EBITDA, higher maintenance capital expenditures, and higher lease obligation payments. The Company increased maintenance capital expenditures in the fourth quarter, after limiting expenditures in the second and third quarters to preserve cash during the idling of production facilities. Lease obligation payments were higher because the Company made payments, related to previous quarters, that had been deferred to preserve cash during the idling of production facilities. The decrease in fourth quarter Free Cash Flow was partially offset by lower income taxes.

Fiscal 2020 Free Cash Flow was particularly challenged by the idling of nearly all production facilities in the second quarter, which resulted in second quarter Free Cash Flow losses of $43.1 million. Losses in the second quarter were the primary driver of the Company's Fiscal 2020 payout ratio of 153.0% percent. In response to these challenges, the Company reduced quarterly dividends 50% to C$0.2125 per common share, effective Q1 2020.

OUTLOOK

Management anticipates that NFI's end markets will continue to be impacted by COVID-19 in 2021; however, the Company expects improvement in its financial results as markets recover and the NFI Forward initiative continues to deliver improvements to operating metrics. Market recovery will be dependent upon several factors, including government recovery and green fleet investments, COVID-19 case rates, vaccine distribution, the length of the pandemic, mutations of the virus, travel restrictions, and economic reopening activity. These factors will differ by product and geography. The Company's vehicle product lines (New Flyer, ARBOC, MCI public motor coach, and ADL) are primarily used for public transit, which remains a critical method of transportation for millions of users in the Company's markets and is an economic enabler in cities. Within the North American heavy-duty transit and public coach businesses, near- and longer-term demand is expected to return, although the duration of the recovery from COVID-19 may affect vehicle awards and delivery timing. Management's recovery expectations are supported by continued support for transit operations by all levels of government and the Company's North American bid universe, which includes 4,032 EUs in active procurements. Management also believes recent advancements in COVID-19 vaccines and the commencement of vaccine rollouts are positive signs for continued market recovery.

NFI is Leading the *ZE*volution™

At its January 2021 Investor Day, NFI unveiled its vision to drive the increased adoption of ZEBs, what the Company is calling the ZEvolution™. NFI envisions a consistent adoption of zero-emission vehicles over the next 10 to 15 years as operators in North America, the UK, Europe and Asia Pacific markets transition their fleets to electric vehicles. NFI has been building electric vehicles since 1969 and offers the broadest offering of ZEBs, including battery-electric buses and coaches, hydrogen fuel-cell buses and electric trolleys.

NFI is the leader in North America and the UK for ZEBs and is expected to be a significant beneficiary from the increased acceleration to ZEBs. Currently, ZEBs make up 7.4% of NFI's backlog (up from 3.6% at the end of 2019 Q4), and make up 30% of the Company's total North American bid universe.

A critical component of NFI's strategy is to provide complete mobility solutions, including vehicles, infrastructure installation, telematics, and aftermarket support. NFI has the largest vehicle production capacity in North America and the UK, and can manufacture ZEBs at all of its vehicle facilities. NFI has electric vehicles in service with 15 of the top 25 transit agencies in North America, and the Company's battery-electric and fuel-cell electric vehicles have completed over 4.5 million miles of zero-emission service in North America, and more than 16.0 million zero-emission miles in the UK. The Company has also installed infrastructure with numerous agencies, which saw the Company grow its Infrastructure Solutions™ revenue by more than 300% year-over-year, from 2019 to 2020. The Company has delivered more ZEBs than any competitor in the UK, and is also now selling its innovative battery-electric coach in the US and Canada, with the first public order for 25 coaches to be delivered in 2021. ARBOC's zero-emission battery electric bus, the Equess CHARGE™, will begin production in the second half of 2021, following completion of Altoona testing. Management anticipates that based on the Company's leadership position, product offering, experience and customer relationships it is well positioned to capitalize on the long-term transition to ZEBs in both core and new markets.

Government Support for Recovery and Zero-Emission Transition

During the global pandemic, government support for transit operations has remained strong, recognizing the critical role transit plays in re-mobilizing cities and supporting economic recovery. In addition to billions of dollars in COVID-19 operations relief funds, governments have also committed billions for long-term fleet investments and the transition to zero-emission, battery-electric vehicles.

In the United States, the Fixing America's Surface Transportation Act ("FAST Act"), which is the primary federal funding mechanism, was extended for one year. The FAST Act extension includes funds to maintain the Highway Trust Fund's solvency at current funding levels, which equates to $12.3 billion for transit programs through fiscal year 2021, with dedicated funding of $1.2 billion for bus appropriations in 2021. The proposed successor to the FAST Act is the $494 billion Investing in a New Vision for the Environment and Surface Transportation in America Act ("INVEST in America Act") drafted early in 2020. This new draft Act includes $105 billion for transit capital purchases, including a five-time increase in funding for zero-emission buses from the previous FAST Act.

In October 2020, the Canadian federal government announced $1.5 billion in financing through the Canada Infrastructure Bank to support the adoption of ZEBs and charging infrastructure; the financing is expected to be delivered over a 24- to 36-month period. The Canadian government followed this with a landmark announcement in February 2021 that will see $14.9 billion invested in Canadian public transit. The program includes $5.9 billion in dedicated project funds starting in 2021, and ongoing permanent funding of $3 billion per year beginning in 2026-2027.

The UK, despite numerous headwinds faced in 2020, saw an increase in government support and more subsidies available to bus operators than ever before. The government's new Ten Point Plan for a Green Industrial Revolution, announced November 18, 2020, is a follow-up to the UK government's original plan to invest £5 billion for buses, cycling and walking, and continued to highlight the government's commitment to introduce 4,000 more British-built zero-emission buses into service.

In Asia Pacific markets, the New Zealand government provided an election pledge that only zero-emission buses will be purchased by 2025, and that they will target decarbonizing their entire public transit fleet by 2035. ADL's partnership with BYD has a solid position in the New Zealand market and management expects it will be a beneficiary of this transition. The Hong Kong government continues to advance trials and applications for electric commercial vehicles which may provide opportunities for ADL given its strong relationships with the largest commercial operators in the market.

Looking forward, management is encouraged by the desire of President Biden to rebuild a cleaner and more resilient economy through investments in zero-emission and low-carbon public transportation. A campaign priority of the new Biden administration is to "provide every American city with 100,000 or more residents with high-quality zero-emission public transportation options through flexible federal investments," and Prime Minister Trudeau's plan has an aggressive target of 5,000 zero-emission buses and coaches by 2025.

As the market leader in North American transit and coach operations and the UK's leading provider of zero-emission buses through the ADL BYD partnership, management believes NFI is extremely well positioned for both the near- and long-term based on the multi-year commitments being made by governments in all of the Company's core markets. Management anticipates significant opportunities for NFI to grow top-line revenue from increased market demand for its products with strong underlying financial support from government bodies.

Financial Guidance

As management anticipates market recovery, geographic expansion, increased sales of ZEBs, and continued realization of savings from the NFI Forward Initiative, in January 2021 it provided Adjusted EBITDA guidance for Fiscal 2021 with a range of $220 million to $240 million. This range could represent growth in Adjusted EBITDA of over 50% on a year-over-year basis when compared to Fiscal 2020. Management and the Board remain confident in the following guidance:

2021 Financial Guidance	
Revenue	$2.8 billion to $2.9 billion
ZEB (electric) as a percentage of manufacturing sales	20% to 25%
Adjusted EBITDA[1]	$220 million to $240 million
Cash Capital Expenditures – including NFI Forward	$50 million
Adjusted Effective Tax Rate ("ETR")	~31%
Seasonality	Decline in Q1; year-over-year growth in Revenue and Adjusted EBITDA in Q2, Q3 and Q4

The above table outlines guidance ranges for selected Fiscal 2021 consolidated financial metrics. These ranges take into consideration management's current outlook combined with Fiscal 2020 results and are based on the assumptions set out below. The purpose of the financial guidance is to assist investors, shareholders, and others in understanding certain financial metrics relating to expected Fiscal 2021 financial results for evaluating the performance of NFI's business. The information may not be appropriate for other purposes. Information about guidance, including the various assumptions underlying it, is forward-looking and should be read in conjunction with the section "Forward-Looking Statements" in Appendix A and the related disclosure and information about various economic competitive and regulatory assumptions, factors, and risks that may cause actual future financial and operating results to differ from management's current expectations.

The guidance provided above is driven by numerous expectations and assumptions including, but not limited to, the following:

- Revenue: Growth is expected to be driven by the Company's solid backlog, strong government financial support, new order growth from the anticipated recovery within North American public transit markets and the United Kingdom transit market, combined with an expected increase in sales activity in Asia Pacific and European markets. In addition, management believes there is potential for improvement in private coach aftermarket parts sales.
- ZEB sales: Growth in ZEB sales is based on the Company's backlog and expected new orders from increased market demand for zero-emission vehicles.

- Adjusted EBITDA: Adjusted EBITDA growth is based on expected revenue growth, anticipated margins from vehicles in the Company's current backlog and anticipated new orders, expected increases in the sales of ZEBs and cost reductions from the NFI Forward initiative. NFI expects to realize approximately $30 million of savings from NFI Forward in 2021, and to reach cumulative savings of approximately $47 million at the end of 2021, starting from the inception of the program in the third quarter of 2020. The lower end of the Adjusted EBITDA range is based on scenarios where production is negatively impacted by slower market recovery, limited ongoing impacts of COVID-19 and delays in achieving cost reductions from the NFI Forward initiative.

- Cash Capital Expenditures: Fiscal 2021 cash capital expenditures are expected to be allocated between maintenance and NFI Forward projects, based on approximately a seventy/thirty percent split.

- Adjusted ETR: The Adjusted Effective Tax Rate is based on current tax rates in the jurisdictions in which NFI operates, anticipated financial results, the Company's corporate structure and the assumption that there will not be significant changes in applicable tax rates in 2021.

- COVID-19: Management has assumed that the impact of COVID-19 on the Company's business in 2021 will be significantly lower than in 2020, including no significant idling of any of the Company's facilities, increased buying activity from customers and limited supply disruptions. The overall impact of COVID-19 is expected to reduce steadily through the end of 2021.

Management cautions readers that the consolidated NFI Group's annual results have an element of seasonality due to the nature of each unique market segment and the varied annual production and vacation schedule of each production facility. With the addition of ADL, this has become even more pronounced with the third and fourth quarters now being periods with higher delivery volumes. Management anticipates that on a year-over-year basis the first quarter of 2021 results will be lower than the same period in 2020, while the other three quarters of the year should see improvement from 2020 results. Management also advises readers that NFI's first quarter, second and third quarters are 13-week periods, while the fourth quarter is a 14-week period for a 53-week fiscal year.

Strengthening the Balance Sheet

Proceeds of C$250 million received from the Company's Offering are being utilized to reduce the outstanding balance under NFI's revolving senior credit facility. This is expected to strengthen NFI's balance sheet, reduce leverage and interest expense, and significantly increase liquidity. NFI believes that this will provide the Company with additional financial flexibility to attract new investors and to pursue its operational and strategic objectives, which include investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and investigating other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends.

NFI Forward Update

On July 27, 2020, NFI responded to the impacts of COVID-19 by launching its transformative cost reduction initiative, NFI Forward, to significantly reduce manufacturing overhead and selling, general and administration ("SG&A") from 2019 levels. NFI Forward initiatives are on track to meet management's previously announced expectations.

Management continues to expect that the aggregate programs of NFI Forward will drive approximately $67.0 million in annual Adjusted EBITDA savings, plus an additional $10.0 million in annualized Free Cash Flow generation, driven by interest savings and lower lease payments. NFI Forward is expected to deliver an 8% to 10% reduction in both manufacturing overhead and SG&A expenses, based on 2019 production rates, with investments of approximately $15 million to $20 million required to deliver these savings. In 2020, the NFI Forward initiative has achieved approximately $17.0 million in Adjusted EBITDA savings, and a further $1.0 million in Free Cash Flow savings. These savings appear in NFI's gross margins and Adjusted EBITDA, as a reduction to direct material costs, manufacturing overhead, and SG&A.

In addition to the focus on cost savings and additional Free Cash Flow generation, management is also prioritizing working capital improvements through the NFI Forward initiative and other strategic projects aimed at improving supplier payment terms, accounts payable turns and inventory turnover, with specific focus on private vehicle inventory.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

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

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

Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA[1]	Earnings (loss) per Share
2020						
	Q4	$ 711,523	$ 32,531	$ 8,465	$ 64,956	$ 0.14
	Q3	663,934	(16,453)	(24,912)	60,885	(0.40)
	Q2	333,334	(72,001)	(74,050)	(24,229)	(1.18)
	Q1	710,384	(25,406)	(67,239)	56,071	(1.08)
	Total	**$ 2,419,175**	**$ (81,329)**	**$ (157,736)**	**$ 157,683**	**$ (2.52)**
2019						
	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**
2018						
	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**

COMPARISON OF FOURTH QUARTER 2020 RESULTS

(U.S. dollars in thousands)	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Statement of Earnings Data				
Revenue				
North America	$ 483,011	$ 617,553	$ 1,651,144	$ 2,142,895
United Kingdom and Europe	88,900	154,820	268,916	277,669
Asia Pacific	35,930	28,202	97,669	55,456
Other	—	—	—	—
Manufacturing operations	607,841	800,575	2,017,729	2,476,020
North America	76,704	93,053	315,415	365,304
United Kingdom and Europe	17,696	19,549	63,596	42,447
Asia Pacific	8,625	3,775	20,075	8,247
Other	657	789	2,360	1,418
Aftermarket operations	103,682	117,166	401,446	417,416
Total revenue	$ 711,523	$ 917,741	$ 2,419,175	$ 2,893,436
Earnings (loss) from operations	$ 32,531	$ 69,958	$ (81,329)	$ 173,064
Earnings (loss) before interest and income taxes	$ 36,023	$ 71,546	$ (72,223)	$ 173,050
Net earnings (loss)	$ 8,465	$ 34,127	$ (157,736)	$ 57,698
Adjusted EBITDA[1]	$ 64,956	$ 103,875	$ 157,683	$ 322,167
Capital expenditures	$ 9,686	$ 7,618	$ 27,016	$ 41,757

[1]Non-IFRS Measure - See Appendix A for details.

RECONCILIATION OF NET EARNINGS (LOSS) 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 A. The following tables reconcile net earnings or losses to Adjusted EBITDA based on the historical Financial Statements of the Company for the periods indicated.

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Net earnings (loss)	$ 8,465	$ 34,127	$ (157,736)	$ 57,698
Addback[1]				
Income taxes	12,987	26,118	1,644	41,997
Interest expense	14,571	11,301	83,869	73,355
Amortization	26,126	31,134	110,784	104,570
Loss (gain) on disposition of property, plant and equipment	(257)	52	(56)	(46)
Fair value adjustment for total return swap[11]	(1,584)	273	118	949
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(3,237)	(1,640)	(9,050)	60
Costs (recoveries) associated with assessing strategic and corporate initiatives[8]	165	(616)	1,396	13,069
Past service costs[13] and other pension costs (recovery)	7	70	(408)	(1,601)
Non-recurring costs (recoveries) relating to business acquisition	—	364	—	365
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[10]	—	2,156	—	31,004
Proportion of the total return swap realized[12]	641	(203)	(525)	(626)
Equity settled stock-based compensation	608	437	1,770	1,566
Recovery on currency transactions[14]	—	—	—	(4,287)
Prior year sales tax provision [15]	37	300	184	4,094
Extraordinary COVID-19 costs[16]	5,413	—	47,362	—
Impairment loss on goodwill[17]	—	—	50,790	—
Non-recurring restructuring costs[9]	1,014	—	27,541	—
Adjusted EBITDA[1]	$ 64,956	$ 103,875	$ 157,683	$ 322,167
Adjusted EBITDA is comprised of:				
Manufacturing	$ 54,263	$ 85,715	$ 101,964	$ 256,097
Aftermarket	$ 17,103	$ 18,413	$ 66,748	$ 74,572
Corporate	$ (6,410)	$ (254)	$ (11,029)	$ (8,502)

(Footnotes on page 26 and 27)

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 A.

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

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Net cash generated by operating activities	$ 88,105	$ 163,761	$ 66,061	$ 98,608
Changes in non-cash working capital items[4]	(50,191)	(85,382)	(68,762)	91,324
Interest paid[4]	15,913	15,447	63,307	47,676
Interest expense[4]	(15,231)	(15,631)	(61,835)	(50,546)
Income taxes paid[4]	4,124	7,228	26,693	40,167
Current income tax expense[4]	(5,733)	(30,842)	(26,580)	(61,339)
Principal portion of finance lease payments	(7,829)	(1,400)	(18,887)	(12,456)
Cash capital expenditures	(9,447)	(6,968)	(25,703)	(37,575)
Proceeds from disposition of property, plant and equipment	2,259	—	2,765	174
Costs (recovery) associated with assessing strategic and corporate initiatives[8]	165	(616)	1,396	13,069
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [10]	—	2,156	—	31,004
Defined benefit funding[5]	1,118	1,969	5,507	8,140
Defined benefit expense[5]	(756)	(1,322)	(5,307)	(5,849)
Past service costs[13] and other pension costs (recovery)	7	70	(408)	(1,601)
Proportion of the total return swap[12]	641	(203)	(525)	(626)
Recovery on currency transactions[14]	—	—	—	(4,287)
Prior year sales tax provision [15]	37	300	185	4,094
Non-recurring restructuring costs[9]	446	364	22,216	364
Extraordinary COVID-19 costs[16]	5,413	—	$ 47,362	—
Foreign exchange gain (loss) on cash held in foreign currency[6]	(28)	102	(11)	83
Free Cash Flow[2]	$ 29,013	$ 49,033	$ 27,474	$ 160,424
U.S. exchange rate[3]	1.2869	1.3076	1.2645	1.3180
Free Cash Flow (C$)[2]	39,561	64,116	34,741	211,439
Free Cash Flow per Share (C$)[7]	0.6327	1.0269	0.5558	3.4200
Declared dividends on Shares (C$)	13,287	26,561	53,140	105,462
Declared dividends per Share (C$)[7]	$ 0.2125	$ 0.4253	$ 0.8500	$ 1.7062

(1) 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 A. Management believes that Adjusted EBITDA is a useful supplemental measure in evaluating performance of the Company.

