NFI GROUP

Second Quarter 2020 Financial Report

August 6, 2020

NOTES TO READERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS, 26-WEEKS AND 52-WEEKS ENDED JUNE 28, 2020

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's unaudited consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period, the 26-week period and the 52-week period ended June 28, 2020.

This MD&A contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. See "Forward-looking Statements" in Appendix A. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the public filings of NFI available on SEDAR at www.sedar.com. 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

Specific references and definitions are used throughout this MD&A, please see "Meaning of Certain References" and "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings per Share, and Regions including: North America, UK and Europe, Asia Pacific and Other" in Appendix 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 "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 ratios in which they are used.

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

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

A LEADING INDEPENDENT GLOBAL BUS AND COACH MANUFACTURER

NFI GROUP

NEW FLYER

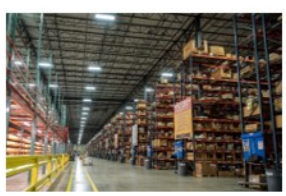
MCI

ARBOC

ALEXANDER DENNIS

PLAXTON

nfi.parts



2020 Q2 LTM Highlights (US $)

$2.7 billion
Revenue

5,060
EUs Delivered

4,031
EUs in New Orders

$213 million
Adjusted EBITDA(1)

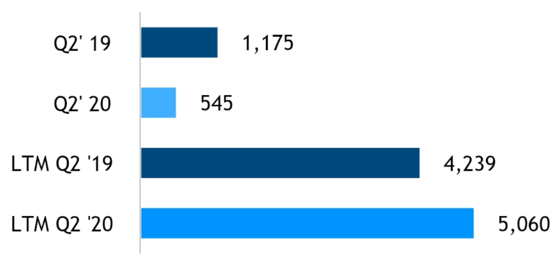
$58 million
Free Cash Flow(1)

$4.9 billion
Ending Backlog of 10,004 EUs

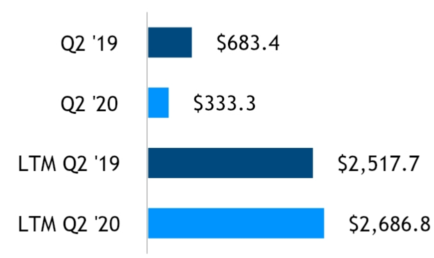
KEY PERFORMANCE INDICATORS

The COVID-19 pandemic had a dramatic impact on NFI's financial results for 2020 Q2 resulting in significant declines in revenue, gross margin, earnings (loss) from operations, Adjusted EBITDA, Net earnings (loss), Adjusted Net Earnings (Loss) and Free Cash Flow on a year-over-year basis. The impact of the pandemic is reflected throughout this MD&A and in the accompanying financial statements.

Deliveries (EUs)



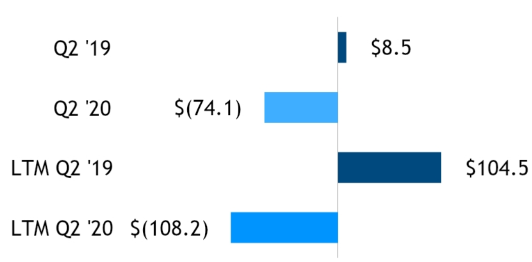
Revenue ($ millions)



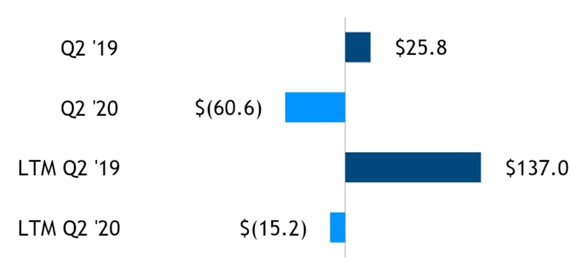
The decrease in deliveries from 2019 Q2 to 2020 Q2 was related to lower production volumes as a result of the temporary idling of production facilities due to the COVID-19 pandemic. Deliveries were down across all product lines and were especially impacted in the private businesses of MCI and ADL. On an LTM ("last twelve months") basis, deliveries were up by 821 EUs, due to record fourth quarter 2019 deliveries and the acquisition of ADL, offset by significantly lower deliveries during 2020 Q2.

Revenue decreased by 51% from 2019 Q2 to 2020 Q2 due to the drastic decrease in vehicle deliveries and production volumes as a result of temporary idling of production facilities. Aftermarket parts sales were also lower primarily from private operators idling their fleets due to the COVID-19 pandemic and reduced transit services activity. The increase of 6.7% on a LTM basis was driven by the acquisition of ADL and higher 2019 Q4 deliveries, offset by the impacts of COVID-19 on 2020 Q2 revenue.

Net earnings (loss) ($ millions)



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

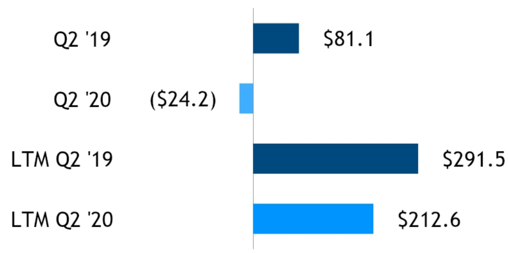


2020 Q2 Net loss of $74.1 million, a change of $82.6 million from 2019 Q2, driven by lower revenues from the temporary idling of production facilities for most of the quarter due to COVID-19. While the Company was able to lower its direct variable costs it continued to incur fixed overhead and sales, general and administration ("SG&A") costs, and also incurred incremental, non-recurring expenses related to COVID-19. Overall losses from operations were partially offset by government grants of $26.3 million received through the Canadian Emergency Wage Subsidy ("CEWS") and the UK Job Retention ("UK Furlough") programs. The Company used $5.4 million of the $26.3 million in grants to provide retroactive pay to previously idled employees, resulting in a positive net impact of $20.9 million. Also offsetting the significant decrease in earnings from operations were lower interest expenses and a tax recovery in 2020 Q2 compared to a tax expense in 2019 Q2.

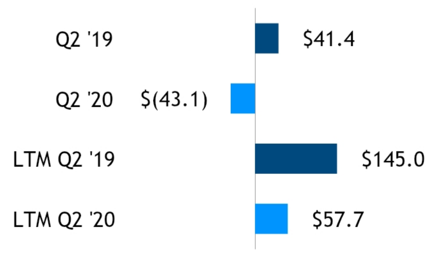
The 2020 Q2 LTM Net loss of $108.2 million was primarily driven by the loss incurred in 2020 Q2 plus a loss in 2020 Q1, which was driven by a $50.8 million goodwill impairment in the Company's MCI business unit. The goodwill impairment was primarily caused by near-term cash flow impacts from COVID-19, as management believes MCI's longer-term cash flows are consistent with those forecasted prior to the pandemic.

Second quarter 2020 Adjusted Net Earnings (Loss) of ($60.6) million was primarily driven by the same impacts as Net loss, including a loss from operations. Adjusted Net Earnings (Loss) is adjusted for $12.1 million in one-time, non-recurring charges related to COVID-19, including $10.4 million in lower of cost or net realizable value adjustments on the Company's pre-owned coaches held within its MCI and ADL business units. 2020 Q2 LTM Adjusted Earnings (Loss) is normalized for the above noted one-time, non-recurring charges related to COVID-19 plus a $50.8 million goodwill impairment, $14.8 million of tax affected mark-to-market losses on interest rate swaps and $12.3 million in fair market value adjustments related to the acquired inventory assets of ADL.

Adjusted EBITDA[1] ($ millions)



Free Cash Flow[1] ($ millions)

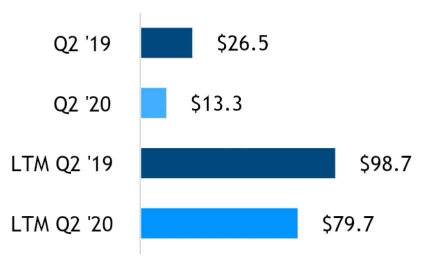


Second quarter 2020 Adjusted EBITDA decreased by $105.3 million, or 130%, driven by the Company's decrease in deliveries and aftermarket revenue due to the COVID-19 pandemic. While the Company was able to lower its variable direct costs in step with production, it continued to incur fixed overhead and SG&A costs, that were only somewhat offset by the CEWS and UK Furlough schemes.

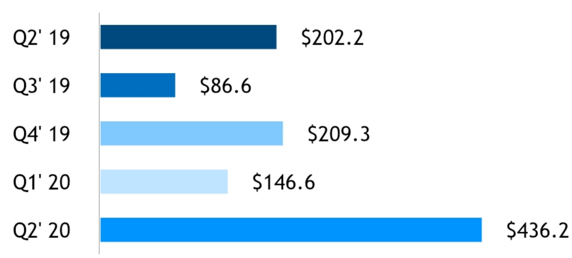
On an LTM basis Adjusted EBITDA decreased by $78.9 million, or 27%, as record fourth quarter 2019 deliveries and the acquisition of ADL were offset by significantly lower deliveries and aftermarket revenue during 2020 Q2 plus higher SG&A costs from the addition of ADL. 2020 Q2 Adjusted EBITDA was also helped by lower corporate expenses from decreased incentive and bonus costs.

Free cash flow in 2020 Q2 decreased by $84.5 million, or 204%, when compared to 2019 Q2, primarily due to lower Adjusted EBITDA, and higher cash interest expenses. These were somewhat offset by lower cash taxes and cash capital expenses. On an LTM basis Free Cash Flow decreased by 60%, as lower Adjusted EBITDA and higher interest and cash taxes were offset by lower cash capital expenditures.

Declared dividends ($CAD millions)



Total Liquidity

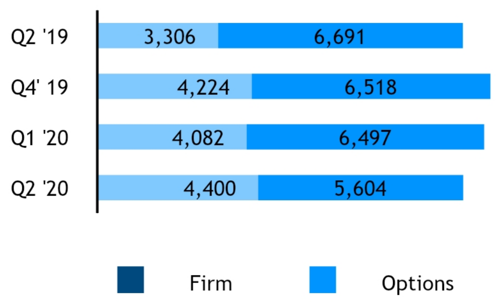


2020 Q2 declared dividends decreased by 50% as a result of the Board of Directors ("Board") reducing the Company's quarterly dividend, starting with the period January 1 to March 31, 2020, to C$0.2125 per common share in direct response to the impact of COVID-19 on the Company's operating businesses and end markets. While the dividend payment was reduced, the continued payment reflects the Board's confidence in the Company's business while maintaining the financial flexibility required to operate during a period of significant uncertainty. On an LTM basis dividends are down 19.3%, also driven by the first and second quarter reduction.

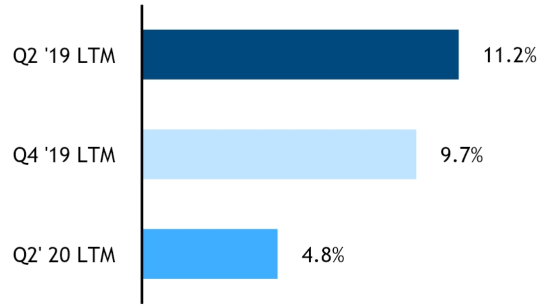
The Company's liquidity position, which combines cash on-hand plus available capacity under credit facilities, as at June 28, 2020 was $436.2 million. During the quarter NFI Group announced that it obtained covenant relief under the Company's existing $1.25 billion unsecured senior credit facility and entered into a new, additional $250 million unsecured, one-year liquidity facility (the "Sidecar"). The Sidecar can be used for general corporate purposes, thereby providing additional liquidity and flexibility should it be required. In addition, on May 1, 2020 the Company and its UK subsidiary, NFI International Limited, entered into a new strategic £50 million unsecured facility (the "UK Facility"). Management expects the UK Facility may lower interest expenses and withholding tax exposure over time as it allows the Company to better manage international transactions and borrowings for ADL's operations. Based on the Company's financial position and anticipated cash flow generation the Company expects to maintain its current dividend rate and does not expect to utilize the incremental sidecar credit facility.

Further details on the facilities and the Company's covenants can be found on page 27 of this MD&A.

Backlog (EUs)



ROIC[1]



At the end of 2020 Q2, the Company's total backlog (firm and options) of 10,004 EUs (valued at $4.9 billion) has decreased compared to 10,579 EUs (valued at $5.1 billion) at the end of 2020 Q1. The decrease was primarily driven by lower new orders during the period as new contract awards were delayed due to the COVID-19 pandemic. Active bids increased by 34.4% from 2020 Q1 to 2020 Q2 due to the delayed order activity. Backlog was also impacted by the expiry of 492 option EUs.

2020 Q2 LTM ROIC decreased 6.4% from 2019 Q2 LTM due to declines in Adjusted EBITDA, combined together with one-time non-recurring lower of cost or net realizable value adjustments on the Company's pre-owned coaches, learning curve at the Company's new parts fabrication facility, KMG, in the second half of 2019 plus higher invested capital related to the acquisition of ADL and elevated working capital from higher inventory balances within the MCI and ADL business units due to COVID-19. In addition, ROIC was also negatively impacted by accounting adjustments related to the ADL acquisition.

Footnotes

1. Non-IFRS Measure - See Appendix A

2020 Q2 REVIEW

The COVID-19 pandemic has resulted in an unprecedented global crisis impacting economies around the world including all of NFI's end markets and nearly every supplier partner. As governments in North America and international markets increased restrictions and issued various orders to slow the spread of the virus including, lockdowns, travel restrictions and border closures NFI prioritized the health and safety of its team members by idling the majority of its new vehicle production facilities. The idling was initially planned for a two-week period in April, which was then extended into May 2020, resulting in NFI effectively losing two months of production. ADL's UK facilities extended their idling into June to match with government mandates and market demand. While most of the Company's production staff were furloughed and not working within a facility, many of NFI's team members continued to work remotely on various projects, respond to active procurements and execute strategic initiatives.

In May, NFI began the process of a phased restart of operations on a site-by-site basis taking into account all government mandates and health and safety provisions. The Company's primary focus throughout the reopening was the health and safety of its employees. To provide guidance during the restart NFI shared a Safe Return to Work Protocol with all employees to provide foundational practices and local region health, government, manufacturing and operational guidance.

By the end of the second quarter all of the Company's North American manufacturing operations, including its supply operations, had resumed, albeit at lower production levels than pre-COVID-19 run rates. In the UK, manufacturing facilities resumed slightly later than originally planned, but had restarted before the end of June. ADL's third-party production partners in Asia resumed full operations in April. Additional details on the Company's production restart is discussed in the Outlook section of this MD&A.

In response to the dramatic impact of COVID-19 the Company focused on cash conservation and cost reduction through a variety of initiatives during 2020 Q2, including hiring freezes, suspension of salary increases and 2019 earned executive incentive bonuses, decreased operating and capital expenditures, delays of several projects, increased focus on working capital management and temporary reductions in senior leadership salaries and Board director fees. In addition to these various measures, the Board also reduced the Company's quarterly dividend from $0.425 per Share to C$0.2125 per Share. While the dividend payment was reduced, based on the Company's financial position and anticipated cash flow generation the Company expects to maintain its current dividend rate.

With a focus on enhancing liquidity during the quarter the Company worked closely with its banking partners to obtain covenant relief under the Company's existing $1.25 billion unsecured credit facility and entered into two additional credit facilities, the new $250 million Sidecar facility and a new £50 million unsecured, revolving credit facility (the "UK facility"). These combined facilities provide NFI with additional liquidity and flexibility to navigate through the COVID-19 pandemic and the subsequent economic recovery. The terms of the credit facilities do not restrict the payment of dividends, provided the Company is in compliance with the covenants under the facilities and the dividend payments remain at the current level. Covenants are discussed in detail on page 27 of this MD&A.

As a direct result of the COVID-19 pandemic the Company incurred several one-time costs related to additional purchases of personal protective equipment, facility refurbishments and lower of cost or market reductions to pre-owned coach inventory and accounts receivable. These one-time costs have been normalized within Adjusted EBITDA and Adjusted Net Earnings. These adjustments include:

- $1.7 million COVID-19 related charges, excluding one-time lower of cost or market reductions
- $10.4 million in pre-owned coach one-time lower of cost or net realizable value reductions related to COVID-19's impact on the private coach market

In addition, Adjusted Net Earnings are normalized for other non-COVID-19 related items including:

- $0.9 million mark-to-market loss on interest rate swap
- $0.4 million fair market value adjustment on total return swap

After adjusting for these items, Adjusted Net Earnings is ($60.6) million or ($0.97) per share.

While the global pandemic dramatically challenged NFI's 2020 Q2 results, there were several positives during the quarter including:

- The Company saw continued strong orders during the quarter, even with the challenges of COVID-19, and recorded total new orders of 491 EUs which includes NJ TRANSIT's purchase order for 334 new MCI D4500 Commuter Coaches and Miami-Dade Transit's order for 140 Xcelsior® compressed natural gas ("CNG") forty-foot, heavy-duty transit buses.
- The 2020 Q2 Canada and U.S. active public Bid Universe continued to grow with active bids up by 3,189 EUs compared to 2019 Q2 and 1,883 EUs compared to 2020 Q1, representing an increase of 77% and 34%, respectively. See Appendix B for further details.
- The Company continued to realize upon its strategy to be the leader in zero-emission, battery-electric buses ("ZEBs") and coaches. During the quarter New Flyer was named as a partner of choice by 12 major transit agencies across America for successful project awards through the Federal Transit Administration's ("FTA") Low or No Emission ("Low-No") Grant Program. In addition, MCI received an order for 25 electric coaches, its first EV order, from the Antelope Valley Transit Authority.
- ADL launched a vision for the transformation of buses in the United Kingdom which could see at least 10,000 new low, ultra low and zero emission buses in service over the next four years. The first of these vehicles could be on the road before the end of

2020 to maintain the benefits of lower pollution and better air quality towns and cities have experienced during the COVID-19 lockdown.