(2) 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 A for "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Earnings per Share".

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

(4) 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 are 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.

(5) 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.

(6) 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.

(7) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2020 Q4 was 62,524,842 and 62,434,520 for 2019 Q4. The weighted average number of Shares outstanding for Fiscal 2020 and Fiscal 2019 are 62,510,544 and 61,809,479, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

(8) Normalized to exclude non-recurring expenses and recoveries related to the costs of assessing strategic and corporate initiatives.

(9) Normalized to exclude non-recurring restructuring costs. Free Cash Flow reconciling item is net of right-of-use asset and property, plant and equipment impairments. Fourth quarter costs relate to production reductions and the NFI Forward initiative and include severance costs of $0.4 million (Fiscal 2020 - $19.8 million) and right-of-use asset impairments of $0.6 million (Fiscal 2020 - $3.6 million). Fiscal 2020 costs also include severance expense of $19.8 million, right-of-use asset impairments of $3.6 million, inventory impairments of $1.8 million, property, plant and equipment impairments of $1.7 million and other miscellaneous costs of $0.6 million.

(10) 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 acquisition.

(11) The fair value adjustment of the total return swap is a non-cash (gain) loss that is deducted from the definition of Adjusted EBITDA.

(12) A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA and Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized.

(13) In 2019 Q3, the Company received $1.6 million recovery related to the closing of one of its pension plans. An additional amount of $0.4 million was received in 2020 Q1.

(14) Recovery of prior period banking fees related to foreign exchange transactions.

(15) Provision for sales taxes as a result of an ongoing state sales tax review.

(16) Normalized to exclude non-recurring COVID-19 related costs. COVID-19 costs include asset impairments of $4.6 million in 2020 Q4 (Fiscal 2020 - $43.6 million). Fourth quarter asset impairments included a parts inventory impairment of $1.9 million, an ADL private coach impairment of $1.7 million and an ADL pre-owned coach impairment of $1.0 million. Fiscal 2020 asset impairments include pre-owned coach write-downs of $36.6 million. Also included in COVID-19 costs are other operating costs of $0.8 million in 2020 Q4 and $3.8 million in Fiscal 2020 that include but are not limited to the purchase of personal protective equipment and plant sanitation activities. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.

(17) Impairment charge with respect to MCI's goodwill.

RECONCILIATION OF NET EARNINGS (LOSS) TO ADJUSTED NET EARNINGS (LOSS)

Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) per Share are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted Net Earnings (Loss) (Loss) and Adjusted Earnings (Loss) (Loss) per Share may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) 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 A. The following tables reconcile net earnings (loss) to Adjusted Net Earnings (Loss) based on the historical Financial Statements of the Company for the periods indicated.

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

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Net earnings (loss)	8,465	34,127	(157,736)	57,698
Adjustments, net of tax [(1) (8)]				
Fair value adjustments of total return swap[(5)]	(1,093)	145	81	549
Unrealized foreign exchange (gain) loss	(2,233)	(981)	(6,245)	35
Unrealized loss (gain) on interest rate swap	(2,277)	(3,115)	12,199	12,721
Impairment loss on goodwill[(11)]	—	—	50,790	—
Portion of the total return swap realized[(6)]	443	(109)	(362)	(362)
Costs (recovery) associated with assessing strategic and corporate initiatives[(2)]	165	(616)	1,396	13,069
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[(4)]	—	707	—	17,943
Equity settled stock-based compensation	419	231	1,221	906
Gain (loss) on disposition of property, plant and equipment	(178)	32	(39)	(27)
Past service costs[(7)] and other pension costs (recovery)	4	71	(282)	(927)
Recovery on currency transactions[(9)]	—	80	—	(2,481)
Prior year sales tax provision [(10)]	26	102	127	2,369
Extraordinary COVID-19 costs [(12)]	3,735	—	32,680	—
Non-recurring restructuring costs [(3)]	700	211	19,003	211
Adjusted Net Earnings (Loss)	$ 8,176	30,885	$ (47,167)	101,704
Earnings (Loss) per Share (basic)	$ 0.14	$ 0.55	$ (2.52)	$ 0.93
Earnings (Loss) per Share (fully diluted)	$ 0.14	$ 0.55	$ (2.52)	$ 0.93
Adjusted Earnings (Loss) per Share (basic)	$ 0.13	$ 0.49	$ (0.75)	$ 1.65
Adjusted Earnings (Loss) per Share (fully diluted)	$ 0.13	$ 0.49	$ (0.75)	$ 1.64

1. Addback items are derived from the historical Financial Statements of the Company.
2. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
3. Normalized to exclude non-recurring restructuring costs. Fourth quarter costs relate to production reductions and the NFI Forward initiative and include severance costs of $0.3 million and right-of-use asset impairments of $0.4 million.
4. The revaluation of ADL's inventory included an adjustment of $31.0 million in Fiscal 2019. The after-tax value of the adjustment was $17.9 million. These revaluation adjustments relate to purchase accounting as a result of the related acquisition.
5. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted Net Earnings (Loss).
6. A portion of the fair value adjustment of the total return swap is excluded from Adjusted Net Earnings (Loss) to match the equivalent portion of the related deferred compensation expense recognized.

7. In 2019 Q3, the Company received $1.0 million recovery related to the closing of one of its pension plans. An additional amount of $0.3 million was received in 2020 Q1.
8. For 2020 Q4 and Fiscal 2020, the Company has utilized a rate of 31% to tax effect the adjustments.
9. Recovery of prior period banking fees related to foreign exchange transactions.
10. Provision for sales taxes as a result of an ongoing state tax review.
11. Impairment charge with respect to MCI's goodwill.
12. Normalized to exclude non-recurring COVID-19 related costs. COVID-19 costs include asset impairments of $3.2 million in 2020 Q4 (Fiscal 2020 - $30.1 million). Fourth quarter asset impairments included a parts inventory impairment of $1.3 million, an ADL private coach impairment of $1.2 million and an ADL pre-owned coach impairment of $0.7 million. Fiscal 2020 asset impairments include pre-owned coach write-downs of $25.1 million. Also included in COVID-19 costs are other operating costs of $0.6 million in 2020 Q4 and $2.6 million in Fiscal 2020 that include but are not limited to the purchase of personal protective equipment and plant sanitation activities. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.

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

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Manufacturing Revenue	607,841	800,575	2,017,729	2,476,020
Aftermarket Revenue	103,682	117,166	401,446	417,416
Total Revenue	$ 711,523	$ 917,741	$ 2,419,175	$ 2,893,436
Earnings (loss) from Operations	$ 32,531	$ 69,958	$ (81,329)	$ 173,064
Earnings (loss) before interest and income taxes	36,023	71,546	(72,223)	173,050
Earnings (loss) before income tax expense	21,453	60,245	(156,092)	99,695
Net earnings (loss)	8,465	34,127	(157,736)	57,698

Manufacturing revenue for 2020 Q4 decreased by $192.8 million, or 24.1%, compared to 2019 Q4. Manufacturing revenue for Fiscal 2020 decreased by $458.3 million, or 18.5%, compared to Fiscal 2019. Fourth quarter figures were lower in 2020 primarily as a result of the Company reducing production volumes in response to public customer order delays and private customer order deferrals, which were both attributable to the COVID-19 pandemic. Fiscal 2020 figures were significantly impacted by the idling of production facilities in the second quarter of 2020. The comparative year decrease was partially offset by the May 2019 acquisition of ADL and higher Infrastructure Solutions revenue.

Revenue from aftermarket operations in 2020 Q4 decreased by $13.5 million, or 11.5%, compared to 2019 Q4. Revenue from aftermarket operations for Fiscal 2020 decreased by $16.0 million, or 3.8%, compared to Fiscal 2019. The decline in both periods were driven by lower private sector parts volumes within both the NFI parts and ADL parts businesses, partially offset by $1.1 million of Clean and Protect product line sales. The acquisition of ADL partially offset the COVID-19 related revenue decline in the fiscal-year comparative.

Cost of sales

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Manufacturing				
Direct cost of sales	$ 478,509	$ 602,508	$ 1,620,299	$ 1,868,917
Depreciation and amortization	23,437	28,531	100,269	94,246
Other overhead	46,952	67,157	208,100	221,317
Manufacturing cost of sales	$ 548,898	$ 698,196	$ 1,928,668	$ 2,184,480
As percent of Manufacturing Sales	90.3 %	87.2 %	95.6 %	88.2 %
Aftermarket				
Direct cost of sales	$ 73,771	$ 78,965	$ 280,737	$ 285,151
Depreciation and amortization	2,688	2,603	10,515	10,323
Aftermarket cost of sales	$ 76,459	$ 81,568	$ 291,252	$ 295,474
As percent of Aftermarket Sales	73.7 %	69.6 %	72.6 %	70.8 %
Total Cost of Sales	$ 625,357	$ 779,764	$ 2,219,920	$ 2,479,954
As percent of Sales	87.9 %	85.0 %	91.8 %	85.7 %

The consolidated cost of sales for 2020 Q4 decreased by $154.4 million, or 19.8%, compared to 2019 Q4. The consolidated cost of sales for Fiscal 2020 decreased by $260.0 million, or 10.5%, compared to Fiscal 2019.

Cost of sales from Manufacturing operations in 2020 Q4 was $548.9 (90.3% of Manufacturing operations revenue) compared to $698.2 million (87.2% of Manufacturing operations revenue) in 2019 Q4, a decrease of $149.3 million or 21.4%. Cost of sales increased as a percentage of revenue mainly as a result of lower production volumes absorbing more fixed overhead on a per unit basis. Cost of sales also increased as a percentage of revenue as a result of the Company incurring extraordinary, COVID-19 related costs, including a $2.7 million lower of cost or net realizable value adjustment on ADL motor coach inventory. The cost of sales increase as a percentage of revenue was increased further

by non-recurring restructuring costs of $1.0 million. The cost of sales increase as a percentage of revenue was partially offset by NFI Forward savings, and government grants of $10.5 million, which were netted against wages in the presentation of cost of sales.

Cost of sales from Manufacturing operations in Fiscal 2020 was $1,928.7 million (95.6% of Manufacturing operations revenue) compared to $2,184.5 million (88.2% of Manufacturing operations revenue) in Fiscal 2019, a decrease of $255.8 million or 11.7%. Cost of sales increased as a percentage of revenue mainly due to lower production volumes absorbing more fixed overhead on a per unit basis, primarily as a result of the Company idling production facilities for the majority of Q2 2020. Cost of sales also increased as a percentage of revenue as a result of the Company incurring expenses related to COVID-19 and restructuring activities. The cost of sales increase as a percentage of revenue was partially offset by NFI Forward savings of $8.4 million and government grants of $46.7 million, which were netted against wages in the presentation of cost of sales. Cost of sales as a percentage of revenue also improved as a result of improvements at the Company's parts fabrication facility.

Cost of sales from Aftermarket operations in 2020 Q4 was $76.5 million (73.7% of Aftermarket revenue) compared to $81.6 million (69.6% of Aftermarket revenue) in 2019 Q4, a decrease of $5.1 million or 6.3%. Cost of sales from Aftermarket operations in Fiscal 2020 was $291.3 million (72.6% of Aftermarket revenue) compared to $295.5 million (70.8% of Aftermarket revenue) in Fiscal 2019, a decrease of $4.2 million or 1.4%. Cost of sales as a percentage of revenue was higher year-over-year as the Company had lower sales volumes to cover depreciation and amortization expense. Cost of sales was also impacted by a COVID-19 related impairment charge of $1.9 million in 2020 Q4.

Gross Margins

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Manufacturing	$ 58,943	$ 102,378	$ 89,060	$ 291,540
Aftermarket	27,223	35,600	110,195	121,942
Total Gross Margins	$ 86,166	$ 137,978	$ 199,255	$ 413,482
As a percentage of sales				
Manufacturing	9.7 %	12.8 %	4.4 %	11.8 %
Aftermarket	26.3 %	30.4 %	27.4 %	29.2 %
	12.1 %	15.0 %	8.2 %	14.3 %

Manufacturing gross margins for 2020 Q4 of $58.9 million (9.7% of revenue), decreased by $43.5 million, or 42.5%, compared to $102.4 million (12.8% of revenue) for 2019 Q4. Manufacturing gross margins for Fiscal 2020 of $89.1 million (4.4% of revenue), decreased by $202.5 million, or 69.5%, compared to Fiscal 2019.

The decrease in gross margins as a percentage of revenue for both periods is mainly due to lower production volumes absorbing more fixed overhead on a per unit basis. Gross margins also decreased as a percentage of revenue as a result of the Company incurring expenses related to COVID-19 and restructuring. Gross margin decline was partially offset by NFI Forward overhead savings and government grants, which were netted against direct labor wages in the presentation of cost of sales. NFI Forward achieved gross margin improvements through direct labour headcount reductions and production facility rationalizations. The gross margin decline was also partially offset by improvements at the Company's parts fabrication facility, which achieved a relative gross margin improvement of 43.9% in 2020 Q4, compared to 2019 Q4.

Gross margins from Aftermarket operations in 2020 Q4 of $27.2 million (26.3% of revenue) decreased by $8.4 million, or 23.6%, compared to 2019 Q4 gross margins of $35.6 million (30.4% of revenue). Gross margins from Aftermarket operations in Fiscal 2020 of $110.2 million (27.4% of revenue) decreased by $11.7 million, or 9.6%, compared to Fiscal 2019 gross margins of $121.9 million (29.2% of revenue). Margins were lower due to lower sales volumes and a COVID-19 related impairment charge of $1.9 million in 2020 Q4.

Selling, general and administrative costs and other operating expenses (“SG&A”)

(U.S. dollars in thousands)

	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Selling expenses	$ 12,327	$ 7,052	$ 28,579	$ 23,739
General and administrative expenses	41,791	62,055	193,868	205,270
Other costs	1,434	(528)	8,856	12,445
Total SG&A	$ 55,552	$ 68,579	$ 231,303	$ 241,454

The consolidated SG&A for 2020 Q4 of $55.6 million (7.8% of consolidated revenue) decreased by $13.0 million, or 19.0%, compared to $68.6 million (7.5% of consolidated revenue) in 2019 Q4. The consolidated SG&A for Fiscal 2020 of $231.3 (9.6% of consolidated revenue) decreased by $10.2 million, or 4.2%, compared to $241.5 million (8.3% of consolidated revenue) in Fiscal 2019.

The decrease in 2020 Q4 is related to NFI Forward savings and government grants, which were netted against expenses in the presentation of SG&A. The quarterly decline was offset by extraordinary COVID-19 related costs and one-time, non-recurring restructuring costs related to NFI Forward. The year-over-year decrease was due to NFI Forward savings of $8.6 million and government grants of $6.8 million. The year-over-year decrease was partially offset by non-recurring restructuring costs, extraordinary COVID-19 costs, and the acquisition of ADL.

Realized foreign exchange loss/gain

During 2020 Q4, the Company recorded a realized foreign exchange gain of $1.9 million compared to a gain of $0.6 million in 2019 Q4.

During Fiscal 2020, the Company recorded a realized foreign exchange gain of $1.5 million compared to a gain of $1.0 million in Fiscal 2019.

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 earnings from operations in 2020 Q4 were $32.5 million (4.6% of consolidated revenue) compared to earnings of $70.0 million (7.6% of consolidated revenue) in 2019 Q4, a decrease of $37.5 million or 53.6%. Consolidated losses from operations in Fiscal 2020 were $81.3 million (-3.4% of consolidated revenue) compared to earnings of $173.1 million (6.0% of consolidated revenue) in Fiscal 2019, a decrease of $254.4 million or 147.0%.

2020 Q4 Earnings from operations related to Manufacturing operations were $23.1 million (3.8% of Manufacturing revenue) compared to earnings of $56.5 million (7.1% of Manufacturing revenue) in 2019 Q4, a decrease of $33.4 million or 59.1%. Losses from operations related to Manufacturing operations in Fiscal 2020 were $125.1 million (-6.2% of Manufacturing revenue) compared to earnings of $112.7 million (4.6% of Manufacturing revenue) in Fiscal 2019, a decrease of $237.8 million or 211.0%. The decrease in 2020 Q4 as a percentage of revenues is primarily due to lower production volumes, exceptional COVID-19 costs of $3.5 million and non-recurring restructuring costs of $1.0 million, partially offset by government grants of $11.3 million. The decrease in Fiscal 2020 as a percentage of revenue is also due to lower volumes, exceptional COVID-19 costs of $44.9 million, non-recurring restructuring costs of $27.4 million and a goodwill impairment charge of $50.8 million. The year-over-year decrease was offset by government grants of $53.5 million, NFI Forward savings of $17.0 million and improvements at KMG.

Earnings from operations related to Aftermarket operations in 2020 Q4 were $12.4 million (12.0% of Aftermarket revenue) compared to $15.5 million (13.3% of Aftermarket revenue) in 2019 Q4, a decrease of $3.1 million or 20.0%. Earnings from operations related to Aftermarket operations in Fiscal 2020 were $53.6 million (13.4% of Aftermarket revenue) compared to $64.0 million (15.3% of Aftermarket revenue) in Fiscal 2019, a decrease of $10.4 million or 16.3%. The 2020 Q4 decrease as a percentage of revenue is a result of lower sales volumes and a COVID-19 related impairment charge of $1.9 million. The decrease as a percentage of revenue for Fiscal 2020 is also a result of lower sales volumes and COVID-19 related costs.

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 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Unrealized (gain) loss on forward foreign exchanges contracts	$ (1,377)	$ (1,475)	$ (8,272)	$ (1,797)
Unrealized (gain) loss on other long-term monetary assets/liabilities	(1,860)	(165)	(778)	1,857
	$ (3,237)	$ (1,640)	$ (9,050)	$ 60

At December 27, 2020, the Company had $85.0 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). The related asset of $4.5 million (December 29, 2019: $3.7 million) is recorded on the audited consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the audited consolidated statements of net earnings (loss) and total comprehensive income (loss).