- In April, NFI Parts launched its Clean and Protect product offering to increase the onboard safety and cleanliness for its motor coach and public transportation customers. NFI Parts also released a white paper guide to assist transit and motor coach service operators navigate re-starting or ramping up business while concerns about the spread of COVID-19 remain.

- NFI launched its second ever Environmental, Social and Governance Report providing detailed information on the Company's sustainability goals and drive to build better products in better facilities while being responsible to its employees, communities, and environment, with solid governance oversight.

- In June, the Company announced that Colin Robertson, CEO of ADL, will step down from his current role on September 30, 2020 and transition to a non-executive director and Vice Chair role on NFI's Board. Following NFI's acquisition of ADL in May 2019, Mr. Robertson agreed to remain with the company for one-year, which has now been extended to September 30, 2020 in order to allow for an orderly transition and seamless handover. Mr. Robertson will be succeeded by Paul Davies, as ADL's new President & Managing Director. Mr. Davies has been with ADL since 1997 and has led ADL's long-term profitable growth in the Asia Pacific region for the past 20 years.

- As the Company focused on cash flow generation and working capital improvement in response to COVID-19, NFI generated approximately $100 million in positive working capital improvement during April and May following approximately $100 million working capital invested to resume operations at the Company's manufacturing facilities in May and June. The Company generated approximately $100 million in positive working capital from the accelerated collection of receivables, completion and delivery of work in process ("WIP") and reduction in overall inventory. As operations resumed in late May and through June the Company required a significant working capital investment to settle payments with suppliers and rebuild an inventory of vehicles and raw materials.

- On July 27, NFI announced a transformational initiative, "NFI Forward", that is expected to generate more than $75 million in annualized 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. While many projects were originally slated to begin in 2020, to assist in mitigating the impacts of COVID-19 the Company is now accelerating and extending NFI Forward's execution. Details on NFI Forward can be found on page 13 of this MD&A.

FINANCIAL RESULTS

The COVID-19 pandemic had a significant negative impact on NFI's 2020 Q2 results across all financial metrics, including the Company's deliveries, which declined by 630 EUs, or 53.6%, from 2019 Q2 to 2020 Q2. The decrease was experienced in all of NFI's product lines, but the most significantly impacted were the private coach segments of MCI and ADL. Private market activity declined as operators idled their vehicles in response to government travel restrictions, social distancing and self-isolation rulings.

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

Deliveries (unaudited, EUs)	2020 Q2	2019 Q2	% Change	2020 Q2 LTM	2019 Q2 LTM	% Change
Transit buses	420	839	*(49.9)%*	3,776	2,903	*30.1 %*
Motor coaches	52	241	*(78.4)%*	886	937	*(5.4)%*
Medium-duty and cutaway	73	95	*(23.2)%*	398	399	*(0.3)%*
New Vehicle Deliveries	545	1,175	*(53.6)%*	5,060	4,239	*19.4 %*
Pre-owned coach	23	92	*(75.0)%*	382	477	*(19.9)%*

Revenue (unaudited, dollars in millions)	2020 Q2	2019 Q2	% Change	2020 Q2 LTM	2019 Q2 LTM	% Change
Transit buses	$ 210.5	$ 440.5	*(52.2)%*	$ 1,716.4	1,570.6	*9.3 %*
Motor coaches	29.8	119.4	*(75.0)%*	452.8	482.4	*(6.1)%*
Medium-duty	6.5	10.6	*(38.7)%*	54.0	38.4	*40.6 %*
Total new transit bus, coach and cutaway revenue	**$ 246.8**	**$ 570.5**	***(56.7)%***	**$ 2,223.2**	**$ 2,091.4**	***6.3 %***
Pre-owned coach revenue	0.8	10.9	*(92.7)%*	31.9	47.3	*(32.6)%*
Fiberglass reinforced polymer components	0.9	1.6	*(43.8)%*	5.1	9.4	*(45.7)%*
Manufacturing Revenue	**$ 248.6**	**$ 583.0**	***(57.4)%***	$ 2,260.3	$ 2,148.1	***5.2 %***
Aftermarket	84.7	100.3	*(15.6)%*	426.5	369.6	*15.4 %*
Total Revenue	**$ 333.3**	**$ 683.4**	***(51.2)%***	**$ 2,686.7**	**$ 2,517.7**	*6.7 %*
North America	288.2	641.4	*(55.1)%*	2,194.0	2,475.7	*(11.4)%*
United Kingdom and Europe	33.1	38.2	*(13.4)%*	414.3	38.2	*984.6 %*
Asia Pacific	11.7	3.4	*244.1 %*	76.3	3.4	*2,144.1 %*
Other	0.4	0.3	*33.3 %*	2.2	0.3	*633.3 %*

Manufacturing revenue for 2020 Q2 decreased by $334.5 million, or 57.4%, compared to 2019 Q2. The decrease is primarily driven by the impact of lower deliveries and production volumes from the temporary idling of production facilities for the majority of the quarter as a result of the COVID-19 pandemic. Pre-owned coach sales were also significantly lower as there was a significant decline in demand for those vehicles as the majority of North American and UK private coach operators idled operations during the quarter.

Revenue from Aftermarket operations in 2020 Q2 decreased by $15.5 million, or 15.6% compared to 2019 Q2. The decline in revenue was driven by lower private parts volumes within both the NFI parts and ADL parts businesses.

Adjusted EBITDA[2] (unaudited, dollars in millions)	2020 Q2	2019 Q2[1]	% Change	2020 Q2 LTM[1]	2019 Q2 LTM[1]	% Change
Manufacturing	(32.4)	61.9	*(152.3)%*	150.3	242.8	*(38.1)%*
Aftermarket	12.1	21.9	*(44.7)%*	67.8	74.4	*(8.9)%*
Corporate	(3.9)	(2.7)	*(44.4)%*	(5.5)	(25.6)	*78.5 %*
Total Adjusted EBITDA	**($24.2)**	**$81.1**	***(129.8)%***	**$212.6**	**$291.6**	***(27.1)%***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	(13.0)%	10.6%	*(23.6)%*	6.6%	11.0%	*(4.4)%*
Aftermarket	14.3 %	21.8%	*(7.5)%*	15.9%	20.2%	*(4.3)%*
Total	**(7.0)%**	**11.9%**	***(18.9)%***	**7.9%**	**11.4%**	***(3.5)%***

[1] Amounts were restated to reallocate Adjusted EBITDA for corporate activities. Previously all amounts related to corporate activities were included within the Manufacturing and Aftermarket segments.

Net Earnings (Loss) (unaudited, dollars in millions, except per Share amounts)	2020 Q2	2019 Q2[1]	% Change	2020 Q2 LTM[1]	2019 Q2 LTM[1]	% Change
Manufacturing	(57.9)	32.2	*(279.8)%*	(63.1)	151.3	*(141.7)%*
Aftermarket	5.3	15.7	*(66.2)%*	43.2	67.8	*(36.3)%*
Corporate	(21.4)	(39.4)	*45.7 %*	(88.3)	(114.6)	*22.9 %*
Net earnings (Loss)	**$ (74.1)**	$ 8.5	***(971.8)%***	**$ (108.2)**	$ 104.5	***(203.5)%***
Adjusted Net Earnings (Loss)[2]	(60.6)	25.8	*(334.9)%*	(15.2)	137.0	*(111.1)%*
Net earnings (Loss) Per Share	(1.18)	0.14	*(942.9)%*	(1.73)	1.68	*(203.0)%*
Adjusted Earnings (Loss) Per Share[2]	(0.97)	0.55	*(276.4)%*	$ (0.24)	$ 2.21	*(116.7)%*

[1] Amounts were restated to reallocate Adjusted EBITDA for corporate activities. Previously all amounts related to corporate activities were included within the Manufacturing and Aftermarket segments.

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

2020 Q2 Manufacturing Adjusted EBITDA decreased by $94.3 million, or 152.3%. While the Company was able to lower its variable direct costs in step with the decrease in quarterly deliveries, it continued to incur fixed overhead and SG&A expenses. The combination of these factors led to the decline in Adjusted EBITDA. Manufacturing 2020 Q2 net earnings decreased by $90.1 million, or 279.8% due to the same items that impacted Adjusted EBITDA, plus $12.1 million in one-time, non-recurring costs related to COVID-19, including a $10.4 million charge from lower of cost or net realizable value adjustments on the Company's pre-owned coaches held within its MCI and ADL business units.

2020 Q2 Aftermarket Adjusted EBITDA decreased by $9.8 million, or 44.7%. The reduction was driven by lower revenue, decreased margins from NFI Parts product mix and consistent fixed SG&A costs on a lower revenue base. Aftermarket 2020 Q2 net earnings decreased by $10.4 million, or 66.2%. The decrease was driven by the decline in Adjusted EBITDA due to COVID-19, combined with higher depreciation and amortization.

Corporate Adjusted EBITDA decreased by $1.2 million, or 44.4%, as lower long- and short-term incentive plan payments were offset by higher realized foreign exchange losses. Corporate expenses, included in the calculation of net earnings, decreased by $26.3 million, or 22.9%, primarily due to lower incentive payment plan accruals, lower interest costs and lower income taxes as the Company had an income tax recovery during the quarter.

Free Cash Flow[2] (unaudited, dollars in millions, except Per share amounts)	2020 Q2	2019 Q2	% Change	2020 Q2 LTM	2019 Q2 LTM	% Change
Free Cash Flow	$ (43.1)	$ 41.4	*(204.1)%*	$ 57.7	$ 145.0	*(60.2)%*
Free Cash Flow (CAD dollars)	(58.9)	54.2	*(208.7)%*	74.8	192.6	*(61.2)%*
Declared Dividends (CAD dollars)	13.3	26.5	*(49.8)%*	79.7	98.7	*(19.3)%*
Free Cash Flow per Share (CAD dollars)	$ (0.94)	$ 0.88	*(206.8)%*	$ 3.02	$ 3.09	*(2.3)%*
Dividends per Share (CAD dollars)	$ 0.21	$ 0.43	*(51.2)%*	$ 1.28	$ 1.58	*(19.0)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow	(22.6)%	48.9%	*(71.5)%*	106.6%	51.2%	*55.4 %*

Free cash flow in 2020 Q2 decreased by $84.5 million, or 204.1%, when compared to 2019 Q2, primarily due to lower Adjusted EBITDA, and higher cash interest expenses, offset by lower cash capital expenses and an income tax recovery. 2020 Q2 declared dividends decreased by 51% as a result of the Board reducing the Company’s quarterly dividend, starting with the period of January 1 to March 31, 2020, to C$0.2125 per common share in direct response to the impact of COVID-19 on the Company's end markets and operating businesses.

OUTLOOK

The COVID-19 pandemic has significantly impacted all of NFI's end-markets and manufacturing operations. Starting in late March 2020, as the virus began to spread and governments in North America and international markets increased restrictions, closed borders and mandated self-isolations, transit ridership drastically declined, UK and North American private coach operators idled vehicles and there was an associated decrease in demand for aftermarket parts.

NFI proactively responded to the impacts of COVID-19 by temporary idling its manufacturing facilities and implemented a variety of measures to reduce costs and improve cash flow and liquidity. From mid-May through June, NFI restarted production facilities and resumed operations on a phased site-by-site basis, but effectively lost two months of production in the quarter. All of NFI's facilities have now reopened. As some public customer orders have been deferred or delayed, manufacturing resumed at lower levels to match contracted orders and anticipated backlog option conversion for 2020 and 2021. Private segment production at both MCI and ADL are not expected to reach pre-COVID-19 levels until at least 2021.

NFI's end markets recovery from COVID-19 are expected to be dependent on several factors, including government support, COVID-19 case rates, travel restrictions and economic reopening activity. These factors will differ by product line and geography. The Company's vehicles (New Flyer, ARBOC, MCI public coach, ADL) are primarily used for public transit, which remains a critical method of transportation for millions of users 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 recovery from COVID-19 may delay vehicle awards and delivery timing. Management's recovery expectations are supported by the Company's North American Bid Universe which has seen a 34.4% increase in active bids from the first quarter of 2020 and a 76.7% increase from 2019 Q2 with continued demand in its five-year outlook. Some of the improvement in active bids and longer-term demand has been driven by COVID-19 delaying vehicle awards in the first half of 2020.

Government support for transit operations remains very high within the United States and Canada. Governments have committed billions in funding to transit agencies to support them through the difficult COVID-19 period, as operational budgets have been significantly challenged. While there has been significant short-term funding focused on operational matters there have also been positive steps related to longer-term capital funding. In June 2020, the U.S. Government's House Transportation and Infrastructure Committee approved The Investing in a New Vision for the Environment and Surface Transportation in America Act ("INVEST in America"). INVEST in America is a new $494 billion, five-year act aimed at providing significant funds for investments in highways, bridges and public transit systems, including bus rolling stock and infrastructure. The bill has a specific focus on reducing the carbon footprint in the U.S. and supporting the transition to electrified mass transit, including $1.7 billion in zero emission bus grants, a five-fold increase from the previous FAST Act. Invest in America is also a five-year act which provides transit agencies with longer-term visibility as they execute on their capital plans. While the INVEST in America Act has not yet been passed by Congress, management believes this initial committee approval is a positive step.

On July 16, 2020 the Canadian government announced the Safe Restart Agreement, providing financial support for the public transit industry of 50% of COVID-19 related operating costs up to $2 billion, plus $1.33 billion of additional funding dependent on provincial match. This unprecedented Canadian federal support for public transit is in addition to the $28.7 billion dedicated to transit projects included in the Investing in Canada Plan.

Management expects that ADL's UK transit business will recover slowly from the COVID-19 pandemic as deliveries originally planned for 2020 are delayed. ADL had originally forecasted record revenue for Fiscal 2020, driven by increased UK market activity following several years of lower capital investments by operators. Management expects there will be improvement in Fiscal 2021, but the speed and depth of the recovery will depend upon government support for new vehicle purchases. In February 2020, the UK government launched a National Bus Strategy with £5.1 billion in funding to upgrade bus and cycling links for regions outside of London, including the procurement of 4,000 zero-emission buses. These funds could drive significant demand for ADL's products if they are released to UK operators. Asian Pacific markets have begun to recover from COVID-19 and deliveries have resumed within Hong Kong, Singapore and New Zealand, although the second quarter of 2020 did see some delays due to COVID-19 related travel restrictions.

In addition to government support, mobility data from Google, Apple and Moovit suggests that, US, Canadian and United Kingdom transit ridership has started to recover, as COVID-19 restrictions are lifted and agencies and operators institute protocols and procedures for sanitization and social distancing. Ridership levels remain at 50% of pre-COVID-19 levels, but the improvement aligns with management's belief that transit will recover and be a critical driver of economic recovery in multiple jurisdictions.

The movement to battery or fuel cell electric buses continues to be a key trend across NFI's various markets and there is potential that the recovery from COVID-19 may accelerate this transition. NFI is the leader in North America and the UK for ZEBs and would benefit from an increased acceleration to ZEBs. Right now, ZEBs make up 9.7% of NFI's backlog, up from 4% at the end of 2019 Q2, and make up 26% of the Company's total Bid Universe. New Flyer can manufacture ZEBs at all of its facilities, ADL has delivered the most ZEBs in the UK, MCI is now selling its innovative battery-electric coach and the electric Equess is nearly ready for testing.

The Company's private motor coach business, which represents approximately 12% of consolidated revenue and an even lower percentage of net earnings, will be negatively affected by the impact of COVID-19 during 2020 and 2021. The American Bus Association reported that second quarter 2020 private motor coach deliveries were down 94% from the same period in 2019 and pre-owned coach deliveries were down by 77%. The Company has responded to this decrease in market activity by taking numerous measures to remove costs from this segment of its operations, including permanent layoffs and a decrease in production levels. In an effort to level set MCI's cost structure management launched "NFI Forward" in July 2020. Further details are explained below under the heading "NFI Forward."

Within the aftermarket segment, management continues to expect demand for heavy-duty transit parts as transit operators in North America and international markets complete regular fleet maintenance and invest in additional products to clean and protect vehicles. NFI services a large fleet of active essential service transit vehicles providing management with greater visibility and a generally recurring revenue stream. The private component of the aftermarket business, which is primarily MCI and ADL coaches, will be negatively impacted by operators idling their vehicles. The private component of the parts business represents approximately 30% of that segment's revenues. Management expects that those parts sales will recover as businesses reopen and leisure and business travel resumes, but this improvement will likely occur in late 2020 and beyond.

2020 Financial Guidance

With the release of its Fiscal 2019 results the Company introduced Adjusted EBITDA guidance for Fiscal 2020 that suggested record revenue and Adjusted EBITDA performance. As the COVID-19 pandemic created significant uncertainty on 2020 operations and financial results, management made the decision to withdraw its guidance in April 2020. As management now has greater visibility it is now reintroducing Adjusted EBITDA guidance for Fiscal 2020. Based on the Company's contractually obligated vehicle sales, updated production schedule, expected private market deliveries and anticipated aftermarket sales, management expects NFI will deliver Adjusted EBITDA of $145 million to $155 million for Fiscal 2020, which would represent $113 million to $123 million during the second half of 2020.

Management expects deliveries and financial results for the third and fourth quarters of 2020 will continue to be impacted by the pandemic and any associated recovery, with results during those periods being lower than the same periods in 2019. The fourth quarter of the year is typically NFI's busiest period driven by private market deliveries within MCI and ADL's private market businesses, as management expects a significant decrease in private deliveries, the fourth quarter of 2020 is expected to be a materially slower period when compared to 2019 Q4.

Based on expenditures made to date and the Company's lower anticipated expenditures for the remainder of 2020, management now expects Property, Plant and Equipment ("PPE") expenditures to be approximately $25 million for Fiscal 2020, primarily driven by maintenance capital. Management has withdrawn its adjusted effective tax rate ("ETR") guidance for 2020 due to the uncertainty created by COVID-19. Throughout this MD&A the Company has utilized a rate of 31% for balances that are tax effected.