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

In 2020 Q4, the Company recorded EBIT of $36.0 million compared to EBIT of $71.5 million in 2019 Q4. In Fiscal 2020, the Company recorded an EBIT loss of $72.2 million compared to EBIT of $173.1 million in Fiscal 2019. EBIT has been impacted by non-cash and non-recurring items as follows:

(U.S. dollars in thousands)	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Non-cash and non-recurring charges:				
Costs (recoveries) associated with assessing strategic and corporate initiatives	$ 165	$ (616)	$ 1,396	$ 13,069
Unrealized foreign exchange (gain) loss	(3,237)	(1,640)	(9,050)	60
Equity settled stock-based compensation	608	437	1,770	1,566
Loss (gain) on disposition of property, plant and equipment	(257)	52	(56)	(46)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	—	2,156	—	31,004
Fair value adjustment of total return swap	(1,584)	273	118	949
Past service costs recovery	7	—	(408)	—
Recovery on currency transactions	—	—	—	(4,287)
Extraordinary COVID-19	5,413	—	47,362	—
Prior year sales tax provision	37	300	184	4,094
Impairment loss on goodwill	—	—	50,790	—
Portion of the total return swap realized	641	(203)	(525)	(626)
Non-recurring restructuring costs	1,014	—	27,541	—
Amortization	26,126	31,135	110,784	104,570
Total non-cash and non-recurring charges:	$ 28,933	$ 31,894	$ 229,906	$ 150,353

Interest and finance costs

The interest and finance costs for 2020 Q4 of $14.6 million increased by $3.3 million when compared 2019 Q4. The increase is primarily due to carrying costs associated with the Sidecar and interest costs incurred on the new UK Facility. The Sidecar was entered in April 2020, to provide additional liquidity, if required, during the temporary idling of production facilities due to COVID-19. The Sidecar was not used and was terminated in December 2020. The UK Facility was entered in May 2020, to support ADL's operations in the UK. Interest and finance costs were also higher due to a fair market value gain on interest rate swap of $3.3 million in 2020 Q4 compared to a gain of $4.5 million in 2019 Q4.

The interest and finance costs for Fiscal 2020 of $83.9 million increased by $10.5 million when compared to Fiscal 2019. The increase is primarily due to increased interest on long-term debt of $9.6 million due to higher average Credit Facility draws for the acquisition of ADL and to finance fixed operating expenses during the temporary idling of production facilities due to COVID-19. The increase is also due to carrying costs associated with the Sidecar and interest on the new UK Facility. The increase was partially offset by a fair market value loss on interest rate swap of $17.7 million in Fiscal 2020, compared to a loss of $22.0 million in Fiscal 2019.

The losses on the interest rate swap relate to risk management activities management has undertaken to reduce the uncertainty related to the Company's cost of borrowing. The interest rate swap fixes the interest rate which the Company will pay on $600.0 million of its long-term debt at 2.27% plus an applicable margin. The fixed portion amortizes $20 million annually and matures in October 2023. The Company has a second interest rate swap on $200 million of its long-term debt on which the Company will pay 0.243% plus an applicable margin and matures in July 2025. 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 Q4 of $21.5 million decreased by $38.7 million compared to EBT of $60.2 million in 2019 Q4. EBT for Fiscal 2020 of $156.1 million loss decreased by $255.8 compared to EBT of $99.7 million in Fiscal 2019. 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 Q4 was $13.0 million, compared to $26.1 million expense in 2019 Q4. The ETR for 2020 Q4 was 60.5% and the ETR for 2019 Q4 was 43.4%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the base erosion and anti-abuse tax ("BEAT") and a write-off of unapplied foreign tax credits.

The income tax for Fiscal 2020 was $1.6 million compared to $42.0 million expense in Fiscal 2019. The ETR for Fiscal 2020 was negative 1.1% and the ETR for Fiscal 2019 was 42.1%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the Company incurring non-deductible interest, revaluing UK deferred tax liabilities as a result of a reversal of a previously enacted rate reduction, the non-deductible goodwill impairment charge in 2020 Q1, BEAT and a write-off of unapplied foreign tax credits.

Net earnings (loss)

The Company reported net earnings of $8.5 million in 2020 Q4, a decrease of 75.1% compared to net earnings of $34.1 million in 2019 Q4. The Company reported a net loss of $157.7 million in Fiscal 2020, a decrease of 373.3% compared to net earnings of $57.7 million in Fiscal 2019. The decrease in net earnings is due to lower production volumes, exceptional COVID-19 costs and non-recurring restructuring costs associated with production reductions and the NFI Forward initiative. The decrease was partially offset by government grants and NFI Forward savings. The Fiscal 2020 results were also lower as a result of a $50.8 million goodwill impairment charge related to private motor coach operations, incurred in the first quarter.

Net earnings (loss) (U.S. dollars in millions, except per Share figures)	**2020 Q4**	**2019 Q4**	**Fiscal 2020**	**Fiscal 2019**
Earnings (loss) from operations	$ 32.5	$ 70.0	$ (81.3)	$ 173.1
Non-cash gain	3.6	1.5	9.1	—
Interest expense	(14.6)	(11.3)	(83.9)	(73.4)
Income tax expense	(13.0)	(26.1)	(1.6)	(42.0)
Net earnings (loss)	$ 8.5	$ 34.1	$ (157.7)	$ 57.7
Net earnings (loss) per Share (basic)	$ 0.14	$ 0.55	$ (2.52)	$ 0.93
Net earnings (loss) per Share (fully diluted)	$ 0.14	$ 0.55	$ (2.52)	$ 0.93

The Company's net earnings per Share in 2020 Q4 of $0.14 decreased from net earnings per Share of $0.55 in 2019 Q4. The Company's net loss per Share in Fiscal 2020 of $2.52 decreased from net earnings per Share of $0.93 generated in Fiscal 2019. Net earnings per Share were lower in 2020 Q4 and Fiscal 2020 due to lower production volumes, exceptional COVID-19 related costs, non-recurring restructuring costs and goodwill impairment charges. The decrease was partially offset by government grants and NFI Forward savings.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)	**2020 Q4**	**2019 Q4**	**Fiscal 2020**	**Fiscal 2019**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 57,951	$ 101,054	$ 87,299	$ 277,775
Interest paid	(15,913)	(15,447)	(63,307)	(47,676)
Income taxes paid	(4,124)	(7,228)	(26,693)	(40,167)
Net cash earnings (loss)	37,914	78,379	(2,701)	189,932
Cash flow generated by (used in) changes in working capital	50,191	70,891	68,762	(91,324)
Cash flow generated by operating activities	88,105	149,270	66,061	98,608
Cash flow from (used in) financing activities	(27,997)	(145,175)	(37)	298,011
Cash flow used in investing activities	(7,217)	(6,979)	(38,477)	(379,289)

Cash flows from operating activities

The 2020 Q4 net operating cash flow of $88.1 million is comprised of $37.9 million of net cash earnings and $50.2 million of cash generated by changes in working capital. The 2019 Q4 net operating cash flow of $149.3 million is comprised of $78.4 million of net cash earnings and $70.9 million of cash generated by changes in working capital.

The Fiscal 2020 net operating cash flow of $66.1 million is comprised of $2.7 million of net cash losses, offset by $68.8 million of cash generated by changes in working capital. The Fiscal 2019 net operating cash flow of $98.6 million is comprised of $189.9 million of net cash earnings, offset by working capital investment of $91.3 million.

Cash flow from financing activities

The cash outflow of $28.0 million during 2020 Q4 is comprised mainly of short-term debt repayments of $10.0 million, dividend payments of $9.9 million, and lease obligation payments of $7.8 million, offset by proceeds from long-term debt of $3.7 million. Lease obligation payments were higher as the Company made payments, related to previous quarters, that had been deferred to preserve cash during the idling of production facilities.

The cash inflow of $0.0 million during Fiscal 2020 is comprised mainly of proceeds from long-term debt of $72.1 million, offset by lease obligation payments of $18.9 million, dividends paid on shares of $49.4 million and debt issue costs of $3.9 million.

Cash flow from investing activities

(U.S. dollars in thousands)	2020 Q4	2019 Q4	Fiscal 2020	Fiscal 2019
Acquisition of intangible assets	$ (29)	$ (11)	$ (29)	$ (38)
Proceeds from disposition of property, plant and equipment	2,259	—	2,765	174
Long-term restricted deposits	—	—	(15,510)	(14,490)
Net cash used in acquisitions	—	—	—	(327,360)
Acquisition of property, plant and equipment	(9,447)	(6,968)	(25,703)	(37,575)
Cash from investing activities	$ (7,217)	$ (6,979)	$ (38,477)	$ (379,289)

Investing activities were higher in 2020 Q4, as the Company increased maintenance capital expenditures, after reducing expenditures during the second and third quarters to preserve cash during the pandemic. Yearly outflows from investing activities were lower as a result of the acquisition of ADL in 2019 Q2, as well as lower maintenance capital expenditures to preserve cash during the pandemic.

On January 20, 2016, the Company entered into a $482.0 million interest rate swap designed to hedge floating rate exposure on the $482.0 million Term Credit Facility under the Company's then current fifth amended and restated prior credit agreement. The interest rate swap fixed the interest rate at 1.154% plus the applicable interest margin. On February 13, 2019, the Company blended the unrealized gain from the then current swap into a $600.0 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 and amortizes at a rate of $20 million per annum.

On July 9, 2020 the Company entered into $200 million amortizing notional interest rate swap designed to hedge floating rate exposure on its Credit Facility. The interest rate swap fixes the interest rate at 0.243% plus applicable margin until July 2025. The swap begins amortizing on December 9, 2022 at a rate of $20 million per annum.

The fair value of the interest rate swap liability of $33.1 million at December 27, 2020 (2019: $15.4 million liability) was recorded on the audited 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. Management does not anticipate 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 their 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. Management does not anticipate 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 consolidated statements of net earnings (loss) and total comprehensive income (loss).

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

U.S. dollars in thousands	**December 27, 2020**	December 29, 2019
Current, including holdbacks	$ 380,328	$ 482,476
Past due amounts but not impaired		
1 – 60 days	39,988	37,413
Greater than 60 days	7,081	6,800
Less: allowance for doubtful accounts	(989)	(284)
Total accounts receivables, net	$ 426,408	$ 526,405

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 leases and accrued benefit liabilities as at December 27, 2020:

U.S. dollars in thousands	**Total**	**2021**	**2022**	**203**	**2024**	**2025**	**Post 2025**
Leases	194,376	22,204	21,040	18,498	13,571	10,083	108,980
Accrued benefit liability	2,911	2,911	—	—	—	—	—
	$ 197,287	$ 25,115	$ 21,040	$ 18,498	$ 13,571	$ 10,083	$ 108,980

As at December 27, 2020, outstanding surety bonds guaranteed by the Company amounted to $357.2 million, representing a decrease compared to $384.5 million at December 29, 2019. The estimated maturity dates of the surety bonds outstanding at December 27, 2020 range from January 2021 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 December 27, 2020, letters of credit amounting to $11.8 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 £50.0 million. As at December 27, 2020, letters of credit totaling $22.1 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 December 27, 2020.

Share Option Plan

The Board adopted a Share Option Plan (the “2013 Option Plan”) for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates may receive grants of options for Shares. The 2013 Option Plan was amended and restated on December 8, 2015, December 31, 2018 and August 5, 2020. Directors who are not employed with NFI are not eligible to participate in the 2013 Option Plan. A maximum of 3,600,000 Shares are reserved for issuance under the 2013 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)	—	(202,356)	—	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(12,534)	(102,557)	34,718	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(10,750)	(71,071)	71,062	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(25,314)	(64,844)	194,516	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	(709)	2,126	July 15, 2027	C$35.98	C$4.90
December 31, 2019	519,916	—	(33,218)	—	486,698	December 31, 2027	C$26.81	C$3.36
	2,938,176	(1,330,073)	(104,986)	(713,997)	789,120		C$29.32	

The Board adopted a new share option plan on March 12, 2020 (the "2020 Option Plan"), which was approved by shareholders on May 7, 2020, and amended on August 5, 2020, 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 2020 Option Plan. A maximum of 3,200,000 Shares are reserved for issuance under the 2020 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. No options have been issued under the 2020 Option Plan.

The following reconciles the Share options outstanding:

	Fiscal 2020		Fiscal 2019	
	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	287,559	C$33.46
Expired during the period	(77,059)	C$34.26	(6,928)	C$40.75
Exercised during the period	(8,646)	C$13.45	(158,031)	C$12.77
Balance at end of period	1,503,117	C$29.32	1,068,906	C$30.77

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 did not issue any director restricted Share units ("Director RSUs") in 2020 Q4.

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2020 Annual Financial Statements.

New and amended standards adopted by the Company

IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20")

The Company recognizes government grants when there is reasonable assurance that it will comply with the conditions attached to them and that the grants will be received. Government grants are recognized in the consolidated statement of net earnings (loss) and total comprehensive income (loss) over the periods in which the Company recognizes and expenses the related costs for which the grants are intended to compensate. Grants related to income are deducted in reporting the related expense.

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.

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.

On December 23, 2020, the Company amended its credit facilities, including the Company's existing $1.25 billion Credit Facility and its £50 million UK Facility. The amended facilities provide NFI with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. In addition to amending the facilities, NFI terminated the unused $250 million Sidecar facility, which was intended to provide additional liquidity in 2020, which the Company believes it no longer requires.

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2021 and 2022 have been relaxed. During 2021, the Company has received a waiver of the total net leverage covenant and will instead need to comply with a total net leverage ratio that is based on a conservative financial projection for the Company's 2021 fiscal year.

Beginning in 2022, the Company will be required to maintain a total net leverage ratio at follows:

January 3, 2022 - April 3, 2022	<5.00
April 4, 2022 - July 3, 2022	<4.50
July 4, 2022 - October 2, 2022	<4.25
October 3, 2022 and thereafter	<3.75

The Company will also have to comply with a $50 million minimum liquidity covenant at all times until the total net leverage covenant is less than 3.75x, a total net debt to capitalization ratio of less than 0.70:1.00 during 2021, and an interest coverage ratio of at least 2.25x during 2021 and 3.00x beginning in the first quarter 2022. The amended facilities require the dividend payment not exceed the current level.

Adjusted EBITDA is calculated on a rolling last twelve-month basis, provided that for those calculations required on April 4, 2021, the rolling period is calculated as Adjusted EBITDA for the three Fiscal Quarters ending April 4, 2021, December 27, 2020 and September 27, 2020 multiplied by 4/3.

Management believes the Company's cash position, anticipated future revenues, liquidity from credit facilities together with access to equity markets and other borrowings capacity are sufficient to support current operations, dividends and strategic initiatives.

Subsequent to quarter- and year-end, on March 1, 2021 NFI announced that it had closed a bought-deal equity offering (the "Offering") with a syndicate of underwriters (the "Underwriters") pursuant to which NFI issued 8,446,000 common shares at a price of C$29.60 per share for gross proceeds to the Company of C$250 million. The Company intends to use the net proceeds of the Offering to reduce the outstanding balances under its credit facilities, which is expected to strengthen NFI's balance sheet, reduce leverage and interest expense and significantly increase liquidity.

NFI believes that its existing liquidity combined with the additional financial flexibility provided from the Offering will allow it to pursue its operational and strategic goals, such as investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends.

The calculation of the financial covenants for Fiscal 2020 are provided for information purposes below:

	December 27, 2020	December 29, 2019
Total Leverage Ratio (must be less than 6.25 [2019: 4.25])	4.90	3.24
Interest Coverage Ratio (must be greater than 3.00 [2019: 3.00])	4.11	7.73

US dollars in thousands		**December 27, 2020**
Liquidity Position (must be greater than $50 million)	$	233,459

The Company remains focused on deleveraging its balance sheet and returning to its target leverage of 2.0x to 2.5x total debt to EBITDA. Management had originally expected the Company to return to those levels 18 to 24 months following the acquisition of ADL in May 2019, but the impact of COVID-19 has extended the expected timing of deleveraging. The Company has executed upon a variety of initiatives focused on lowering cash outflows to help mitigate the impacts of COVID-19 including:

- Permanent workforce reductions across NFI Group, generating savings of $17 million in fiscal 2020;

- A reduction in planned 2020 cash capital expenditures from $45 million to $25 million;
- The 50% reduction in the Company's quarterly dividend in 2020 Q1; and
- Reducing working capital

Management expects to reduce the Company's total leverage over time as the recovery from COVID-19 continues, and the Company achieves the benefits of the NFI Forward strategic cost reduction initiatives.

Compliance with financial covenants is reviewed monthly by the Executive team and reported quarterly to the Board. Other than the requirements imposed by borrowing agreements, the Company is not subject to any externally imposed capital requirements. Capital management objectives are reviewed on an annual basis or when strategic capital transactions arise.

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in common systems and lean manufacturing operations to improve quality and cost effectiveness, and to continue to invest in ZEB, Infrastructure Solutions and Advanced Driver Assistance Systems ("ADAS") and automated vehicles. The Company has made significant investments in its ZEB production capabilities to be prepared for the expected longer-term transition to a more electrified fleet. New Flyer now has the capability to manufacture ZEBs at all of its North American facilities. ADL is the market leader in ZEBs with production capabilities at all of its UK facilities, MCI has invested in model upgrades to generate its first electric coach offering, which has been well received by the market and ARBOC is commencing production of its medium-duty Equess CHARGE electric bus in the second quarter of 2021, subject to completion of Altoona testing. To support customers making the transition to zero-emission fleets, New Flyer launched an Infrastructure Solutions business in 2019 that has helped numerous agencies develop and launch infrastructure installation projects.

The Company has a number of autonomous bus projects in development with specialized partners who have a deep understanding of artificial intelligence and ADAS. As part of this program to advance automated and ADAS, subsequent to quarter-end, on January 29, 2021, NFI announced the launch of the New Flyer Xcelsior AV, North America's first automated transit bus. ARBOC’s zero-emission battery electric bus, the Equess CHARGE™, will begin production in the second half of 2021, following completion of Altoona testing. The Company has also made numerous investments into telematics solutions to ensure customers can track detailed performance and maintenance metrics associated with their vehicles.

In addition to internal investments, 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 Q4 Free Cash Flow was C$39.6 million compared to declared dividends of C$13.3 million during this period. For 2019 Q4 Free Cash Flow was C$64.1 million compared to declared dividends of C$26.6 million. This resulted in a payout ratio of 33.6% in 2020 Q4 compared to 41.5% in 2019 Q4.