The Company has implemented a robust risk management process to ensure the health and safety of its team members and continued access to material supply inputs, but the ongoing nature of the pandemic may adversely impact NFI's results in the future.

NFI Forward

On July 27, NFI announced a transformational initiative, "NFI Forward", that is expected to generate more than $75 million in annualized 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.

NFI has grown through a balanced combination of organic growth and strategic acquisitions. Since 2010, the Company has made eight acquisitions that have generated significant synergies and management has identified additional opportunities to remove overhead costs. Management's strategic plan developed prior to COVID-19, set out an aggressive vision to transform NFI by pivoting from a holding company to an integrated operating business.

NFI Forward aims to improve NFI's competitive positioning, drive sales recovery and growth, streamline operations and create a more efficient organization. While many projects were originally slated to begin in 2020, to assist in mitigating the impacts of COVID-19 the Company is now accelerating and extending NFI Forward's execution.

Specifically, NFI Forward includes the following projects:

Optimize capacity and consolidate operations
  - Combine the New Flyer and MCI business units into one North American bus and coach business;
  - Integrate and standardize all NFI part fabrication capabilities (including Carfair and KMG);
  - Consolidate NFI Parts and the North American parts business of Alexander Dennis into one aftermarket parts company, allowing for the reduction of certain warehouse and stocking locations and providing enhanced opportunity for freight savings.

- **Rationalize facilities**
  - Restructure at ADL's UK manufacturing sites to become leaner and more efficient, with a corresponding expected overhead and headcount reduction across the wider ADL business;
  - Launch a dedicated team to assess the capacity and costs of all NFI's North America facilities with a plan to commence rationalizing certain facilities starting in 2021.

- **Drive operational excellence**
  - Streamline administrative and back-office functions into an integrated shared services model;
  - Formalize a Company-wide strategic sourcing program to leverage purchasing scale and optimize product designs across vehicle models and supply chains.

The program is a combination of numerous initiatives that will drive $65.0 million in annual Adjusted EBITDA savings plus an additional $10.0 million in annualized Free Cash Flow savings, driven by interest savings and lower lease payments. The annual impact from cost savings in Adjusted EBITDA will be recorded in the following categories:

- $20.0 million in business unit SG&A driven by organizational structure changes and efficiencies at the business unit level
- $5.0 million in centralized functional transformation activities included in SG&A
- $20.0 million in manufacturing overhead (a component of cost of sales) reduction from facility closures and distribution center reductions
- $20.0 million in production material costs savings (a component of cost of sales)

In aggregate, NFI Forward is expected to deliver an 8% to 10% reduction to both manufacturing overhead and SG&A expenses.

A dedicated team of senior leaders and key personnel lead by Ian Smart, now NFI Executive Vice President ("EVP"), Business Transformation (former MCI President and previous EVP New Flyer Parts), will implement and execute all NFI Forward projects. Earlier in his career, Ian managed the StandardAero business transformation team as part of the significant and successful privatization of Kelly Air Force Base located in San Antonio, TX, a major U.S. Air Logistics Center.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

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

Fiscal Period	Quarter		Revenue		Earnings (loss) from Operations		Net earnings (loss)		Adjusted EBITDA[(1)]		Earnings (loss) per Share
2020											
	Q2	$	333,334	$	(72,001)	$	(74,050)	$	(24,227)	$	(1.18)
	Q1		710,384		(25,406)		(67,239)		56,071		(1.08)
	Total	**$**	**1,043,718**	**$**	**(97,407)**	**$**	**(141,289)**	**$**	**31,844**	**$**	**(2.26)**
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 SECOND QUARTER 2020 RESULTS

(U.S. dollars in thousands)	2020 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019	52-Weeks Ended June 28, 2020	52-Weeks Ended June 30, 2019
Statement of Earnings Data						
Revenue						
North America	$ 217,371	$ 549,079	731,159	1,025,446	$ 1,848,607	$ 2,114,144
United Kingdom and Europe	23,093	31,740	104,098	31,740	350,027	31,740
Asia Pacific	8,135	2,251	8,397	2,251	61,602	2,251
Other	—	—	—	—	—	—
Manufacturing operations	248,599	583,070	843,654	1,059,437	2,260,236	2,148,135
North America	70,793	92,312	163,018	182,940	345,383	361,604
United Kingdom and Europe	9,978	6,475	28,291	6,475	64,263	6,475
Asia Pacific	3,520	1,178	7,651	1,178	14,720	1,178
Other	444	318	1,104	318	2,204	318
Aftermarket operations	84,735	100,283	200,064	190,911	426,570	369,575
Total revenue	$ 333,334	$ 683,353	$ 1,043,718	$ 1,250,348	$ 2,686,806	$ 2,517,710
Earnings (loss) from operations	(72,001)	37,000	(97,407)	77,906	(2,249)	191,945
Earnings (loss) before interest and income taxes	(70,067)	39,343	(95,593)	81,204	(3,747)	198,483
Net earnings (loss)	(74,050)	8,507	(141,289)	24,656	(108,247)	104,502
Adjusted EBITDA[(1)]	(24,227)	81,122	31,844	141,424	212,587	291,537
Capital expenditures	4,056	12,085	11,629	20,267	33,119	65,573

(Footnotes on page 17 and 18)

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 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019	52-Weeks Ended June 28, 2020	52-Weeks Ended June 30, 2019
Net earnings (loss)	$ (74,050)	$ 8,507	(141,289)	24,656	$ (108,245)	$ 104,502
Addback[1]						
Income taxes	(12,907)	5,869	(8,329)	13,524	20,144	33,362
Interest expense	16,890	24,967	54,025	43,024	84,355	60,619
Amortization	28,146	22,399	58,286	41,380	121,476	75,503
Loss (gain) on disposition of property, plant and equipment	229	15	392	(5)	351	231
Fair value adjustment for total return swap[11]	(275)	(800)	1,695	(756)	3,400	4,332
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(2,163)	(2,358)	(2,206)	(3,293)	1,147	(4,631)
Costs associated with assessing strategic and corporate initiatives[8]	1,231	13,338	1,231	13,343	957	13,343
Past service costs[13] and other pension costs (recovery)	48	—	(415)	—	(2,016)	—
Non-recurring restructuring costs [9]	1,075	—	1,097	—	1,462	—
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[10]	—	8,690	—	8,690	22,314	8,690
Proportion of the total return swap realized[12]	(529)	430	(1,469)	377	(2,472)	(3,273)
Equity settled stock-based compensation	551	558	565	977	1,154	1,490
Recovery on currency transactions[15]	—	(4,287)	—	(4,287)	—	(4,287)
Prior year sales tax provision [16]	(30)	3,794	(86)	3,794	214	3,794
Release of provisions related to purchase accounting[14]	—	—	—	—	—	(2,138)
COVID-19 costs[17]	17,557	—	17,557	—	17,557	—
Impairment loss on goodwill[18]	—	—	50,790	—	50,790	—
Adjusted EBITDA[1]	$ (24,227)	$ 81,122	$ 31,844	$ 141,424	$ 212,587	$ 291,537
Adjusted EBITDA is comprised of:						
Manufacturing	$ (32,356)	$ 61,910	3,086	108,922	$ 150,261	$ 242,765
Aftermarket	12,059	21,873	32,996	39,785	67,783	74,363
Corporate	(3,930)	(2,661)	(4,238)	(7,283)	(5,457)	(25,591)

See page 17 and 18 for footnotes.

SUMMARY OF FREE CASH FLOW

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

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

The following is a reconciliation of net cash generated by (used in) 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 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019	52-Weeks Ended June 28, 2020	52-Weeks Ended June 30, 2019
Net cash generated by (used in) operating activities	$ (3,482)	$ (30,444)	$ (19,865)	$ (37,595)	$ 116,338	$ 71,970
Changes in non-cash working capital items(4)	(55,644)	64,049	(9,435)	118,906	(37,017)	123,081
Interest paid(4)	15,005	10,274	30,711	18,621	59,766	30,541
Interest expense(4)	(14,834)	(12,072)	(29,265)	(20,561)	(59,250)	(32,750)
Income taxes paid(4)	547	15,069	12,448	19,391	33,224	46,325
Current income tax expense(4)	4,500	(13,824)	(12,441)	(23,401)	(50,377)	(46,894)
Principal portion of finance lease payments	(4,481)	(3,544)	(7,555)	(6,443)	(13,568)	(9,513)
Cash capital expenditures	(4,056)	(10,248)	(11,629)	(17,258)	(31,946)	(57,608)
Proceeds from disposition of property, plant and equipment	50	—	150	28	296	198
Costs associated with assessing strategic and corporate initiatives(8)	1,231	13,338	1,231	13,343	957	13,343
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (10)	—	8,690	—	8,690	22,314	8,690
Defined benefit funding(5)	1,522	1,744	3,042	3,149	8,033	9,668
Defined benefit expense(5)	(1,522)	(1,511)	(3,013)	(2,983)	(5,879)	(6,116)
Past service costs(13) and other pension costs (recovery)	48	—	(415)	—	(2,016)	—
Proportion of the total return swap(12)	(529)	430	(1,469)	377	(2,472)	(3,273)
Recovery on currency transactions(15)	—	(4,287)	—	(4,287)	—	(4,287)
Prior year sales tax provision (16)	(30)	3,794	(86)	3,794	214	3,794
Non-recurring restructuring costs(9)	1,075	—	1,097	—	1,461	—
Release of provision related to purchase accounting(14)	—	—	—	—	—	(2,138)
COVID-19 costs(17)	17,557	—	17,557	—	$ 17,557	—
Foreign exchange gain (loss) on cash held in foreign currency(6)	(14)	(24)	33	18	98	(61)
Free Cash Flow(2)	$ (43,057)	$ 41,434	$ (28,904)	$ 73,789	$ 57,733	$ 144,970
U.S. exchange rate(3)	1.3688	1.309	1.3546	1.321	1.2950	1.3283
Free Cash Flow (C$)(2)	(58,936)	54,237	(39,154)	97,473	74,764	192,556
Free Cash Flow per Share (C$)(7)	(0.9429)	0.8835	(0.6264)	1.5925	3.0225	3.0929
Declared dividends on Shares (C$)	13,283	26,507	26,566	52,373	79,655	98,658
Declared dividends per Share (C$)(7)	$ 0.2125	$ 0.4318	$ 0.4250	$ 0.8557	$ 1.2755	$ 1.5846

(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 is available to fund general corporate requirements, including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and incomes taxes paid.

(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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2020 Q2 was 62,506,539 and 61,391,499 for 2019 Q2. The weighted average number of Shares outstanding for 2020 Q2 YTD and 2019 Q2 YTD are 62,502,800 and 61,206,109, respectively. The weighted average number of Shares outstanding for the 52-weeks ended June 28, 2020 and June 30, 2019 are 62,457,824 and 62,258,729, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

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

(9) Normalized to exclude non-recurring restructuring costs.

(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 acquisitions.

(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 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 $0.5 million was received in 2020 Q1.

(14) During the fourth quarter of 2018, purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Free Cash Flow.

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

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

(17) Normalized to exclude non-recurring COVID-19 related costs. These costs consist of $1.9 million of operating costs that include but are not limited to the purchase of personal protective equipment, plant sanitation activities, and incremental cleaning activities. This also includes write downs of $15.7 million of various balance sheet items that occurred as a result of COVID-19. These write downs include but are not limited to the write down of accounts receivable and the write down of inventory. 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.

(18) Impairment charge on 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 and Adjusted Earnings per Share may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted Net Earnings (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 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019	52-Weeks Ended June 28, 2020	52-Weeks Ended June 30, 2019
Net earnings (loss)	(74,050)	8,507	(141,289)	24,656	(108,247)	104,502
Adjustments, net of tax [1] [8]						
Fair value adjustments of total return swap[5]	(189)	(518)	1,170	(488)	2,207	3,402
Unrealized foreign exchange (gain) loss	(1,493)	(1,492)	(1,523)	(2,127)	639	(3,013)
Unrealized loss on interest rate swap	868	—	16,378	—	14,834	16,513
Impairment loss on goodwill[12]	—	—	50,790	—	50,790	—
Portion of the total return swap realized[6]	(365)	279	(1,014)	243	(1,619)	(2,563)
Costs associated with assessing strategic and corporate initiatives[2]	1,231	13,340	1,231	13,343	957	13,343
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[4]	—	5,612	—	5,612	12,331	5,612
Equity settled stock-based compensation	380	347	390	631	665	997
Gain on disposition of property, plant and equipment	158	11	270	(3)	246	164
Past service costs[7] and other pension costs (recovery)	33	—	(286)	—	(1,213)	—
Gain on release of provision related to purchase accounting [9]	—	—	—	—	—	(1,623)
Recovery on currency transactions[10]	—	(2,768)	—	(2,768)	287	(2,768)
Prior year sales tax provision [11]	(20)	2,450	(59)	2,450	(140)	2,450
COVID-19 costs [13]	12,114	—	12,114	—	12,114	—
Non-recurring restructuring costs [3]	742	—	757	—	968	—
Adjusted Net Earnings (Loss)	$ (60,591)	25,768	(61,071)	41,549	$ (15,181)	137,016
Earnings (Loss) per Share (basic)	$ (1.18)	$ 0.14	$ (2.26)	$ 0.40	$ (1.74)	$ 1.68
Earnings (Loss) per Share (fully diluted)	$ (1.18)	$ 0.14	$ (2.26)	$ 0.40	$ (1.74)	$ 1.67
Adjusted Earnings (Loss) per Share (basic)	$ (0.97)	$ 0.55	$ (0.98)	$ 0.91	$ (0.24)	$ 2.21
Adjusted Earnings (Loss) per Share (fully diluted)	$ (0.97)	$ 0.54	$ (0.98)	$ 0.90	$ (0.24)	$ 2.19

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.
4. The revaluation of ADL's inventory included an adjustment of $31.0 million in Fiscal 2019 after-tax value of $17.9 million. These revaluation adjustments relate to purchase accounting as a result of the related acquisitions.
5. The fair value adjustment of the total return swap is a non-cash (gain) loss that is deducted from the definition of Adjusted EBITDA.
6. A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA to match the equivalent portion of the related deferred compensation expense recognized.

7. In 2019 Q3, the Company received $1.6 million recovery related to the closing of one of its pension plans. An additional amount of $0.5 million was received in 2020 Q1.
8. In 2020 Q2, the Company has utilized a rate of 31% to tax effect the adjustments.
9. During 2018 Q4 purchase accounting provisions recorded during the acquisition of MCI were deemed to be no longer needed and were released resulting in an increase to net earnings. The amounts released have been deducted in the calculation of Adjusted EBITDA.
10. Recovery of prior period banking fees related to foreign exchange transactions.
11. Provision for sales taxes as a result of an ongoing state tax review.
12. Impairment charge on MCI's goodwill.
13. Normalized to exclude non-recurring COVID-19 related costs. These costs consist of $1.3 million of operating costs that include but are not limited to the purchase of personal protective equipment, plant sanitation activities, incremental cleaning activities. This also includes write downs of $10.8 million of various balance sheet items that occurred as a result of COVID-19. These write downs include but are not limited to the write down of accounts receivable and the write down of inventory. 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 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019
Manufacturing Revenue	248,599	583,070	843,654	1,059,437
Aftermarket Revenue	84,735	100,283	200,064	190,911
Total Revenue	$ 333,334	$ 683,353	$ 1,043,718	$ 1,250,348
Earnings (loss) from Operations	$ (72,001)	$ 37,000	$ (97,407)	$ 77,906
Earnings (loss) before interest and income taxes	(70,067)	39,343	(95,593)	81,204
Earnings (loss) before income tax expense	(86,957)	14,376	(149,618)	38,180
Net earnings (loss) for the period	(74,050)	8,507	(141,289)	24,656

Manufacturing revenue for 2020 Q2 decreased by $334.5 million, or 57.4%, compared to 2019 Q2. Manufacturing revenue for 2020 Q2 YTD decreased by $215.8 million, or 20.4%, compared to the 2019 Q2 YTD. The decreases for both periods were related to lower production volumes as a result of the temporary idling of production facilities due to COVID-19. The decreases for both periods were partially offset by the acquisition of ADL.

Revenue from aftermarket operations in 2020 Q2 decreased by $15.5 million, or 15.5%, compared to 2019 Q2. Revenue from aftermarket operations for 2020 Q2 YTD increased by $9.2 million, or 4.8%, compared to 2019 Q2 YTD. The decrease in 2020 Q2 was related to lower volumes as a result of reduced transit services activity due to COVID-19. The acquisition of ADL offset the COVID-19 related revenue decline in the year-to-date comparative.

Cost of sales

(U.S. dollars in thousands)	2020 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019
Manufacturing				
Direct cost of sales	$ 214,738	$ 443,341	$ 672,682	$ 789,683
Depreciation and amortization	25,532	19,821	53,082	36,245
Other overhead	44,797	49,726	105,689	97,652
Manufacturing cost of sales	$ 285,067	$ 512,888	$ 831,453	$ 923,580
As percent of Manufacturing Sales	114.7%	88.0%	98.6%	87.2%
Aftermarket				
Direct cost of sales	$ 63,032	$ 69,101	$ 140,756	$ 132,260
Depreciation and amortization	2,614	2,579	5,203	5,136
Aftermarket cost of sales	$ 65,646	$ 71,680	$ 145,959	$ 137,396
As percent of Aftermarket Sales	77.5%	71.5%	73.0%	72.0%
Total Cost of Sales	$ 350,713	$ 584,568	$ 977,412	$ 1,060,976
As percent of Sales	105.2%	85.5%	93.6%	84.9%

The consolidated cost of sales for 2020 Q2 decreased by $233.9 million, or 40.0%, compared to 2019 Q2. The consolidated cost of sales for 2020 Q2 YTD decreased by $83.6 million, or 7.9%, compared to 2019 Q2 YTD.