To support cash management efforts while the Company's operations are impacted by COVID-19, in 2020 Q1 the Board reduced the Company’s quarterly dividend 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.

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 a Normal Course Issuer Bid to replace the Former NCIB to repurchase its Shares (the "Second NCIB"). The Company was 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 was 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.

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 Second NCIB

subsequent to 2019 Q2. The Second NCIB expired on June 16, 2020. The Company did not file for another normal course issuer bid to replace the expired Second NCIB.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2020 Q4**	**2019 Q4**	**Fiscal 2020**	**Fiscal 2019**
Dividends paid	$ 9.9	$ 20.0	$ 49.4	$76.4
NCIB Share repurchase	—	—	—	5.7
Total	$ 9.9	$ 20.0	$ 49.4	$ 82.1

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 December 27, 2020 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

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.

There have been no changes in our internal control over financial reporting during the quarter ended December 27, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 December 27, 2020 were effective.

Appendix A - 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. ("NFAI"), 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, NFAI, 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 December 27, 2020, 62,524,842 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.

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

This MD&A contains "forward-looking information" and "forward-looking statements", within the meaning of applicable Canadian securities laws, which reflect the expectations of management regarding the Company's future growth, financial performance and financial position and the Company's strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic. The words "believes", "views", "anticipates", "plans", "expects", "intends", "projects", "forecasts", "estimates", "guidance" and "targets", "may", "will" and similar expressions are intended to identify forward looking statements. These forward-looking statements reflect management's current expectations regarding future events (including the recovery of the Company's markets and the expected benefits to be obtained through its "NFI Forward" initiative) and the Company's financial 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 events, 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 that may cause actual results to differ materially from the results discussed in the forward-looking statements include: the anticipated use of proceeds of the Offering; the Company may not be able to achieve its targets for sales growth; 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 could have an adverse effect on the 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; 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 U.S. Disadvantaged Business Enterprise ("**DBE**") program requirements or the failure to have its DBE goals approved by the U.S. Federal Transit Administration; 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; compliance with international trade regulations, tariffs and duties; dependence on limited sources or unique sources of supply; a disruption of the supply of components containing microprocessors and other computer chips could materially adversely affect the production and sale of the Company's vehicles and certain other products; 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 facilities 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 New Flyer Holdings, Inc. 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.

Factors relating to the global COVID-19 pandemic include: the magnitude and duration of the global, national and regional economic and social disruption being caused as a result of the pandemic; the impact of national, regional and local governmental laws, regulations and "shelter in place" or similar orders relating to the pandemic which may materially adversely impact the Company's ability to continue operations; partial or complete closures of one, more or all of the Company's facilities and work locations or the reduction of production rates (including due to government mandates and to protect the health and safety of the Company's employees or as a result of employees being unable to come to work due to COVID-19 infections with respect to them or their family members); production rates may be further decreased as a result of the pandemic; supply delays and shortages of parts and components and disruption to labour supply as a result of the pandemic; the pandemic will likely adversely affect operations of customers and reduce and delay, for an unknown period, customers' purchases of the Company's products; the anticipated recovery of the Company's markets in the future may be delayed or increase in demand may be lower than expected as a result of the continuing effects of the pandemic; the Company's ability to obtain access to additional capital if required; and 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 pay dividends. There can be no assurance that the Company will be able to maintain sufficient liquidity for an extended period, obtain future satisfactory covenant relief under its credit facilities, if required, or access to additional capital or access to government financial support or as to when production operations will return to previous production rates. There is also no assurance that governments will provide continued or adequate stimulus funding during or after the pandemic for public transit agencies to purchase transit vehicles or that public or private demand for the Company's vehicles will return to pre-pandemic levels in the anticipated period of time. The Company cautions that due to the dynamic, fluid and highly unpredictable nature of the 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, financial condition and ability to generate sufficient cash flow and maintain adequate liquidity and any material adverse effects could very well be rapid, unexpected and may continue for an extended and unknown period of time.

Factors relating to the Company's "NFI Forward" initiative include: the Company's ability to successfully execute the initiative and to generate the planned savings in the expected time frame or at all; management may have overestimated the amount of savings and production efficiencies that can be generated or may have underestimated the amount of costs to be expended; the implementation of the initiative may take longer than planned to achieve the expected savings; further restructuring and cost-cutting may be required in order to achieve the objectives of the initiative; the estimated amount of savings generated under the initiative may not be sufficient to achieve the planned benefits; combining business units and/or reducing the number of production or parts facilities may not achieve the efficiencies anticipated; and the impact of the continuing global COVID-19 pandemic. There can be no assurance that the Company will be able to achieve the anticipated financial and operational benefits, cost savings or other benefits of the initiative.

Factors relating to the Company's January 11, 2021 financial guidance (the "Guidance") include the degree to which actual future events accord with, or vary from, the expectations of, and assumptions used by, NFI's management in preparing the Guidance and the Company's ability to successfully execute the "NFI Forward" initiative and to generate the planned savings in the expected time frame or at all. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the Guidance, there may be other factors that could cause actions, events or results not to be as anticipated, estimated or intended. Specific reference is made to "*Risk Factors*" in the Annual Information Form ("AIF") for a discussion of the factors that may affect forward-looking statements and information. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions used by the Company in preparing any of the forward-looking statements and information contained in the Guidance prove incorrect, NFI's actual results may vary from those described in the Guidance and any such variations may be material. The forward-looking statements and information contained in the Guidance were made as of January 11, 2021 and the Company disclaims any intent or obligation to update any such forward-looking statements or information except as required by law. The Company provides no assurance that forward-looking statements and information contained in the Guidance will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on such forward-looking statements and information.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that could cause actions, events or results not to be as anticipated, estimated or intended. Specific reference is made to "*Risk Factors*" in the AIF for a discussion of the factors that may affect forward-looking statements and information. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements and information. The forward-looking statements and information contained herein are made as of the date of this MD&A (or as otherwise indicated) and the Company disclaims any intent or obligation to update forward-looking statements or information except as required by law. The Company provides no assurance that forward-looking statements and information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements and information.

DEFINITIONS OF ADJUSTED EBITDA, ROIC, FREE CASH FLOW, ADJUSTED NET EARNINGS (LOSS), ADJUSTED EARNINGS (LOSS) PER SHARE, REGIONS INCLUDING: NORTH AMERICA, UK AND EUROPE, ASIA PACIFIC, 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 or recovery, non-recurring costs or recoveries related to business acquisition, 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, , COVID-19 costs and impairment loss on goodwill and non-recurring restructuring costs.

"Free Cash Flow" means net cash generated by or used in 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 and other pension costs or recovery, proportion of total return swap, recovery on currency transactions, prior year sales tax provision, non-recurring restructuring costs, COVID-19 costs, foreign exchange gain or 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 12-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 (Loss)" are to net earnings (loss) 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, impairment loss on goodwill, 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 or recovery, recovery on currency transactions, prior year sales tax provision, COVID-19 costs and non-recurring restructuring costs .

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

Management believes Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) per Share are useful measures in evaluating the performance of the Company. However, Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) 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 (Loss) 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 (Loss) 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 (Loss) is provided under the heading "Reconciliation of Net Earnings (Loss) to Adjusted Net Earnings (Loss)".

NFI's method of calculating Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) 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.

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" or "APAC" 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 B - 2020 Fourth 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 for their fleet replacement plans, of expected EUs to be placed out for competition over the next five years.

The fourth quarter of 2020 saw further decline in the Company's Bid Universe, similar to the decline experienced in the third quarter, after reaching record highs in the first half of 2020. The decrease in Active Bids, which were down by 35.2%, or 2,189 EUs, from 2020 Q3 reflects the release of awards that had been delayed during the first and second quarters of 2020 due to the ongoing COVID-19 pandemic. Compared to the same period in 2019, Active Bids are down by 14.1%, or 662 EUs, primarily driven by the release of significant awards during the fourth quarter and the delay of certain procurements into the first half of 2021.

The forecasted five-year industry procurement was up 5.5%, or 1,066 EUs, quarter-over-quarter, providing early signs of recovery, but still down from record highs in the first half of 2020. These decreases in expected transit procurements are the direct result of pressures facing operators and agencies due to the COVID-19 pandemic. Most of the decline was seen in public motor coach. Management anticipates that forecasted five-year industry procurement will increase as transit agencies and operators learn more about and all are able to access the multi-billion funding programs being launched by governments in Canada and the US.

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)[1]	Total Bid Universe (EUs)
2019 Q4	1,760	2,934	4,694	22,954	27,648
2020 Q1	2,005	3,461	5,466	23,770	29,236
2020 Q2	2,975	4,374	7,349	22,089	29,438
2020 Q3	1,927	4,294	6,221	19,280	25,501
2020 Q4	**297**	**3,735**	**4,032**	**20,346**	**24,378**

(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 public customers 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 and stock schedules, 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 relatively flat in 2020 prior to the occurrence of the pandemic. The UK market was hit disproportionately hard by the COVID-19 pandemic, with bus patronage down by nearly 80% at its worst point in 2020, and overall deliveries down by 24%. We expect to see a slow recovery in 2021 due to customers' fleet recovery plans, a government focus on the green recovery, 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. As in other regions, Hong Kong was also impacted by the COVID-19 pandemic, but ADL remains the leader in double-deck buses and retains deep customer relationships in Hong Kong. Management expects the market to see stable annual deliveries and a slow recovery through 2021. New Zealand and Singapore remain cyclical markets; both markets saw increased activity in 2017, 2018 and 2019, but were also impacted by the COVID-19 pandemic, with expectations for recovery in 2021.

Order activity

New orders (firm and options) during 2020 Q4 totaled 998 EUs, a decrease of 13.9% from 2019 Q4 and an increase of 45.9% from 2020 Q3. The new firm and option orders awarded to the Company for Fiscal 2020 were 3,519 EUs, a decrease of 1.6% from Fiscal 2019. The Company was also successful at converting 171 EUs of options during 2020 Q4 to firm orders, a decrease of 79.0% from 2019 Q4 and a decrease of 29.3% from 2020 Q3. These conversions contributed to the 953 EUs of options converted to firm orders during 2020 Q4, a decline of 37.2% from 2019 Q4.

	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 Q4	1,159	3,577	813	1,518
2020 Q1	1,346	4,014	139	1,531
2020 Q2	491	4,031	401	1,582
2020 Q3	684	3,680	242	1,595
2020 Q4	**998**	**3,519**	**171**	**953**

Options

In 2020 Q4, 120 option EUs expired, compared to 159 option EUs that expired during 2019 Q4 and 427 EUs that expired in 2020 Q3.

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	1,202					4,805
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795	1,518	953					10,222
C) Current Options by year of expiry (EUs)								1,497	2,038	614	222	4,371
D) Conversion rate % = B / (A+B)	**54 %**	**73 %**	**79 %**	**81 %**	**71 %**	**75 %**	**44 %**					

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 original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order.

The Company's Fiscal 2020 Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 81.7%, a decrease of 3.5% from 85.2% for Fiscal 2019.

In addition, 247 EUs of new firm and option orders were pending from customers at the end of 2020 Q4, 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 are 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 34.5% of the total backlog. ZEBs represent approximately 5.8% of total backlog.

	2020 Q4			2020 Q3			2019 Q4		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	3,662	5,220	8,882	4,400	5,604	10,004	4,313	7,281	11,594
New orders	663	335	998	399	285	684	950	209	1,159
Options exercised	171	(171)	—	242	(242)	—	813	(813)	—
Shipments(1)	(1,230)	—	(1,230)	(1,317)	—	(1,317)	(1,844)	—	(1,844)
Cancelled/expired	(26)	(120)	(146)	(62)	(427)	(489)	(8)	(159)	(167)
End of period	**3,240**	**5,264**	**8,504**	**3,662**	**5,220**	**8,882**	**4,224**	**6,518**	**10,742**
Consisting of:									
Heavy-duty transit buses	2,271	4,730	7,001	2,519	4,640	7,159	3,236	5,722	8,958
Motor coaches	621	534	1,155	805	580	1,385	615	796	1,411
Cutaway and medium-duty buses	348	—	348	338	—	338	373	—	373
Total Backlog	**3,240**	**5,264**	**8,504**	**3,662**	**5,220**	**8,882**	**4,224**	**6,518**	**10,742**

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

At the end of 2020 Q4, the Company's total backlog (firm and options) of 8,504 EUs (valued at $4.3 billion) has decreased compared to 8,882 EUs (valued at $4.5 billion) at the end of 2020 Q3. The decrease was driven by deliveries in the quarter, cancellations and delays in new awards within North American and UK transit operations. The summary of the values is provided below.

	2020 Q4		2020 Q3		2019 Q4	
		Equivalent Units		Equivalent Units		Equivalent Units
Total firm orders	$ 1,631.5	3,240	$ 1,788.5	3,662	$ 1,928.8	4,224
Total options	2,706.3	5,264	2,703.1	5,220	3,245.1	6,518
Total backlog	**$ 4,337.8**	**8,504**	**$ 4,491.6**	**8,882**	**$ 5,173.9**	**10,742**

Consolidated Financial Statements of

NFI GROUP INC.

December 27, 2020

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Independent Auditor's Report

To the Shareholders of NFI Group Inc.

Opinion

We have audited the consolidated financial statements of NFI Group Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 27, 2020 and December 29, 2019, and the consolidated statements of net earnings (loss) and total comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 27, 2020 and December 29, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 27, 2020. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Goodwill – Motor Coach Manufacturing CGU (pre-restructuring), ADL Aftermarket Parts CGU, ADL Manufacturing CGU — Refer to Notes 2.14, 2.15, 2.22 and 7 of the financial statements

Key Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the recoverable amount of each cash generating units ("CGU") to their carrying value. The Company used the discounted cash flow model to estimate the value-in-use of each CGU. This requires management to make significant estimates and assumptions including those with respect to future cash inflows and outflows, growth rates and discount rates. Changes in these assumptions could have a significant impact on either the recoverable amount, the amount of any goodwill impairment charge, or both. During the first quarter of 2020, the carrying amount of the motor coach manufacturing CGU exceeded its recoverable amount which resulted in an impairment charge of $50.8 million to goodwill. At the evaluation date, the recoverable amounts of the CGUs exceeded their carrying amounts and no other impairments

Specifically, due to the impact of COVID-19 on the motor coach manufacturing CGU operations and the resulting change in short term demand in the private coach market, and the sensitivity of the ADL manufacturing and ADL aftermarket parts operations due to short term changes in demand, we have identified the goodwill impairment analysis as a key audit matter for the following CGUs (collectively "identified CGUs"):

We have identified the goodwill impairment analysis as a key audit matter for the following CGUs:

- Motor coach manufacturing, prior to the Company's restructuring and combination with the bus manufacturing CGU in the third quarter of 2020
- ADL Manufacturing
- ADL Manufacturing Parts

While there are several key assumptions that are required to estimate the recoverable amount of the identified CGUs, the assumptions with the highest degree of subjectivity and impact on the recoverable amounts are related to the determination of the discount rates, forecasts of future revenues, revenue growth rates, and operating margins. This required a high degree of significant auditor attention as these estimates are subject to estimation uncertainty. Auditing these estimates and assumptions required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of the discount rates, forecasts of future revenues, revenue growth rates and operating margins used to estimate the recoverable amount of the identified CGU's included the following, among others:

- Evaluated management's ability to accurately forecast future revenues, revenue growth rates and operating margins by comparing actual results to management's historical forecasts.
- Evaluated the reasonableness of the forecast of future revenues, revenue growth rates and operating margins by comparing the forecasts to:
    - Historical revenues and operating margins.
    - Known changes in the Company's operations and its industry, including the impact of the COVID-19 pandemic, which are expected to impact future operating performance;
    - Internal reports including production and backlog;
    - Internal communications to management and the Board of Directors; and
    - Forecasted information included in the Company's press releases as well as in analyst and industry reports for the Company and peer companies.
- With the assistance of fair value specialists, evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the discount rates, developing a range of independent estimates and comparing those to the discount rates selected by management.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Michael Boucher.

/s/ Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
March 3, 2021

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)
52-Weeks ended December 27, 2020 ("Fiscal 2020") and 52-Weeks ended December 29, 2019 ("Fiscal 2019")
(in thousands of U.S. dollars except per share figures)

	Fiscal 2020	Fiscal 2019
Revenue (note 22)	$ 2,419,175	$ 2,893,436
Cost of sales (note 4)	2,219,920	2,479,954
Gross profit	199,255	413,482
Sales, general and administration costs and other operating expenses	231,303	241,454
Foreign exchange gain	(1,509)	(1,036)
Impairment loss on goodwill (note 7)	50,790	—
(Loss) earnings from operations	(81,329)	173,064
Gain on disposition of property, plant and equipment	56	46
Unrealized foreign exchange gain (loss) on non-current monetary items	9,050	(60)
(Loss) earnings before interest and income taxes	(72,223)	173,050
Interest and finance costs		
Interest on long-term debt	48,717	39,127
Accretion in carrying value of long-term debt (note 16)	4,354	829
Interest expense on lease liability	7,352	7,211
Other interest and bank charges	5,766	4,208
Fair market value loss on interest rate swap	17,680	21,980
	83,869	73,355
(Loss) earnings before income tax expense	(156,092)	99,695
Income tax expense (note 15)		
Current income taxes	26,580	61,339
Deferred income taxes recovered	(24,936)	(19,342)
	1,644	41,997
Net (loss) earnings for the period	$ (157,736)	$ 57,698
Other comprehensive income (loss)		
Actuarial loss on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	(9,206)	(4,390)
Unrealized foreign exchange gain on translation of foreign operations	7,324	11,865
Total comprehensive (loss) income for the period	$ (159,618)	65,173
Net (loss) earnings per share (basic) (note 18)	$ (2.52)	$ 0.93
Net (loss) earnings per share (diluted) (note 18)	$ (2.52)	$ 0.93

The accompanying notes are an integral part of the audited consolidated financial statements.