Cost of sales from Manufacturing operations in 2020 Q2 was $285.1 (114.7% of manufacturing operations revenue) compared to $512.9 million (88.0% of Manufacturing operations revenue) in 2019 Q2, a decrease of $227.8 million or 44.4%. Cost of sales increased as a percentage of revenue mainly as a result of low 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 a $10.4 million lower of cost or net realizable value adjustments on pre-owned coaches held within the MCI and ADL business units. The cost of sale increase as a percentage of revenue was partially offset by government grants of $23.1 million, which were netted against wages in the presentation of cost of sales. The Company used $5.2 million of the $23.1 million grant to provide retroactive pay to previously idled employees, resulting in a net impact to gross margins of $17.9 million.

Cost of sales from Manufacturing operations in 2020 Q2 YTD was $831.5 million (98.6% of manufacturing operations revenue) compared to $923.6 million (87.2% of manufacturing operations revenue) in 2019 Q2 YTD, a decrease of $92.1 million or 10.0%. Cost of sales increased as a percentage of revenue mainly as a result of low 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 expenses related to COVID-19. The cost of sale increase as a percentage of revenue was partially offset by government grants of $0.8 million, which were netted against wages in the presentation of cost of sales.

Cost of sales from Aftermarket operations in 2020 Q2 was $65.6 million (77.5% of Aftermarket revenue) compared to $71.7 million (71.5% of Aftermarket revenue) in 2019 Q2, an increase of $6.1 million or 8.5%. The decrease in 2020 Q2 was related to lower volumes as a result of reduced transit services activity due to COVID-19. Cost of sales increased as a percentage of revenue due to product mix.

Cost of sales from Aftermarket operations in 2020 Q2 YTD was $146.0 million (73.0% of Aftermarket revenue) compared to $137.4 million (72.0% of Aftermarket revenue) in 2019 Q2 YTD, an increase of $8.6 million or 6.3%. Lower cost of sales in 2020 Q2 were offset by the acquisition of ADL.

Gross Margins

(U.S. dollars in thousands)		2020 Q2		2019 Q2		26-Weeks Ended June 28, 2020		26-Weeks Ended June 30, 2019
Manufacturing	$	(36,468)	$	70,182	$	12,201	$	135,857
Aftermarket		19,089		28,603		54,105		53,515
Total Gross Margins	$	(17,379)	$	98,785	$	66,306	$	189,372
As a percentage of sales								
Manufacturing		(14.7)%		12.0%		1.4%		12.8%
Aftermarket		22.5 %		28.5%		27.0%		28.0%
		(5.2)%		14.5%		6.4%		15.1%

Manufacturing gross margins for 2020 Q2 of -$17.4 million (-14.7% of revenue), decreased by $116.2 million, or 117.6%, compared to $98.8 million (12.0% of revenue) for 2019 Q2. Manufacturing gross margins 2020 Q2 YTD of $66.3 million (1.4% of revenue), decreased by $123.1 million or 65.0% compared to 2019 Q2.

The decrease in gross margins as a percentage of revenue for both periods is mainly due to low 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. Gross margin decline was partially offset by government grants of $17.9 million, which were netted against direct labour wages in the presentation of cost of sales.

Gross margins from Aftermarket operations in 2020 Q2 of $19.1 million (22.5% of revenue) decreased by $9.5 million, or 33.2%, compared to 2019 Q2 gross margins of $28.6 million (28.5% of revenue). Gross margins from Aftermarket operations in 2020 Q2 YTD of $54.1 million (27.0% of revenue) increased by $0.6 million, or 1.1%, compared to 2019 Q2 YTD gross margins of $53.5 million (28.0% of revenue).

The decrease in gross margins as a percentage of revenue for both periods is mainly due to product mix.

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

(U.S. dollars in thousands)		**2020 Q2**		**2019 Q2**		**26-Weeks Ended June 28, 2020**		**26-Weeks Ended June 30, 2019**
Selling expenses	$	3,899	$	5,490	$	10,426	$	9,891
General and administrative expenses		45,827		43,371		99,157		88,358
Other costs		2,460		12,701		2,060		12,670
Total SG&A	$	52,186	$	61,562	$	111,643	$	110,919

The consolidated SG&A for 2020 Q2 of $52.2 million (15.7% of consolidated revenue) decreased by $9.4 million, or 15.3%, compared to $61.6 million (9.0% of consolidated revenue) in 2019 Q2. The decrease is related to reduced discretionary expenditure to preserve cash during the COVID-19 pandemic and government grants of $2.4 million, which were netted against expenses in the presentation of SG&A. The Company used $0.2 million of the $2.4 million grant to provide retroactive pay to previously idled employees, resulting in a net impact to SG&A of $2.2 million.

The consolidated SG&A for 2020 Q2 YTD of $111.6 million (10.7% of consolidated revenue) increased by $3.6 million, or 3.9%, compared to $88.1 million (8.8% of consolidated revenue) in 2019 Q2. The increase from the acquisition of ADL was partially offset by reduced spending in 2020 Q2 due to COVID-19.

Realized foreign exchange loss/gain

During 2020 Q2, the Company recorded a realized foreign exchange loss of $2.4 million compared to a loss of $0.2 million in 2019 Q2.

During 2020 Q2 YTD, the Company recorded a realized foreign exchange loss of $1.3 million compared to a loss of $0.5 million in 2019 Q2 YTD.

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 unfavorable forward rates compared to the spot rates at settlement were the primary reason for the losses.

Earnings (loss) from operations

Consolidated losses from operations in 2020 Q2 were $72.0 million (-21.6% of consolidated revenue) compared to earnings of $37.0 million (5.4% of consolidated revenue) in 2019 Q2, a decrease of $109.0 million or 294.6%. Consolidated losses from operations in 2020 Q2 YTD were $97.4 million (-9.3% of consolidated revenue) compared to earnings of $77.9 million (6.2% of consolidated revenue) in 2019 Q2 YTD, a decrease of $175.3 million or 225.0%.

Losses from operations related to Manufacturing operations in 2020 Q2 were $80.8 million (-32.5% of Manufacturing revenue) compared to earnings $17.4 million (3.0% of Manufacturing revenue) in 2019 Q2, a decrease of $98.2 million or 554.8%. Losses from operations related to Manufacturing operations in 2020 Q2 YTD were $124.6 million (-14.8% of Manufacturing revenue) compared to earnings of $42.3 million (4.0% of Manufacturing revenue) in 2019 Q2 YTD, a decrease of $166.9 million or 394.6%. The decrease as a percentage of revenues is primarily due to the Company temporarily ceasing revenue producing manufacturing activities, due to COVID-19, while continuing to incur costs related to fixed overhead and SG&A. Earnings were also negatively impacted by $12.2 million in one-time, non-recurring charges related to COVID-19, including $10.4 million in lower of cost or net realizable value adjustments on the Company's pre-owned coaches held within its MCI and ADL business units. Losses from operations were partially offset by government grants of $26.3 million, which were netted against expenses in Q2. The Company used $5.4 million of the $26.3 million grant to provide retroactive pay to previously idled employees, resulting in a net impact to results of $20.9 million. The YTD results were also lower as a result of a $50.8 million goodwill impairment charge incurred in 2020 Q1.

Earnings from operations related to Aftermarket operations in 2020 Q2 were $8.8 million (10.4% of Aftermarket revenue) compared to $19.3 million (19.2% of Aftermarket revenue) in 2019 Q2, a decrease of $10.5 million or 54.4%. Earnings from operations related to Aftermarket operations in 2020 Q2 YTD were $27.2 million (13.6% of Aftermarket revenue) compared to $35.6 million (18.6% of Aftermarket revenue), a decrease of $8.4 million or 23.7%. The decrease as a percentage of revenue is related to the Company continuing to incur fixed overhead and SGA expenses, while also experiencing lower sales volumes as a result of reduced transit services activity due to COVID-19.

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 Q2	2019 Q2		26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019
Unrealized (gain) loss on forward foreign exchanges contracts	$	(2,743) $	(2,735)	$	(4,540) $	(3,918)
Unrealized (gain) loss on other long-term monetary assets/liabilities		580	377		2,334	624
	$	(2,163) $	(2,358)	$	(2,206) $	(3,294)

At June 28, 2020, the Company had $169 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). The related liability of $0.8 million (December 29, 2019: $3.7 million) is recorded on the unaudited consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings and total comprehensive income.