NFI GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 27, 2020
(in thousands of U.S. dollars)

		December 27, 2020		December 29, 2019
Assets				
Current				
Cash	$	55,769	$	28,233
Accounts receivable (note 3, 21c)		426,408		531,736
Inventories (note 4)		657,036		672,243
Income tax receivable		18,759		17,375
Derivative financial instruments (note 21 b,c)		4,490		—
Prepaid expenses and deposits		13,308		10,094
		1,175,770		1,259,681
Property, plant and equipment (note 5, 22)		232,150		268,748
Right-of-use asset (note 6)		133,373		153,323
Goodwill and intangible assets (note 7)		1,177,381		1,250,518
Accrued benefit asset (note 10)		319		3,879
Other long-term assets (note 8)		36,922		19,612
	$	2,755,915	$	2,955,761
Liabilities				
Current				
Accounts payable and accrued liabilities	$	523,461	$	581,612
Derivative financial instruments (note 21 b,c)		1,078		4,651
Current portion of long-term liabilities (note 9)		148,610		144,524
		673,149		730,787
Accrued benefit liability (note 10)		21,061		11,916
Obligations under leases (note 6)		130,674		143,999
Deferred compensation obligation (note 11)		3,234		2,790
Deferred revenue (note 13)		15,608		13,354
Provisions (note 14)		56,605		62,180
Deferred tax liabilities (note 15)		76,689		105,023
Derivative financial instruments (note 21 b,c)		33,069		15,388
Long-term debt (note 16)		1,125,685		1,053,126
	$	2,135,774	$	2,138,563
Commitments and contingencies (note 24)				
Shareholders' equity				
Share capital (note 17)		681,405		680,962
Stock option and restricted share unit reserve (note 12)		8,400		6,828
Accumulated other comprehensive (loss) income		(1,113)		769
Retained (deficit) earnings		(68,551)		128,639
	$	620,141	$	817,198
	$	2,755,915	$	2,955,761

The accompanying notes are an integral part of the audited consolidated financial statements.

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended December 27, 2020

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Treasury shares	Retained (Deficit) Earnings	Total Shareholders' Equity
Balance, December 30, 2018	**$ 654,307**	**$ 5,796**	**$ (6,706)**	**$ (8,835)**	**$ 152,925**	**$ 797,487**
Net earnings	—	—	—	—	57,698	57,698
Other comprehensive income	—	—	7,475	—	—	7,475
Dividends declared on common shares	—	—	—	—	(79,950)	(79,950)
Repurchase and cancellation of common shares	(10,451)	—	—	—	(2,034)	(12,485)
Change in share purchase commitment	—	—	—	8,835	—	8,835
Share-based compensation, net of deferred income taxes	—	1,515	—	—	—	1,515
Shares issued	37,106	(483)	—	—	—	36,623
Balance, December 29, 2019	**$ 680,962**	**$ 6,828**	**$ 769**	**$ —**	**$ 128,639**	**$ 817,198**
Net loss	—	—	—	—	$ (157,736)	(157,736)
Other comprehensive loss	—	—	(1,882)	—	—	(1,882)
Dividends declared on common shares	—	—	—	—	(39,454)	(39,454)
Share-based compensation, net of deferred income taxes	—	1,931	—	—	—	1,931
Shares issued	443	(359)	—	—	—	84
Balance, December 27, 2020	**$ 681,405**	**$ 8,400**	**$ (1,113)**	**$ —**	**$ (68,551)**	**$ 620,141**

The accompanying notes are an integral part of the audited consolidated financial statements.

NFI GROUP INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the period ended December 27, 2020
(in thousands of U.S. dollars)

	Fiscal 2020	Fiscal 2019
Operating activities		
Net (loss) earnings for the period	$ (157,736)	$ 57,698
Income tax expense	1,644	41,997
Depreciation of plant and equipment	70,333	61,985
Amortization of intangible assets	40,451	42,585
Share-based compensation	1,770	1,566
Interest and finance costs recognized in profit or loss	83,869	73,355
Fair value adjustment for total return swap	118	949
Unrealized foreign exchange (gain) loss on non-current monetary items	(9,050)	60
Foreign exchange (gain) loss on cash held in foreign currency	11	(83)
Impairment loss on goodwill	50,790	—
Gain on disposition of property, plant and equipment	(56)	(46)
Impairment loss on property, plant and equipment	1,758	—
Impairment loss on right-of-use asset	3,597	—
Defined benefit expense	5,307	5,849
Defined benefit funding	(5,507)	(8,140)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	87,299	277,775
Changes in non-cash working capital items (note 19)	68,762	(91,324)
Cash generated from operating activities before interest and income taxes paid	156,061	186,451
Interest paid	(63,307)	(47,676)
Income taxes paid	(26,693)	(40,167)
Net cash generated by operating activities	66,061	98,608
Financing activities		
Debt issue costs	(3,931)	(1,636)
Repayment of obligations under lease	(18,887)	(12,456)
Proceeds from long-term debt	72,136	357,516
Share issuance	84	36,690
Repurchase of shares	—	(5,682)
Dividends paid	(49,439)	(76,421)
Net cash (used by) generated from financing activities	(37)	298,011
Investing activities		
Acquisition of intangible assets	(29)	(38)
Proceeds from disposition of property, plant and equipment	2,765	174
Investment in long-term restricted deposits	(15,510)	(14,490)
Net cash used in acquisitions	—	(327,360)
Acquisition of property, plant and equipment	(25,703)	(37,575)
Net cash used in investing activities	(38,477)	(379,289)
Effect of foreign exchange rate on cash	(11)	83
Increase in cash	27,536	17,413
Cash — beginning of period	28,233	10,820
Cash — end of period	$ 55,769	$ 28,233

The accompanying notes are an integral part of the audited consolidated financial statements.

1. CORPORATE INFORMATION

NFI Group Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 as New Flyer Industries Inc. under the laws of the Province of Ontario. The name of the Company was changed to "NFI Group Inc." on May 14, 2018 to better reflect the multi-platform nature of the Company's business. NFI is a leading independent global bus manufacturer providing a comprehensive suite of mass transportation solutions under brands: New Flyer® (heavy-duty transit buses), Alexander Dennis Limited (single and double-deck buses), Plaxton (motor coaches), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (aftermarket parts sales). The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI".

These audited consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on March 3, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The Statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

2.2 Principles of consolidation

The Statements include the accounts of the Company's subsidiaries.

Subsidiaries

Subsidiaries are entities over which the Company has control, where control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company holds 100% of the voting rights in, and therefore controls, its subsidiaries.

The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and business acquisition related expenses are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is reassessed and any remaining difference is recognized directly in the consolidated statements of net earnings and comprehensive income.

Inter-company transactions between subsidiaries are eliminated on consolidation.

2.3 New and amended standards adopted by the Company

IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20")

The Company recognizes government grants when there is reasonable assurance that it will comply with the conditions attached to them and that the grants will be received. Government grants are recognized in the consolidated statement of net earnings (loss) and total comprehensive income (loss) over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Grants related to income are deducted in reporting the related expense.

2.4 Reportable Segments

The Company's reportable segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The President and Chief Executive Officer of the Company has authority for resource allocation and assessment of the Company's performance and therefore acts as the CODM.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in U.S. dollars as this presentation is most meaningful to financial statement users. References to "$" are to U.S. dollars, references to "C$" are to Canadian dollars, references to "£" are to British pounds sterling. For those subsidiaries with different functional currencies, exchange rate differences arising from the translation of items that form part of the net investment in the foreign operation are recorded in unrealized foreign exchange gains (losses) on translation of foreign operations in other comprehensive income.

Monetary balances denominated in a currency other than U.S. dollars are translated at the period end rates of exchange, and the results of the operations are translated at average rates of exchange for the period. Non-monetary balances are translated at the exchange rate prevailing at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings, non-current monetary items and non-current forward foreign exchange contracts are presented in the consolidated statements of net earning (loss) and comprehensive income (loss) within "unrealized foreign exchange loss (gain) on non-current monetary items".

All other foreign exchange gains and losses are presented in the consolidated statements of net earnings (loss) and comprehensive income (loss) within "foreign exchange gain".

2.6 Revenue recognition

Manufacturing Operations

Persuasive evidence of an arrangement exists in the form of a written contract. A process is in place that initiates a pre-shipment acceptance by the customer at the Company's plant. This acceptance prior to shipment mitigates the likelihood of customer's dissatisfaction with the final product upon delivery to the customer. Revenue is recorded when the vehicle is delivered or shipped. The customer does not have a legal right to return the delivered products after the acceptance period, or deviate from the agreed upon price. The Company's contract clearly identifies a fixed and determinable price.

In connection with its sales of new coaches, the Company at times agrees to accept a pre-owned coach in exchange and gives the buyer a credit equal to the pre-owned coach's then-current fair value. Any credit provided to the customer in excess of the fair value of the pre-owned coach is deducted from the selling price of the new coach.

Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract and is recognized in revenue in the consolidated statements of net earnings (loss) and comprehensive income (loss) due to its operating nature.

When a single sale transaction requires the delivery of more than one product or service (multiple performance obligations), the revenue recognition criteria are applied to the separately identifiable performance obligations. A performance obligation is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each performance obligation is its fair value in relation to the fair value of the contract as a whole. Management has determined that the standard base warranty included in the bus or coach purchase is not a separate performance obligation and therefore recognized upon delivery of the vehicle.

The Company sells extended warranty contracts that provide coverage in addition to the basic coverage. Proceeds from the sale of these contracts are deferred and amortized into revenue over the extended warranty period commencing at the end of the basic warranty period. The Company also receives proceeds from the sale of extended warranties relating to major subsystems such as engines, transmissions, axles and air conditioning that are purchased for the customer from the original equipment manufacturer ("OEM"). The related cost to purchase the OEM warranty contracts have been recorded as a reduction of revenue as the Company is an agent to the transaction.

The Company, from time-to-time, may enter into arrangements with customers where the customer has requested that the Company defer shipping a vehicle and instead hold it for a specified period until the customer is able to take possession. The Company recognizes revenue for bill and hold arrangements when the arrangement is substantive, the product is identified separately as belonging to the customer and ready for physical transfer to the customer, and the Company cannot use the product or allocate it to another customer.

The Company does not recognize revenue on any bus or coach firm or option orders that have not yet been delivered except on bill and hold arrangements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Infrastructure Solutions™ division supplies, installs and commissions electric vehicle chargers, and constructs the related charging infrastructure. Revenues related to the supply, installation and commissioning of electric vehicle chargers are recognized once the chargers pass final customer acceptance testing. Revenues related to construction of charging infrastructure are recognized over time using the cost-to-cost input method. The cost-to-cost method measures the Company's progress toward completion based on the total costs incurred relative to the total estimated contract costs.

Aftermarket Operations

Persuasive evidence of an arrangement exists in the form of an authorized sales order. The customer is invoiced, and revenue is recorded at the time the part is delivered using a commercial shipper. The price list for parts clearly identifies a fixed and determinable price, while also describing that the Company has no legal obligation to accept the return of goods other than on defective and/or warrantable parts product. Aftermarket parts revenue does not contain any revenue related to the bus or coach warranty.

2.7 Employee benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined by independent actuaries using the projected unit credit method. Actuarial remeasurement is comprised of actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), and is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in accumulated other comprehensive loss and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are comprised of service costs (including current service cost, past service cost and gain or losses on curtailments and settlements), net interest expense or income and remeasurement.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

2.8 Share-based compensation plans

The Company operates cash-settled and equity-settled share-based compensation plans under which it receives services from senior management and non-employee members of the Board.

For the cash-settled plans (note 11), the expense is determined based on the fair value of the liability at the end of the reporting period until the awards are settled. Certain share-based compensation plans include non-market performance conditions. The Company`s accounting policy is to recognize the impact of non-market performance conditions by adjusting the number of awards that are expected to vest. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions on compensation expense (note 23) in the consolidated statements of net earnings (loss) and comprehensive income (loss).

For the equity-settled plans (note 12), share-based payments to senior management are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is the stock option reserve. Consideration received on the exercise of stock options is recorded as share capital and the related stock option reserve is transferred to share capital. Upon expiry, the recorded value is transferred to retained earnings. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net earnings (loss) and comprehensive income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the stock option reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net earnings (loss) and comprehensive income (loss).

2.9 Cash

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Accounts receivables

Accounts receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Accounts receivables are classified as current assets if payment is due within one year or less. Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment, if any.

The Company maintains an allowance for doubtful accounts and sales adjustments to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within “Sales, general and administration costs and other operating expenses” in the consolidated statements of net earnings (loss) and comprehensive income (loss).

2.11 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.12 Property, plant and equipment

Property, plant and equipment are recorded at cost reduced by applicable investment tax credits, less accumulated depreciation. Depreciation is calculated at the following annual rates:

Building and building improvements	4% declining-balance basis
Machinery and equipment	25% declining-balance basis
Demo buses and coaches	20% - 50% straight-line basis
Computer hardware and software	30% declining-balance basis
Office equipment	20% declining-balance basis
Buses and coaches available for lease	20% - 50% straight-line basis

Property, plant and equipment are tested for impairment as described under “Impairment of non-financial assets” in note 2.15.

2.13 Intangible assets

Identifiable intangible assets are initially recorded at fair value. Based on management’s forecasts and business plans and the going concern of the Company, the trade names intangible asset (note 7) has been deemed to have an indefinite life, except for the "NABI Parts" tradename which is amortized over its useful life of 12 years. For purposes of impairment testing, the fair value of trade names is determined using an income approach.

Intangible assets that have a finite life are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Patents and Licenses	5-12 years
Backlog of sales orders	1-2 years
Customer relationships	21 years

Identifiable intangible assets with finite and indefinite lives are tested for impairment as described under “Impairment of non-financial assets” in note 2.15.

2.14 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company’s share of the net identifiable assets of the acquired business at the date of acquisition. Separately recognized goodwill is tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable and also tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Impairment of non-financial assets

Non-financial assets with finite lives are tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. The carrying values of identifiable intangible assets with indefinite lives are tested annually for impairment because they are not amortized. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate.

The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or cash generating units ("CGUs"). The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.16 Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses, unless the losses relate to an onerous contract. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each consolidated statements of financial position date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

At the time of sale, a provision for warranty claims relating to the base warranty on the entire bus or motor coach and a corrosion warranty on the related structure, is recorded and charged against operations. This warranty provision is based upon management's best estimate of expected future warranty costs utilizing past claims experience. Actual warranty expenditures are charged against the provision as incurred.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.17 Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds and the amortized cost recognized in the consolidated statements of net earnings (loss) and comprehensive income (loss) over the term of the debt using the effective interest method.

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the date of the consolidated statements of financial position.

2.18 Financial instruments

Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

Financial assets at fair value through profit or loss

Classification

Financial assets at fair value through profit or loss are financial assets held for trading or designated as fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include derivative financial instruments and are classified as short or long term assets in the consolidated statements of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and measurement

Financial assets are initially recognized at fair value and subsequently carried at fair value through profit and loss, with changes recognized in the consolidated statements of net earnings (loss) and comprehensive income (loss). Transaction costs are expensed as incurred.

Financial assets carried at amortized cost

Classification

Financial assets classified as amortized cost are non-derivative financial assets that the Company intends to hold in order to collect the contractual cash flows and have fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the consolidated statements of financial position date, which are classified as non-current assets. Assets in this category include accounts receivables, deposits and cash and are classified as current assets in the consolidated statements of financial position.

Recognition and measurement

Financial assets carried at amortized cost are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Financial liabilities carried at amortized cost

Financial liabilities primarily consist of accounts payable and accrued liabilities, derivative financial instruments, other long-term liabilities and long-term debt. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost unless classified as fair value through profit or loss.

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The Company's derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within "Fair market value gain (loss) on interest rate swap" or "unrealized foreign exchange (loss) gain on non-current monetary items" in the consolidated statements of net earnings (loss) and comprehensive income (loss)consistent with the underlying nature and purpose of the derivative instruments.

2.19 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of net earnings (loss) and total comprehensive income (loss) except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using the tax rates under the laws that were enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax is accounted for using the liability approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statements of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). The carrying amount of deferred tax assets is reviewed at each consolidated statements of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). As well, deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

2.20 Investment tax credits

The Company has earned investment tax credits ("ITCs") relating to a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are recognized when there is reasonable assurance that the Company will comply with the associated conditions and the grants will be received. The investment tax credits are recognized either as a reduction in cost of sales on the consolidated statements of net earnings (loss) and comprehensive income (loss), or as a reduction in property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2.21 Vendor Rebates

The Company records certain consideration received from a vendor, which is probable and can be reasonably estimated, as a reduction of the cost of purchases during the period.

2.22 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in the consolidated statements of net earnings and comprehensive income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, inventories, derivative financial instruments, property, plant and equipment, intangible assets, goodwill, provisions, accrued benefit liability, deferred compensation obligation, government grants and deferred income taxes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are addressed below.

Intangible assets and goodwill

The values associated with the initial recognition and impairment tests of the intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

These significant estimates are subject to the Company's future results. These determinations will affect the amount of amortization expense on intangible assets recognized in future periods.

Management assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant estimation by management.

Management has determined that for purposes of this evaluation the Company has five CGUs: North American bus/coach manufacturing, ARBOC, ADL manufacturing, ADL aftermarket parts operations, and aftermarket parts operations.

Goodwill is allocated to the Company's five CGUs for the purpose of impairment testing. The Company performs its annual test for impairment of goodwill in the fourth quarter of each year and also when indicators of impairment exist.

Accrued benefit liability

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the discount rate to measure obligations and return on assets, the projected age of employees upon retirement, life expectancy and the expected rate of future compensation changes.

Actual results will differ from results which are estimated based on assumptions. See note 2.7 for certain assumptions made with respect to employee benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. Management's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

The Company is subject to taxation in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at the date of each consolidated statements of financial position. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Provision for Warranty Costs

The Company offers warranties on the buses and coaches it sells. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include quality initiatives, as well as parts and labour costs.

Critical judgments in applying accounting policies

The following critical judgments that were made by management have the most significant effect on the amounts recognized in the financial statements.

Revenue recognition

As described in note 2.6, management assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IFRS 15. Also, judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component.

Also described in note 2.6, management assessed the criteria for the recognition of revenue in an agency relationship related to the sale of extended warranties that are purchased for the customer from the OEM as set out in IFRS 15.

Functional currency

Management assessed the criteria for the determination of functional currency as set out in IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than focusing on the currency in which the transactions are denominated in. The functional currency of the Company is the United States dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determines the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the needs and support the Company's customers are incurred in United States dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in the United States.

Goodwill

Judgment is required in the selection of CGUs and the allocation of assets and liabilities to these CGUs, which is necessary to assess the impairment of long-term assets, goodwill and intangible assets.

3. ACCOUNTS RECEIVABLE

	December 27, 2020	December 29, 2019
Trade, net of allowance for doubtful accounts	$ 383,086	$ 471,552
Other	43,322	60,184
	$ 426,408	$ 531,736

4. INVENTORIES

	December 27, 2020	December 29, 2019
Raw materials	$ 299,476	$ 300,447
Work in process	216,311	263,343
Finished goods	141,249	108,453
	$ 657,036	$ 672,243

	Fiscal 2020	Fiscal 2019
Cost of inventories recognized as expense and included in cost of sales	$ 2,107,143	$ 2,452,170
Write-down of inventory to net realizable value in cost of sales	47,274	4,538
Reversals of a previous write-down in inventory	403	471

The write-down of inventory for Manufacturing is $44.7 million (2019: $2.6 million), of which $38.6 million pertains to pre-owned coach, $2.9 million for bus and $1.7 million for new coach impairment. Aftermarket write-down of inventory is $2.6 million (2019: $1.9 million).

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demo buses and coaches	Buses and coaches available for lease	Total
Cost	$ 102,202	$ 192,983	$ 54,002	$ 7,615	$ 26,421	$ 24,615	$ 407,838
Accumulated depreciation	11,875	92,410	33,654	3,571	12,705	5,680	159,895
December 30, 2018 net book value	90,327	100,573	20,348	4,044	13,716	18,935	247,943
Transition to IFRS 16	(3,013)	(22,734)	(1,572)	—	—	—	(27,319)
Adjusted December 31, 2018 net book value	87,314	77,839	18,776	4,044	13,716	18,935	220,624
Assumed as a result of business acquisitions	15,490	19,166	2,587	—	6,405	—	43,648
Additions	4,151	18,792	6,728	254	4,759	2,892	37,576
Transfers from inventory	—	—	—	—	6,646	3,931	10,577
Disposals	(27)	(117)	(33)	(44)	(159)	—	(380)
Depreciation charge	(3,387)	(21,369)	(5,797)	(746)	(7,252)	(6,119)	(44,670)
Cumulative translation adjustment	500	558	86	—	229	—	1,373
December 29, 2019 net book value	104,041	94,869	22,347	3,508	24,344	19,639	268,748
Additions	1,434	12,862	3,608	13	7,328	458	25,703
Transfer from inventory	(1,827)	(137)	(8)	(14)	(3,744)	(6,265)	(11,995)
Disposals	(22)	(659)	(136)	(13)	(1,878)	—	(2,708)
Depreciation charge	(3,551)	(23,411)	(5,346)	(700)	(9,219)	(5,199)	(47,426)
Impairment	—	(782)	(976)	—	—	—	(1,758)
Cumulative translation adjustment	278	864	93	—	351	—	1,586
December 27, 2020 net book value	$ 100,353	$ 83,606	$ 19,582	$ 2,794	$ 17,182	$ 8,633	$ 232,150

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demo buses and coaches	Buses and coaches available for lease	Total
Recorded as:							
Cost	$ 118,390	$ 190,215	$ 50,582	$ 7,825	$ 44,301	$ 31,438	$442,751
Accumulated depreciation	14,349	95,346	28,235	4,317	19,957	11,799	174,003
December 29, 2019 net book value	$ 104,041	$ 94,869	$ 22,347	$ 3,508	$ 24,344	$ 19,639	$268,748
Cost	$ 118,253	$ 202,225	$ 53,163	$ 7,812	$ 46,358	$ 25,631	$453,442
Accumulated depreciation	17,900	118,619	33,581	5,018	29,176	16,998	221,292
December 27, 2020 net book value	$ 100,353	$ 83,606	$ 19,582	$ 2,794	$ 17,182	$ 8,633	$232,150

6. RIGHT-OF-USE ASSETS

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Opening balance at December 30, 2018	**$ 103,794**	**$ 443**	**$ 39**	**$ 104,276**
Transition to IFRS 16	3,013	22,734	1,572	27,319
Adjusted December 31, 2018 net book value	106,807	23,177	1,611	131,595
Assumed as a result of business acquisitions	15,353	1,845	—	17,198
Additions	17,369	4,475	680	22,524
Disposals	—	—	—	—
Depreciation charge	(12,363)	(6,113)	(874)	(19,350)
Cumulative translation adjustment	1,269	87	—	1,356
December 29, 2019 net book value	$ 128,435	$ 23,471	$ 1,417	$ 153,323
Additions	2,699	3,890	184	6,773
Disposals	(257)	(267)	—	(524)
Impairment	(3,597)	—	—	(3,597)
Depreciation charge	(14,654)	(7,492)	(761)	(22,907)
Cumulative translation adjustment	213	92	—	305
December 27, 2020 net book value	$ 112,839	$ 19,694	$ 840	$ 133,373

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Recorded as:				
Cost	$ 141,711	$ 48,016	$ 13,506	$ 203,233
Accumulated Depreciation	13,276	24,545	12,089	49,910
December 29, 2019 net book value	128,435	23,471	1,417	153,323
Cost	140,250	49,708	13,690	203,648
Accumulated Depreciation	27,411	30,014	12,850	70,275
December 27, 2020 net book value	$ 112,839	$ 19,694	$ 840	$ 133,373

Total cash outflows for payments on lease liabilities was $26.2 million for the period ended December 27, 2020, (2019: $15.6 million) of which $18.9 million (2019: $9.9 million) was for principal repayments.

During the period, the Company expensed $0.5 million (2019: $1.0 million) in leases that did not meet the requirements for recognition under IFRS 16. These leases were either low value, or had a term of less than twelve months.

6. RIGHT-OF-USE ASSET (Continued)

Right-of-use asset impairments are associated with a service center location and production facility location that will not be used by the Company for the remaining duration of the lease as a result of the NFI Forward restructuring program (see note 28). The impairments total of $3.6 million are reflected in the Manufacturing reportable segment.

The Company assessed the extension periods embedded within each lease for inclusion in the lease liabilities on a lease by lease basis. When it determined it was reasonably certain to exercise the extension option within the lease, the Company has included those extension periods in the initial recognition of the right-of-use asset and lease liability. Significant leases where assumptions have been made are long-term building leases.

7. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Backlog of sales orders	Total
Cost	$ 436,278	$ 224,300	$ 130,917	$ 398,321	$ 6,400	$ 1,196,216
Accumulated amortization	—	1,238	114,094	123,474	6,400	245,206
December 30, 2018 net book value	436,278	223,062	16,823	274,847	—	951,010
Additions	—	—	61	—	—	61
Assumed as a result of business acquisitions	124,462	43,181	22,287	123,338	14,562	327,830
Amortization charge	—	(275)	(10,842)	(23,054)	(8,414)	(42,585)
Cumulative translation adjustment	8,168	1,408	630	3,879	117	14,202
December 29, 2019 net book value	568,908	267,376	28,959	379,010	6,265	1,250,518
Additions	—	—	29	—	—	29
Adjustment to purchase equation for business combinations	9,748	—	—	511	125	10,384
Amortization charge	—	(275)	(8,324)	(25,662)	(6,190)	(40,451)
Impairment loss	(50,790)	—	—	—	—	(50,790)
Cumulative translation adjustment	1,621	1,610	481	4,179	(200)	7,691
December 27, 2020 net book value	$ 529,487	$ 268,711	$ 21,145	$ 358,038	$ —	$ 1,177,381

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Backlog of sales orders	Total
Recorded as:						
Cost	$ 568,908	$ 268,889	$ 153,895	$ 525,538	$ 21,079	$ 1,538,309
Accumulated amortization	—	1,513	124,936	146,528	14,814	287,791
December 29, 2019 net book value	568,908	267,376	28,959	379,010	6,265	1,250,518
Cost	529,487	270,499	154,852	530,823	22,118	1,507,779
Accumulated amortization	—	1,788	133,707	172,785	22,118	330,398
December 27, 2020 net book value	$ 529,487	$ 268,711	$ 21,145	$ 358,038	$ —	$ 1,177,381

The recoverable amount of the Company’s cash generating units ("CGUs") is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering three to five-year periods and discount rates based on weighted average cost of capital of like businesses that range between 7% and 14% per annum for the Alexander Dennis Limited ("ADL") and North American bus/coach manufacturing CGUs, between 11% and 17% for the ARBOC CGU, and between 7% and 12% per annum for the aftermarket parts and ADL parts CGU. Cash flows beyond this period are extrapolated using a steady estimated growth rate based on the long-term average annual growth rate of 3% for each industry in which the CGUs operate. Management has determined planned cash flows based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risks relating to the relevant CGUs.

Sensitivity testing is conducted as part of the annual impairment tests. Management believes that any reasonable change in the key assumptions used to determine the recoverable amounts would not cause the carrying amounts of any of the CGUs to exceed its recoverable amount.

During the first quarter of 2020, the Company idled production facilities to manage the adverse impacts of the COVID-19 pandemic on the Company's business and operations and that of its customers and suppliers and to address the health and safety concerns of its employees. The idling of production facilities resulted in significant downward revisions to the budgeted net cash flows of all manufacturing CGUs. The expected impact of government lock-downs on demand for aftermarket parts and services also resulted in

7. GOODWILL AND INTANGIBLE ASSETS (Continued)

significant downward revisions to the budgeted net cash flows of all aftermarket CGUs. The COVID-19 pandemic also caused a significant decline in private markets, resulting in the cancellation or deferral of many private customer orders for coaches in North America and coaches and buses in the UK, further reducing budgeted net cash flows at the motor coach manufacturing and ADL manufacturing CGUs. Public market order delays and decline also reduced budgeted net cash flows at the bus manufacturing CGU. The uncertainty surrounding the COVID-19 pandemic also caused significant volatility in the equity markets, resulting in a systematic increase in the cost of equity capital. Based on these factors, management concluded that impairment indicators existed at all CGUs and, accordingly, an interim quantitative impairment test was performed for all CGUs as at the end of the first, second and third quarters of 2020.

Based upon the results of the interim quantitative impairment test performed during the first quarter of 2020, management determined that the estimated recoverable amount of the motor coach manufacturing CGU was $295 million and, as the carrying amount exceeded the recoverable amount, a goodwill impairment charge of $50.8 million was recorded. No other impairments were identified in any of the first, second or third quarters tests.

During the third quarter of 2020, the Company announced its commitment to a significant restructuring program called “NFI Forward” (see Note 28). Prior to this restructuring, management monitored goodwill for impairment separately at each of its six CGUs: bus manufacturing, motor coach manufacturing, ARBOC, ADL manufacturing, ADL aftermarket parts operations and aftermarket parts operations. As a result of the restructuring, management had determined that it was appropriate to combine the goodwill and intangible assets of the bus manufacturing and motor coach manufacturing CGUs for impairment testing purposes. This determination is based on the Company combining the business operations of the two CGUs as part of NFI Forward. While both CGUs still generate separately identifiable cash inflows, management is no longer able to separately identify the cash outflows of each CGU. Both CGUs are expected to benefit from the synergies of the combination, which further supports management’s decision to monitor for impairment at the combined level. The NFI Forward restructuring program also combined the North American aftermarket parts operations of ADL and NFI parts. As a result of this combination, the Company reallocated $6.2 million of goodwill and $10.5 million of intangible assets from the ADL aftermarket parts operations CGU to the aftermarket parts operations CGU for impairment testing purposes.

Based upon historical operating results, management’s forecasts and business plans, the Company’s trade names were assigned an indefinite life, except for the "NABI Parts" tradename (net book value of $1,513 at December 27, 2020) which is amortized over its useful life, which ends in 2025.

8. OTHER LONG-TERM ASSETS

	December 27, 2020	December 29, 2019
Long-term restricted deposit (note 24c)	$ 30,000	$ 14,490
Long-term accounts receivable	5,113	5,122
Non-current asset held for sale	1,809	—
	$ 36,922	$ 19,612

Long-term restricted deposit is collateral for certain of the Company's letters of credit.

The non-current asset held for sale represents a service facility that is being sold to a third party. The sale of the property was finalized in January 2021. The service facility is part of the manufacturing segment operations.

9. CURRENT PORTION OF LONG TERM LIABILITIES

	December 27, 2020	December 29, 2019
Deferred revenue (note 13)	$ 99,454	$ 94,372
Provisions (note 14)	28,208	29,314
Deferred compensation obligation (note 11)	1,045	1,678
Obligations under leases (note 6)	19,903	19,160
	$ 148,610	$ 144,524

10. ACCRUED BENEFIT LIABILITY

Defined benefit plan

The Company's subsidiaries have defined benefit plans which cover employees in Canada and the United States. Actuarial valuations for the Company's subsidiaries were last performed as at December 31, 2019 and December 31, 2017.

Information in respect of the Company's defined benefit plan is as follows:	**December 27, 2020**	December 29, 2019
Change in plan assets		
Plan assets at fair value — beginning of period	$ 101,436	$ 125,684
Interest income	3,106	4,503
Remeasurement gains - return on plan assets (excluding amounts in net interest)	4,911	13,617
Administrative expenses	(159)	(1,440)
Employer’s contributions	5,678	7,803
Benefits paid	(4,078)	(52,341)
Plan settlement	—	(108)
Foreign exchange (loss) gain	(2,144)	3,718
Plan assets at fair value — end of period	108,750	101,436
Change in defined benefit obligation		
Defined benefit obligation — beginning of period	109,473	130,949
Current service cost	5,279	4,625
Interest cost	3,317	4,685
Benefits paid	(7,921)	(52,341)
Plan settlement	(683)	(1,779)
Foreign exchange loss	1,997	3,847
Actuarial loss arising from changes in financial assumptions	14,749	19,636
Actuarial loss (gain) arising from experience adjustments assumptions	3,281	(149)
Defined benefit obligation — end of period	129,492	109,473
Accrued benefit liability - present value of unfunded obligations	$ (20,742)	$ (8,037)

The actual gain on the plan assets for Fiscal 2020 was $8,017 (Fiscal 2019: loss of $18,120).

The significant actuarial assumptions adopted in measuring the Company’s accrued benefit obligation and net pension plan expenses are as follows:

		Fiscal 2020	Fiscal 2019
Country	Mortality Table	Discount Rate	
Canada	CPM2014 Private sector with Scale MI-2017 with size adjustment	3.10 %	3.80 %
Canada	CPM2014 Private sector with Scale MI-2017 with no size adjustment	2.60 %	3.10 %

			Discount rate - sensitivity		**Life expectancy - sensitivity**	
			1% increase	1% decrease	one year increase	one year decrease
Country	Last valuation date	Next valuation date	Then obligation would decrease by:	Then obligation would increase by:	Then obligation would increase by:	Then obligation would decrease by:
Canada	Dec. 31, 2017	Dec. 31, 2020	17.7 %	22.8 %	1.5 %	1.5 %
Canada	Dec. 31, 2019	Dec. 31, 2022	21.1 %	27.4 %	3.4 %	3.5 %

The defined benefit plan typically exposes the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

10. ACCRUED BENEFIT LIABILITY (Continued)

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Management believes the plan currently has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the Company's pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest rate risk

A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

The Company's defined benefit plan is a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability. Expected contributions to the defined benefit plan for the 52-week period ending December 27, 2020 are $2,309.

The Company's defined benefit pension plan expense, included in cost of sales and sales, general and administration costs and other operating expenses is as follows:

	Fiscal 2020	Fiscal 2019
Current service costs	$ 5,279	$ 4,625
Net interest expense	211	183
Administrative expenses	159	1,440
Plan settlement	(683)	(1,671)
Foreign exchange loss	341	1,272
Components of defined benefit costs recognized in net earnings	$ 5,307	$ 5,849

	Fiscal 2020	Fiscal 2019
Remeasurement gains - return on plan assets (excluding amounts in net interest)	$ 4,911	$ 13,617
Actuarial losses arising from changes in financial assumptions	(14,749)	(19,636)
Actuarial (losses) gains arising from experience adjustments assumptions	(3,281)	149
Foreign exchange gain	825	1,836
	(12,294)	(4,034)
Deferred income taxes recorded through other comprehensive (loss) income	3,088	(356)
Net actuarial losses recognized in other comprehensive (loss) income	$ (9,206)	$ (4,390)

An analysis of the assets of the plans by investment category is provided as follows:

	December 27, 2020	December 29, 2019
Asset category		
Cash and cash equivalents	0.6%	0.4%
Canadian equities	11.8%	17.7%
Foreign equities	24.1%	32.8%
Real estate	16.2%	3.6%
Bonds	47.3%	45.5%
	100.0%	100.0%

11. DEFERRED COMPENSATION OBLIGATION

	December 27, 2020	December 29, 2019
Performance share units under PRSU Plan (officers and senior management)	$ 473	$ 2,088
Restricted share units under PRSU Plan (officers and senior management)	1,045	50
Deferred share units under DSU Plan (non-employee board of directors)	2,761	2,330
	4,279	4,468
Less: current portion	1,045	1,678
	$ 3,234	$ 2,790

Effective December 17, 2012, the Board approved the Performance and Restricted Share Unit Plan (the “PRSU Plan”) and it was amended on December 16, 2013, December 18, 2018 and August 5, 2020. The terms of the amended PRSU Plan govern awards made on or after the 2014 plan year, 2018 plan year and August 2020, respectively.

The purposes of the PRSU Plan are to attract, retain and motivate key personnel, reward officers and senior management and to align their interests with those of shareholders by making a significant portion of their incentive compensation directly dependent on achieving key strategic, financial and operational objectives that are crucial to the ongoing growth and profitability of the Company. Under the terms of the PRSU Plan, the human resources, compensation and corporate governance committee of the Board may grant eligible participants performance share units (“PSUs”) or restricted share units (“RSUs”), which give the holders thereof the right to receive, upon vesting and redemption of a unit, a cash payment equal to the fair market value of a Share at the time of redemption. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of PSUs and RSUs held (and determined based on the then fair market value of the Shares) are credited to a participant’s account. The actual value of a PSU on the settlement date is contingent on the Share price and the Company’s actual performance over a three-year period relative to the established objectives. The actual value of an RSU on the settlement date is contingent on the Share price only and RSUs generally vest and settle as to one-third on each of the first, second and third anniversaries of the grant date. PSUs and RSUs also immediately vest upon a participant's termination without cause or resignation for good reason within a specified period of time following the closing of a transaction resulting in certain change of control events and upon certain terminations of employment and, with respect to PSUs and RSUs granted prior to 2019, upon the closing of a transaction resulting in certain change of control events.

RSUs and PSUs granted in Fiscal 2020 were determined based on the volume weighted average trading price of a Share for the last five trading days of 2019 and the desired compensation value.

As well, the Board adopted NFI’s Deferred Share Unit Plan for Non-Employee Directors (the "DSU Plan") on November 7, 2011 and it was amended and restated on December 8, 2015, December 18, 2015, March 14, 2019 and September 14, 2020. Pursuant to the plan, non-employee directors may elect once each calendar year to receive all or a portion of their annual retainer and meeting fees in the form of deferred share units (“DSUs”) instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director’s account on the first day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director’s elected amount by the volume weighted average trading price of a Share for the last five trading days.

When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director’s account. At the end of the director’s tenure as a member of the Board, the director will be entitled to receive a cash redemption payment equal to the fair market value of a Share multiplied by the number of DSUs held.

11. DEFERRED COMPENSATION OBLIGATION (Continued)

	PSUs	RSUs	DSUs	Total
Units outstanding at December 30, 2018	115,841	28,627	93,595	238,063
Units granted	96,523	44,373	18,082	158,978
Distribution units granted	10,460	3,729	5,082	19,271
Units Expired	—	(910)	—	(910)
Units Redeemed	—	—	(10,411)	(10,411)
Vested and reclassified as current liability	(71,347)	(35,470)	—	(106,817)
Units outstanding at December 29, 2019	151,477	40,349	106,348	298,174
Units granted	126,381	63,191	32,271	221,843
Distribution units granted	15,574	5,802	6,969	28,345
Units Expired	(70,876)	(6,744)	—	(77,620)
Units Redeemed	—	—	—	—
Vested and reclassified as current liability	(4,665)	(25,580)	—	(30,245)
Units outstanding at December 27, 2020	217,891	77,018	145,588	440,497
Vested units	—	—	145,588	145,588
Unvested units	217,891	77,018	—	294,909

12. SHARE-BASED COMPENSATION - EQUITY SETTLED

The Board adopted a Share Option Plan (the "2013 Option Plan") for NFI on March 21, 2013, under which employees of NFI and certain of its affiliates may receive grants of share options. The 2013 Option Plan was amended and restated on December 8, 2015, December 31, 2018 and August 5, 2020. Directors who are not employed with NFI are not eligible to participate in the 2013 Option Plan. A maximum of 3,600,000 Shares are reserved for issuance under the 2013 Option Plan. One quarter of the share options become vested on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such date.

The Board adopted a new share option plan on March 12, 2020 (the "2020 Option Plan"), which was approved by shareholders on May 7, 2020 and amended on August 5, 2020, 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 2020 Option Plan. A maximum of 3,200,000 Shares are reserved for issuance under the 2020 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.No options have been granted under the 2020 Option Plan.

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)	—	(202,356)	—	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	(2171)	—	—	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(12,534)	(102,557)	34,718	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(10,750)	(71,071)	71,062	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(25,314)	(64,844)	194,516	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	(709)	2,126	July 15, 2027	C$35.98	C$4.90
December 31, 2019	519,916	—	(33,218)	—	486,698	December 31, 2027	C$26.81	C$3.36
	2,938,176	(1,330,073)	(104,986)	(713,997)	789,120		C$29.32	

12. SHARE-BASED COMPENSATION - EQUITY SETTLED (Continued)

The following reconciles the share options outstanding:

	Fiscal 2020		Fiscal 2019	
	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	287,559	C$33.46
Expired during the period	(77,059)	C$34.26	(6,928)	C$40.75
Exercised during the period	(8,646)	C$13.45	(158,031)	C$12.77
Balance at end of period	1,503,117	C$29.32	1,068,906	C$30.77

Fair values were measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share-based payment plans granted in Fiscal 2020 and Fiscal 2019 are the following:

Options grant date	**December 31, 2019**	January 2, 2019
Fair value at grant date (C$)	$3.36	$5.01
Share price (C$)	$26.81	$33.43
Exercise price (C$)	$26.81	$33.43
Expected volatility	28.4 %	24.4 %
Option life (expected weighted average life)	5.5 years	5.5 years
Expected dividends	6.16 %	3.71 %
Risk-free interest rate (based on government bonds)	1.64 %	1.89 %

On May 8, 2014, shareholders' approved the Company's Restricted Share Unit Plan for Non-Employee Directors (the "Director RSU Plan"). The Director RSU Plan was amended and restated on December 8, 2015, December 31, 2017, March 14, 2019 and September 14, 2020. A maximum of 500,000 Shares are reserved for issuance under the Director RSU Plan. Pursuant to the Director RSU Plan, non-employee directors are permitted to elect, once each calendar year, to receive all or a portion of their annual retainer in the form of restricted share units ("Director RSUs") and/or DSUs instead of cash. A Director RSU is a right to acquire a fully-paid and non-assessable Share credited by means of a bookkeeping entry to an account in the name of the non-employee director.

A director generally must make the election prior to the end of the calendar year preceding the year to which such election is to apply. The Board, in its sole discretion, may award additional Director RSUs, subject to an annual aggregate value of $150 per director. The number of Director RSUs to be awarded to a director is determined by dividing the amount of the applicable portion of the director's annual retainer by the applicable fair market value of a Share on that date. When dividends are paid on a Share, additional Director RSUs equivalent to the aggregate number of Director RSUs held by a director on the dividend record date multiplied by the amount of dividend paid by NFI on each Share, and then divided by the fair market value of the Shares on the dividend payment date, will automatically be credited to the director's account. Under the Director RSU Plan, Director RSUs vest immediately as at each applicable award date. A director (other than a U.S. director) will be permitted to exercise the Director RSUs credited to his or her account at any time prior to December 15 of the year following the year in which the director ceases to be a non-employee director of NFI or one of its affiliates. A U.S. director will be required to specify the exercise date in the annual election form in accordance with Section 409A of the U.S. Internal Revenue Code.

	Number of Director RSUs
Balance - December 30, 2018	22,743
Director RSUs issued	25,686
Director RSUs exercised	(17,754)
Balance - December 29, 2019	30,675
Director RSUs issued	40,344
Director RSUs exercised	(25,549)
Balance - December 27, 2020	45,470

13. DEFERRED REVENUE

	December 27, 2020	December 29, 2019
Extended warranties	$ 29,327	$ 21,220
Progress payments	85,735	86,506
	115,062	107,726
Less: current portion of deferred revenue	(99,454)	(94,372)
	$ 15,608	$ 13,354

Deferred revenue is comprised of progress payments that have not yet qualified for recognition as revenue under the Company's revenue recognition policies and also deferred revenue from the sale of extended warranty contracts which are amortized over the extended warranty period commencing at the end of the one-year basic warranty period

14. PROVISIONS

The Company's insurance risk retention meets the IFRS definition of provisions, a liability with uncertain timing or amount.

The restructuring provision consists of employee termination benefits associated with the NFI Forward restructuring initiative that was announced on July 27, 2020 (note 28).

The Company generally provides its customers with a base warranty on the entire transit bus or motor coach and a corrosion warranty on the related structure. The movements in the provisions are as follows:

	Insurance Risk Retention	Restructuring	Warranty	Total
December 30, 2018	$ 24,504	—	76,280	100,784
Assumed as a result of business acquisition	—	—	7,434	7,434
Additions	8,880	—	44,226	53,106
Amounts used/realized	(5,383)	—	(47,693)	(53,076)
Unused provision	(504)	—	(16,642)	(17,146)
Unwinding of discount and effect of changes in the discount rate	—	—	225	225
Exchange rate differences	—	—	167	167
December 29, 2019	$ 27,497	$ —	$ 63,997	$ 91,494
Additions	6,352	20,102	39,889	66,343
Amounts used/realized	(8,137)	(15,184)	(41,045)	(64,366)
Unused provision	(2,533)	(1,401)	(5,163)	(9,097)
Unwinding of discount and effect of changes in the discount rate	—	—	60	60
Exchange rate differences	—	189	190	379
	23,179	3,706	57,928	84,813
Less current portion	3,000	3,706	21,502	28,208
December 27, 2020	$ 20,179	$ —	$ 36,426	$ 56,605

15. DEFERRED TAXES AND INCOME TAX EXPENSE

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts by tax jurisdiction presented on the statements of financial position are as follows:

	December 27, 2020	December 29, 2019
As presented on statements of financial position:		
Deferred tax liabilities	76,689	105,023
	$ 76,689	$ 105,023

The gross movement on the deferred income tax account is as follows:

	Fiscal 2020	Fiscal 2019
Beginning of period	$ (105,023)	$ (83,121)
Assumed as a result of business acquisitions	259	(41,850)
Exchange rate differences	535	64
Tax recorded through net earnings (loss)	24,936	19,342
Tax recorded through other comprehensive loss	3,335	1,530
Tax recorded through equity	(731)	(988)
End of period	$ (76,689)	$ (105,023)

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Property Plant and Equipment	Goodwill and Intangibles	Right of Use Assets	Other	**Total**
December 30, 2018	(11,799)	(127,311)	—	(1,079)	$ (140,189)
Tax recorded through net earnings (loss)	(1,586)	7,639	(28,565)	3,854	(18,658)
Assumed as a result of business acquisition	(2,724)	(36,269)	—	(5,643)	(44,636)
Cumulative translation adjustment	—	(935)	—	—	(935)
December 29, 2019	**(16,109)**	**(156,876)**	**(28,565)**	**(2,868)**	**(204,418)**
Tax recorded through net earnings (loss)	(4,272)	5,237	2,415	(360)	3,020
Assumed as a result of business acquisition	—	400	—	—	400
Cumulative translation adjustment	—	(892)	—	—	(892)
December 27, 2020	**$ (20,381)**	**$ (152,131)**	**$ (26,150)**	**$ (3,228)**	**$ (201,890)**

15. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred tax assets	Reserves and accruals not currently deductible	Tax Credits	Provisions	Property Plant and Equipment	Right of Use Assets	Loss carry forward	Pension	Deferred Financing Costs and Interest	Other	Total
December 30, 2018	14,576	1,086	30,471	—	—	2,613	1,762	2,059	4,501	$ 57,068
Tax recorded through net earnings	11,457	(1,086)	(8,066)	—	29,831	8,930	185	(645)	(2,606)	38,000
Tax recorded through other comprehensive income	—	—	—	—	—	—	1,530	—	—	1,530
Tax recorded through equity	—	—	—	—	—	—	—	—	(53)	(53)
Assumed as a result of business acquisition	—	—	—	—	—	—	—	—	2,786	2,786
Exchange rate differences	17	—	35	—	—	3	2	2	5	64
December 29, 2019	$ 26,050	$ —	$ 22,440	$ —	$ 29,831	$ 11,546	$ 3,479	$ 1,416	$ 4,633	$ 99,395
Tax recorded through net earnings (loss)	1,612	—	880	61	(1,884)	16,723	(22)	(155)	4,701	$ 21,916
Tax recorded through other comprehensive income (loss)	—	—	—	—	—	—	3,335	—	—	$ 3,335
Tax recorded through equity	—	—	—	—	—	—	—	—	161	$ 161
Assumed as a result of business acquisition	—	—	—	—	—	—	—	—	(146)	$ (146)
Exchange rate differences	141	—	122	—	162	63	19	8	25	$ 540
December 27, 2020	$ 27,803	$ —	$ 23,442	$ 61	$ 28,109	$ 28,332	$ 6,811	$ 1,269	$ 9,374	$125,201

Deferred income tax assets are recognized for income tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. At December 27, 2020, the Company has recognized all of its deferred income tax assets with the exception of $6.8 million of net operating losses in the U.S, which were acquired through the acquisition of ADL, and $23.2 million of tax credits shown below. These losses are restricted to a maximum utilization of $0.2 million per year. At December 27, 2020 the Company has the following tax credits and loss pools expiring as follows:

	United States		Canada	Other
	Tax Credits	Tax Losses	Tax Losses	Tax Losses
2021-2026	—	1,501	—	—
2027	5,049	250	—	—
2028	1,146	250	—	—
2029	2,349	250	—	—
2030	14,620	222	—	—
2031-2037	—	1,078	320	—
2038	—	154	11,673	—
2039	—	154	25,532	—
2040	—	154	20,207	—
2041-2063	—	3,676	—	—
No expiry	—	—	—	65,321

15. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

The reconciliation of income tax computed at the U.S. statutory rate, to income tax expense is as follows:

	Fiscal 2020	Fiscal 2019
Earnings before income tax expense	$ (156,092)	$ 99,695
Tax calculated using a 21% U.S. tax rate	(32,779)	20,936
Tax effect of:		
Withholding and other taxes	2,869	3,747
Non-taxable income	(1,231)	(6,007)
Non-deductible impairment loss on goodwill	10,746	—
Revision of tax estimates	2,278	3,974
Foreign exchange impact	(138)	(1,896)
State taxes	(406)	11,873
Impact of rate change on deferred income taxes	3,695	(528)
Foreign tax credit pools and base erosion and anti-abuse tax	20,356	10,482
Rate differential on income taxed at other than U.S. statutory rate	(3,869)	(728)
Other	123	144
Income tax expense	$ 1,644	$ 41,997

Current income taxes	$ 26,580	$ 61,339
Deferred income taxes recovered	(24,936)	(19,342)
Income tax expense for the period	$ 1,644	$ 41,997

16. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value December 27, 2020**	Net Book Value December 29, 2019
Revolving Credit Facility, Secured (“Credit Facility”)	1,063,100	2,253	1,060,847	1,053,126
Revolving Credit Facility, Secured ("UK Facility")	65,136	298	64,838	—
	1,128,236	2,551	1,125,685	1,053,126

The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. $11.8 million of outstanding letters-of-credit were drawn against the Credit Facility at December 27, 2020. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

On April 23, 2020 NFI entered into the $250 million unsecured, one-year Sidecar facility that could be utilized for general corporate purposes. Amounts drawn under the Sidecar were to bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates. No amounts were drawn under the Sidecar and it was terminated on December 23, 2020.

On May 4, 2020 NFI entered into the £50 million unsecured, revolving UK Facility to support ADL's operations in the UK. The facility has a two year term with options to extend. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin. The UK Facility matures on May 4, 2022.

17. SHARE CAPITAL

	December 27, 2020	December 29, 2019
Authorized - Unlimited		
Issued - 62,524,842 Common Shares (December 29, 2019: 62,493,880)	$ 681,405	$ 680,962

17. SHARE CAPITAL(Continued)

Share repurchase

On June 12, 2019, the Company announced the TSX had accepted a notice filed by the Company of its intention to implement a new Normal Course Issuer Bid (the "NCIB") to replace the previous Normal Course Issuer Bid to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. The Company was 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 was permitted to repurchase Shares under the NCIB commencing June 17, 2019 up to June 16, 2020, or earlier should the Company complete its repurchases prior to such date.

There were no shares purchased or canceled under the NCIB in 2020. The NCIB expired on June 16, 2020. The Company did not file for another normal course issuer bid to replace the expired NCIB.

The following is a summary of changes to the issued and outstanding capital stock during the period:

Shares	Number (000s)		Net Book Value
Balance – December 29, 2019	62,494	$	680,962
Stock options exercised	9		96
Restricted share units exercised	22		347
Balance – December 27, 2020	62,525	$	681,405

18. EARNINGS PER SHARE

		Fiscal 2020		Fiscal 2019
Net (loss) earnings attributable to equity holders	$	(157,736)	$	57,698
Weighted average number of Shares in issue		62,510,544		61,809,479
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units		—		188,398
Weighted average number of Shares for diluted earnings per Share		62,510,544		61,997,877
Net (loss) earnings per Share (basic)	$	(2.5234)	$	0.9335
Net (loss) earnings per Share (diluted)	$	(2.5234)	$	0.9306

Basic earnings per Share is calculated by dividing the net earnings (loss) attributable to equity holders of the Company by the weighted average number of Shares outstanding during the period.

Diluted earnings per Share is calculated using the same method as basic earnings per Share except that the average number of Shares outstanding includes the potential dilutive effect of outstanding stock options and restricted share units granted by the Company, as determined by the treasury stock method.

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**Fiscal 2020**	Fiscal 2019
Accounts receivable	$ 105,328	$ (63,592)
Income tax receivable	—	15,111
Inventories	22,483	(40,147)
Prepaid expenses and deposits	(3,214)	5,627
Accounts payable and accrued liabilities	(64,001)	42,474
Deferred revenue	7,336	(4,786)
Provisions	(11,764)	(16,724)
Other	12,594	(29,287)
	$ 68,762	$ (91,324)

20. DEFINED CONTRIBUTION PENSION PLANS

The Company maintains a defined contribution plan for salaried employees. The net pension expense for the Company's defined contribution plans is as follows:

	Fiscal 2020	Fiscal 2019
Defined contribution pension expense	$ 12,783	$ 9,767

Cash payments contributed by the Company during Fiscal 2020 for its defined benefit and defined contribution pension plans amounted to $18.5 million (2019: $17.6 million).

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Financial Instruments

The Company has made the following classifications:

Cash	Fair value through profit or loss
Long-term deposit	Fair value through profit or loss
Receivables	Amortized cost
Deposits	Amortized cost
Accounts payables and accrued liabilities	Amortized cost
Other long-term liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative financial instruments	Fair value through profit or loss

(b) Fair value measurement of financial instruments

The Company categorizes its fair value measurements of financial instruments recorded at fair value according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company’s valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 - fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Level 2 - fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

Level 3 - fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable data, including assumptions about risk.

The following table presents the carrying amounts and fair values of financial liabilities and financial assets, including their levels in the fair value hierarchy. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	December 27, 2020		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 55,769	$ 55,769
Long-term restricted deposit	Level 1	$ 30,000	$ 30,000
Foreign exchange forward contracts	Level 2	$ 4,490	$ 4,490
Derivative financial instrument assets - current		$ 4,490	$ 4,490
Financial liabilities recorded at fair value			
Total return swap contracts	Level 2	$ 1,078	$ 1,078
Derivative financial instrument liabilities - current		$ 1,078	$ 1,078
Interest rate swap	Level 2	$ 33,069	$ 33,069
Derivative financial instrument liabilities - long term		$ 33,069	$ 33,069

	December 29, 2019		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 28,233	$ 28,233
Long-term restricted deposit	Level 1	$ 14,490	$ 14,490
Financial liabilities recorded at fair value			
Total return swap contracts	Level 2	$ 944	$ 944
Foreign exchange forward contracts	Level 2	$ 3,707	$ 3,707
Derivative financial instrument liabilities - current		$ 4,651	$ 4,651
Interest rate swap	Level 2	$ 15,388	$ 15,388
Derivative financial instrument liabilities - long term		$ 15,388	$ 15,388

(c) Risk Management

The Company uses derivative financial instruments including interest rate swaps, total return swaps and forward foreign exchange contracts. These instruments are financial contracts whose value depends on interest rates, share price and foreign currency prices.

The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, share price, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate, share price and foreign exchange risks in accordance with its risk management policies. Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within “interest and finance costs” or “unrealized foreign exchange loss (gain) on non-current monetary items” in the consolidated statements of net earnings (loss) and total comprehensive income (loss) consistent with the underlying nature and purpose of the derivative instruments.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market risk (interest rate risk and foreign currency risk)

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk, equity price risk and foreign currency risk, affect the fair values of financial assets and liabilities. The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forwards foreign exchange contracts to manage its risks associated with potentially adverse changes in interest rates and foreign exchange rates. These instruments are financial contracts whose values depends on interest rates and foreign currency prices. The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies.

The Company does not hold financial instruments for speculative or trading purposes. The Company elected not to apply hedge accounting to its derivative financial instruments.

Interest rate risk

The Company's borrowing under the Credit Facility are at variable rates of interest and expose the Company to interest rate risk. The Company attempts to mitigate this risk through interest rate swaps that could become materially more expensive if interest rates increase or become more volatile. If the cost of mitigating interest rate increases, the Company's debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net earnings and cash available for servicing its other indebtedness would decrease.

The interest rate swap is subject to interest rate risk. As an illustration, if the interest rates at the Consolidated Statements of Financial Position date had been 100 basis points lower, with all other variable held constant, net loss and comprehensive loss for Fiscal 2020 would have been higher by $17.9 million (Fiscal 2019: $15.3 million), arising mainly as a result of the related fair value adjustment recorded due to lower interest rate. If interest rates had been 100 basis points higher, with all other variables held constant, net loss and comprehensive loss for Fiscal 2020 would have been lower by $17.9 million (Fiscal 2019: $14.8 million), arising mainly as a result of the related fair value adjustment recorded due to higher interest rate.

On February 13, 2019, the Company blended the unrealized gain from the existing swap into a $600 million amortizing notional interest rate swap designed to hedge floating rate exposure on the Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023.

On July 9, 2020, the Company entered into a $200 million amortizing notional interest rate swap designed to hedge floating rate exposure on its Credit Facility. The interest rate swap fixes the interest rate at 0.243% plus applicable margin until July 2025. The swap begins amortizing on December 9, 2022 at a rate of $20 million per annum.

Equity price risk

The Company entered into a total return swap transaction to hedge the exposure associated with increases in its share value on a portion of the outstanding performance share units, restricted share units, and deferred share units. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at December 27, 2020 the Company held a position of 246,136 Shares at a weighted average price of C$30.28. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

Foreign currency risk

The United States dollar is the Company's functional currency. Fluctuations in the exchange rate between the United States dollar, Canadian dollar and GBP will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differ over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars and GBP. This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars and GBP have been historically relatively stable.

During Fiscal 2020, the Company generated a net outflow of Canadian dollars. As a matter of policy, the Company enters into foreign exchange forward contracts to protect the expected net Canadian dollar exposure from exchange fluctuation. The Company recorded a net realized foreign exchange gain of $1.5 million during Fiscal 2020 (Fiscal 2019: gain of $1.0 million). This was comprised of a $3.6 million gain on settlement of foreign exchange contracts and a $2.1 million foreign currency loss on translation of Canadian dollar denominated working capital and dividends.

At December 27, 2020, the Company had $85 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. These foreign exchange contracts range in expiry dates from December 2020 to May 2021. The related asset of $4.5 million (December 29, 2019: $3.7 million liability) is recorded on the consolidated statements of

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings (loss) and total comprehensive income (loss).

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances. As an illustration, at December 27, 2020 if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all variable held constant, net loss for Fiscal 2020 would have been higher by $0.6 million (Fiscal 2019: $3.2 million). Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar, with all other variables held constant, net loss would have been lower by $0.7 million for Fiscal 2020 (Fiscal 2019: $3.9 million).

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At December 27, 2020, the Company had a cash balance of $55.8 million (December 29, 2019: $28.2 million), the $1.063 billion under the Credit Facility due in 2024 (December 29, 2019: $1.056 billion), $65.1 million under the UK Facility due in 2022, and $11.8 million of outstanding letters of credit (December 29, 2019: $12.8 million). In addition, there are $52.1 million of the letters of credit outstanding outside of the Credit Facility. The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. The UK Facility has a total borrowing limit of £50.0 million. The liquidity position as at December 27, 2020 is $233.5 million.

The Company's principal sources of funds are cash generated from its operating activities, share issuances and borrowing capacity remaining under the credit facilities. Management believes these sources of funds together with access to equity markets and other borrowings will provide NFI with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as to provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future.

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at December 27, 2020:

US dollars in thousands	Total	2021	2022	2023	2024	2025	Post 2025
Leases	194,376	22,204	21,040	18,498	13,571	10,083	108,980
Accrued benefit liability	2,911	2,911	—	—	—	—	—
	$ 197,287	$ 25,115	$ 21,040	$ 18,498	$ 13,571	$ 10,083	$ 108,980

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivative financial instruments. Management has assessed that the credit risk associated with accounts receivable is mitigated by the significant proportion for which the counterparties are well-established transit authorities.

Additionally, up to 80% of the capital cost of new transit buses and coaches sold to public transit authorities and municipalities in the United States typically come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable 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. During Fiscal 2020, the Company recorded a bad debt expense of $574 as compared to $177 bad debt expense in Fiscal 2019.

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 consolidated statements of net earnings (loss) and total comprehensive income (loss) within "sales, general and administration costs and other operating expenses". 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 "sales, general and administration costs and other operating expenses":

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	December 27, 2020	December 29, 2019
Current, including holdbacks	$ 380,328	$ 482,476
Past due amounts but not impaired		
1 – 60 days	39,988	37,413
Greater than 60 days	7,081	6,800
Less: Allowance for doubtful accounts	(989)	(284)
Total accounts receivables, net	$ 426,408	$ 526,405

As at December 27, 2020, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

The counterparties to the Company's derivatives are significant 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.

On December 23, 2020, the Company amended its $1.250 billion Credit Facility and its UK Facility (together the "amended facilities"). The amended facilities provide the Company with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. In addition to amending the facilities, the Company terminated the unused Sidecar facility.

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2021 and 2022 have been relaxed. During 2021, the Company has received a waiver of the total net leverage covenant and will instead need to comply with a total net leverage ratio that is based on a financial projection for the Company’s 2021 fiscal period.

Beginning in 2022, the Company will be required to maintain a total net leverage ratio of less than 5.00 to 1 from January 3, 2022 until April 3, 2022; of less than 4.50 to 1 from April 4, 2022 to July 3, 2022; of less than 4.25 to 1 from July 4, 2022 until October 2, 2022; and of less than 3.75 to 1 at all times thereafter.

The Company will also have to comply with a $50 million minimum liquidity covenant at all times until the total net leverage covenant is less than 3.75x, a total net debt to capitalization ratio of less than 0.70:1.00 during 2021, and an interest coverage ratio of at least 2.25x during 2021 and 3.00x beginning in the first quarter 2022. The amended facilities require the dividend payment not exceed the current level.

Adjusted EBITDA is calculated on a rolling last twelve-month basis, provided that for those calculations required on April 4, 2021, the rolling period is calculated as Adjusted EBITDA for the three Fiscal Quarters ending April 4, 2021, December 27, 2020 and September 27, 2020 multiplied by 4/3.

Under the amended facilities the Company has until February 23, 2021 to provide the lenders security on certain of its assets, including a general security agreement on NFI's personal property, but excluding security on real property. The financing security arrangements were put in place on February 19, 2021. The general security agreement is in place until the later of April 3, 2023 or the date on which NFI has delivered two consecutive fiscal quarters with a total leverage ratio at less than 3.75 to 1.

Management believes the Company’s cash position, anticipated future revenues, liquidity from credit facilities together with access to equity markets and other borrowings are sufficient to support current operations, dividends and strategic initiatives.

The calculation of the financial covenants at December 27, 2020 are provided below. As at December 27, 2020, the Company was in compliance with the requirements.

	December 27, 2020	December 29, 2019
Total Leverage Ratio (must be less than 6.25 [2019: 4.25])	4.90	3.24
Interest Coverage Ratio (must be greater than 3.00 [2019: 3.00])	4.11	7.73

US dollars in thousands	**December 27, 2020**
Liquidity Position (must be greater than $50 million)	$ 233,459

Compliance with financial covenants is reported quarterly to the Board. Other than the requirements imposed by borrowing agreements, the Company is not subject to any externally imposed capital requirements. Capital management objectives are reviewed on an annual basis or when strategic capital transactions arise.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(e) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value of the Shares. The capital structure of the Company consists of cash, long-term debt, other long-term liabilities and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity. In order to maintain or adjust its capital structure, the Company may issue additional Shares, repurchase Shares, borrow additional funds or refinance debt at different terms and conditions.

22. SEGMENT INFORMATION

The Company has two reportable segments which are the Company's strategic business units: bus/coach manufacturing operations, medium-duty/cutaway manufacturing operations ("Manufacturing Operations") and Aftermarket Operations. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's President and CEO reviews internal management reports on a monthly basis.

The Manufacturing Operations segment derives its revenue from the manufacture, service and support of new transit buses, coaches, medium-duty and cutaway buses. Based on management's judgment and applying the aggregation criteria in IFRS 8.12, the Company's bus/coach manufacturing operations and medium-duty/cutaway manufacturing operations fall under a single reportable segment. Aggregation of these operating segments is based on the segments having similar economic characteristics with similar long-term average returns, products and services, production methods, distribution, geographic market and regulatory environment.

The Manufacturing Operations segment has recorded vendor rebates of $278 (2019: $413), which have been recognized into earnings during 2020, but for which the full requirements for entitlement to these rebates have not yet been met.

The Aftermarket Operations segment derives its revenue from the sale of aftermarket parts for transit buses and motor coaches and medium-duty and cutaway buses.

There is no inter-segment revenue. Unallocated items in the consolidated earnings before income taxes primarily include unrealized foreign exchange gains or losses, interest and finance costs and corporate overhead costs.

The unallocated total assets of the Company primarily include cash, certain goodwill and intangible assets, derivative financial instruments and deferred income tax assets. Corporate assets that are shared by both operating segments are allocated fully to the Manufacturing Operations segment.

Segment information about profits and assets is as follows:

	Fiscal 2020			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 2,017,729	$ 401,446	—	$ 2,419,175
Operating costs and expenses	2,133,872	349,342	92,053	2,575,267
Earnings (loss) before income tax expense	(116,143)	52,104	(92,053)	(156,092)
Total assets	1,966,973	487,580	301,362	2,755,915
Addition of capital expenditures	24,989	714	—	25,703
Addition of goodwill and intangibles assets	10,413	—	—	10,413
Impairment loss on goodwill	(50,790)	—	—	(50,790)
Indefinite-life intangible assets	248,231	18,968	—	267,199
Goodwill	340,389	189,098	—	529,487

22. SEGMENT INFORMATION (Continued)

	Fiscal 2019			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 2,476,020	$ 417,416	—	2,893,436
Operating costs and expenses	2,350,710	353,805	89,226	2,793,741
Earnings (loss) before income tax expense	125,310	63,611	(89,226)	99,695
Total assets	2,272,684	421,693	261,384	2,955,761
Addition of capital expenditures	36,195	1,380	—	37,575
Addition of goodwill and intangibles assets	250,174	25,674	—	275,848
Indefinite-life intangible assets	246,843	18,746	—	265,589
Goodwill	416,934	151,974	—	568,908

Goodwill and intangible assets related to the acquisition of ADL had been provisionally allocated as at December 29, 2019. Comparative figures have not been restated to reflect final segment purchase price allocation.

The Company's revenue by geography is summarized below:

	Fiscal 2020	Fiscal 2019
North America	$ 1,966,558	$ 2,508,199
UK and Europe	332,512	320,116
Asia Pacific	117,745	63,703
Other	2,360	1,418
Total	$ 2,419,175	$ 2,893,436

The Company's disaggregated manufacturing revenue by major product type is provided below. The Aftermarket operations revenue does not have similarly disaggregated categories.

	Fiscal 2020	Fiscal 2019
Transit buses	$ 1,593,390	$ 1,841,055
Motor coaches	334,421	526,539
Medium-duty and cutaway buses	41,712	49,816
Pre-owned coach	18,424	45,951
Infrastructure solutions	24,714	6,071
Fiberglass reinforced polymer components	5,068	6,588
Manufacturing revenue	$ 2,017,729	$ 2,476,020

The allocation of property, plant and equipment to geographic area is as follows:

	December 27, 2020	December 29, 2019
North America	$ 190,372	$ 224,085
UK and Europe	40,829	43,623
Asia Pacific	949	1,040
Other	—	—
Total	$ 232,150	$ 268,748

23. RELATED PARTY TRANSACTIONS

Compensation of key management

Key management includes the roles of the Board, President and CEO, the CFO, Presidents of each business unit, executive vice presidents and vice presidents. The compensation expense for key management for employee services is shown below:

	Fiscal 2020	Fiscal 2019
Salaries and short-term employee benefits	$ 9,692	$ 8,333
Post-employment benefits	455	414
Share-based payment benefits	3,821	1,433
	$ 13,968	$ 10,180

Share-based payment benefits shown above represent the PSU, RSU, Director RSU, DSU and stock option expense that was recorded in the period.

24. COMMITMENTS AND CONTINGENCIES

(a) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those that may be related to product liability, wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and management does not expect any of the current claims to have a material adverse effect on the Company's financial position, results of operations or cash flows.

(b) Through the normal course of operations, the Company has indemnified the surety companies providing surety bonds required under various contracts with customers. In the event that the Company fails to perform under a contract and the surety companies incur a cost on a surety bond, the Company is obligated to repay the costs incurred in relation to the claim up to the value of the bond.

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at December 27, 2020 range from January 2021 to December 2026.

At December 27, 2020, outstanding surety bonds guaranteed by the Company totaled $357.2 million (December 29, 2019: $384.5 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(c) The Company has a letter of credit sub-facility of $100.0 million as part of the Credit Facility (December 29, 2019: $100.0 million). As at December 27, 2020, letters of credit totaling $11.8 million (December 29, 2019: $12.8 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of £50.0 million. As at December 27, 2020, letters of credit totaling $22.1 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.

As at December 27, 2020, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

25. GUARANTEES

The Company indemnifies its directors and officers against claims and damages that may be incurred in the performance of their services to the Company. Liability insurance has been purchased with respect to the Company's directors and officers.

26. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2020	Fiscal 2019
Employee benefit expense	$ 317,451	$ 445,167
Depreciation of plant and equipment	70,333	61,985
Amortization of intangible assets	40,451	42,585

The expenses listed above are included in cost of sales and sales, general and administration costs and other operating expenses.

27. GOVERNMENT GRANTS

On March 27, 2020, the Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of wages paid to employees during the COVID-19 pandemic.

The claims submitted or expected to be submitted under the CEWS program are $31.9 million for the fiscal period, $9.7 million of which is included in 'Accounts Receivable' on the Company's audited consolidated statement of financial position at December 27, 2020. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CEWS has been recognized as an offset to wage expense ($25.9 million against 'Cost of Sales' and $4.6 million against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's audited consolidated statement of net earnings (loss) and total comprehensive income (loss). An additional $1.4 million was used to reimburse employee vacation credits. The Company will continue to evaluate its eligibility under the CEWS program in subsequent periods.

On March 26, 2020, the Coronavirus Job Retention Scheme ("CJRS") program was introduced by the Government of the United Kingdom, reimbursing employers who have been unable to maintain their workforce as a result of COVID-19's impact on operations for a portion of wages paid to furloughed employees.

The claims submitted under the CJRS program are $23.0 million for the fiscal period, $1.0 million of which is included in 'Accounts Receivable' on the Company's audited consolidated statement of financial position at December 27, 2020. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CJRS has been recognized as an offset to wage expense ($20.8 million against 'Cost of Sales' and $2.2 million against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's audited consolidated statement of net earnings (loss) and total comprehensive income (loss). The Company will continue to evaluate its eligibility under the CJRS program in subsequent periods.

28. RESTRUCTURING

On July 27, 2020, the Company announced the NFI Forward restructuring initiative ("NFI Forward"). NFI Forward is a transformational initiative expected to generate cost savings by the end of fiscal 2022. These cost reduction initiatives are expected to come from a reduced number of business units, facility rationalization, reduced overhead and a more efficient and integrated company. The items included in net income (loss) for NFI Forward are as follows:

		Fiscal 2020
Employee termination benefits (note 14)	$	18,701
Right-of-use asset impairments (note 6)		3,597
Write-down of inventory to net realizable value (note 4)		1,849
Write-down of property, plant and equipment (note 5)		1,728
Other		568
Total restructuring costs	$	26,443

29. SUBSEQUENT EVENT

On February 3, 2021, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), pursuant to which the Company will issue from treasury, and the Underwriters will purchase on a bought deal basis, 8,446,000 common shares at a price of C$29.60 per share for gross proceeds to the Company of C$250.0 million. The Offering was completed on March 1, 2021.

30. COMPARATIVE FIGURES

Certain comparative figures have been restated where necessary to conform with current period presentation.