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

In 2020 Q2, the Company recorded EBIT of $70.1 million loss compared to EBIT of $39.3 million in 2019 Q2. In 2020 Q2 YTD, the Company recorded EBIT of $95.6 million loss compared to EBIT of $81.2 million in 2019 Q2 YTD. EBIT has been impacted by non-cash and non-recurring items as follows:

(U.S. dollars in thousands)	2020 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ 1,231	$ 13,338	$ 1,231	$ 13,343
Unrealized foreign exchange gain	(2,163)	(2,358)	(2,206)	(3,294)
Equity settled stock-based compensation	551	558	565	977
Loss (gain) on disposition of property, plant and equipment	229	15	392	(5)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	—	8,690	—	8,690
Fair value adjustment of total return swap	(275)	(800)	1,695	(756)
Past service costs recovery	48	—	(415)	—
Recovery on currency transactions	—	(4,287)	(56)	(4,287)
COVID-19	17,557	—	17,557	—
Prior year sales tax provision	(30)	3,794	(30)	3,794
Impairment loss on goodwill	—	—	50,790	—
Amortization	28,146	22,399	58,286	41,380
Total non-cash and non-recurring charges:	$ 45,294	$ 41,349	$ 127,809	$ 59,842

Interest and finance costs

The interest and finance costs for 2020 Q2 of $16.9 million decreased by $8.1 million when compared 2019 Q2. The decrease is primarily due to a fair market value loss on interest rate swap of $1.3 million in 2020 Q2 compared to a loss of $12.6 million in 2019 Q2. The favourable interest rate swap variance was partially offset by a $3.6 million increase to interest on long-term debt. Interest on long-term debt increased 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 interest and finance costs for 2020 Q2 YTD of $54.0 million increased by $11.0 million when compared to 2019 Q2 YTD. The increase is primarily due to increased interest expense of $8.1 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 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 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 Q2 of $87.0 million loss decreased by $101.4 million compared to EBT of $14.4 million in 2019 Q2. EBT for 2020 Q2 YTD of $149.6 million loss decreased by $187.8 compared to EBT of $38.2 million in 2019 Q2 YTD. 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 (recovery) expense

The income tax expense for 2020 Q2 was $(12.9) million compared to $5.8 million in 2019 Q2. The ETR for 2020 Q2 was -14.9% and the ETR for 2019 Q2 was 40.8%. The income tax expense for 2020 Q2 YTD was $(8.3) million compared to $13.5 million in 2019 Q2 YTD. The ETR for 2020 Q2 YTD was -5.6% and the ETR for 2019 Q2 YTD was 35.4%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by incurred non-deductible interest and the impact of revaluing UK deferred tax liabilities as a result of a reversal of a previously enacted rate and the goodwill impairment charge.

Net earnings (loss)

The Company reported a net loss of $74.1 million in 2020 Q2, a decrease of 971.8% compared to net earnings of $8.5 million in 2019 Q2. The Company reported a net loss of $141.3 million in 2020 Q2 YTD, a decrease of 672.1% compared to net earnings of $24.7 million in 2019 Q2 YTD. The decrease in net earnings is primarily due to the temporary idling of production facilities due to COVID-19. The YTD results were also lower as a result of a $50.8 million goodwill impairment charge incurred in 2020 Q1

Net earnings (loss) (U.S. dollars in millions, except per Share figures)		**2020 Q2**	**2019 Q2**		**26-Weeks Ended June 28, 2020**	**26-Weeks Ended June 30, 2019**
Earnings from operations	$	(72) $	37	$	(97.4) $	77.9
Non-cash gain (loss)		1.9	2.3		1.8	3.3
Interest expense		(16.9)	(25)		(54)	(43)
Income tax expense		12.9	(5.8)		8.3	(13.5)
Net earnings (loss)	$	(74.1) $	8.5	$	(141.3) $	24.7
Net earnings (loss) per Share (basic)	$	(1.18) $	0.14	$	(2.26) $	0.40
Net earnings (loss) per Share (fully diluted)	$	(1.18) $	0.14	$	(2.26) $	0.40

The Company's net loss per share in 2020 Q2 of $1.18 decreased from net earnings per share of $0.14 generated in 2019 Q2. The Company's net loss per share in 2020 Q2 YTD of $2.26 decreased from net earnings per share of $0.4 generated in 2019 Q2 YTD. Net earnings were lower in 2020 Q2 and 2020 Q2 YTD for the reasons discussed throughout the Results of Operation section in this MD&A, which decreased earnings per Share in both periods.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)		**2020 Q2**	**2019 Q2**		**26-Weeks Ended June 28, 2020**		**26-Weeks Ended June 30, 2019**
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	$	(43,574) $	58,948	$	13,859	$	119,323
Interest paid		(15,005)	(10,274)		(30,711)		(18,621)
Income taxes paid		(547)	(15,069)		(12,448)		(19,391)
Net cash earnings (loss)		(59,126)	33,605		(29,300)		81,311
Cash flow used in changes in working capital		55,644	(64,049)		9,435		(118,906)
Cash flow used in operating activities		(3,482)	(30,444)		(19,865)		(37,595)
Cash flow from financing activities		(4,564)	381,784		28,951		394,715
Cash flow used in investing activities		(4,006)	(337,609)		(26,989)		(344,608)

Cash flows from operating activities

The 2020 Q2 net operating cash outflow of $3.5 million is mostly comprised of $59.1 million of net cash losses, offset by $55.6 million of cash inflows related to changes in working capital. The 2019 Q2 net operating cash outflow of $30.4 million is comprised of $33.6 million of net cash earnings offset by cash used for working capital of $64.0 million.

The 2020 Q2 YTD net operating cash outflow of $19.9 million is mostly comprised of $29.3 million of net cash losses, offset by $9.4 million of cash inflows related to changes in working capital. The 2019 Q2 YTD net operating cash outflow of $37.6 million is comprised of $81.3 million of net cash earnings offset by cash used for working capital of $118.9 million.

Cash flow from financing activities

The cash outflow of $4.6 million during 2020 Q2 is comprised mainly of lease obligation payments of $4.5 million and dividends paid to shareholders of $9.5 million, partially offset by proceeds from short-term debt of $7.8 million.

The cash inflow of $29.0 million during 2020 Q2 YTD is comprised mainly of proceeds from short-term debt of $7.8 million and proceeds from long-term debt of $58.5 million, partially offset by lease obligation payments of $7.5 million and dividends paid to shareholders of $29.8 million.

Cash flow from investing activities

(U.S. dollars in thousands)	2020 Q2	2019 Q2	26-Weeks Ended June 28, 2020	26-Weeks Ended June 30, 2019
Acquisition of intangible assets	$ —	$ —	$ —	$ (17)
Proceeds from disposition of property, plant and equipment	50	—	150	28
Long-term restricted deposits	—	—	(15,510)	—
Net cash used in acquisitions	—	(327,361)	—	(327,361)
Acquisition of property, plant and equipment	(4,056)	(10,248)	(11,629)	(17,258)
Cash from investing activities	$ (4,006)	$ (337,609)	$ (26,989)	$ (344,608)

2020 Q2 investing activities have decreased outflows compared to 2019 Q2 primarily due to the acquisition of ADL in 2019 Q2. The Company reduced maintenance capital expenditures in 2020 Q2 as a result of temporarily idling production facilities.

Interest rate risk

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.

The fair value of the interest rate swap liability of $39.1 million at June 28, 2020 (2019: $15.5 million liability) was recorded on the unaudited consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period. The unrealized losses recorded on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management believes that the credit risk associated with accounts receivable is mitigated by the significant proportion of counterparties that are well established public transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. public sector customer payments - up to 80% of the capital cost of new transit buses, coaches or cutaways, while the remaining 20% comes from state and municipal sources. There are a few U.S. public sector customers that obtain 100% of their funding from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. 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 its own cash flow. A significant portion of private fleet operators choose to finance new coach purchases with lending organizations. In some cases, MCI assists in arranging this financing, and in some cases, it provides financing through its ultimate net loss program. The Company has experienced a nominal amount of bad debts with its private sales customers as most transactions require payment on delivery. 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 unaudited consolidated statements of net earnings and total comprehensive income.

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

U.S. dollars in thousands	June 28, 2020	December 29, 2019
Current, including holdbacks	$ 234,744	$ 487,807
Past due amounts but not impaired		
1 - 60 days	22,740	37,413
Greater than 60 days	6,539	6,800
Less: allowance for doubtful accounts	(1,109)	(284)
Total accounts receivables, net	$ 262,914	$ 531,736

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

Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of accrued benefit liabilities as at June 28, 2020:

U.S. dollars in thousands	Total	2020	2021	2022	2023	2024	Post 2024
Leases	245,717	13,979	25,316	23,363	20,515	15,521	147,023
Accrued benefit liability	2,837	2,837	—	—	—	—	—
	$ 248,554	$ 16,816	$ 25,316	$ 23,363	$ 20,515	$ 15,521	$ 147,023

As at June 28, 2020, outstanding surety bonds guaranteed by the Company amounted to $381.3 million, representing an increase compared to $384.5 million at December 29, 2019. The estimated maturity dates of the surety bonds outstanding at June 28, 2020 range from July 2020 to December 2026. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company had established a letter of credit sub-facility of $100.0 million. As at June 28, 2020, letters of credit amounting to $12.8 million (December 29, 2019: $12.8 million) remained outstanding as security for the contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of $63.6 million. As at June 28, 2020, letters of credit totaling $20.8 million were outstanding under the bi-lateral credit facility. Additionally, there are $30.0 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at June 28, 2020.

Share Option Plan

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

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(483,030)	—	(7,326)	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(573,668)	(9,631)	(28,751)	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(252,233)	(11,368)	(236,383)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	—	(1,628)	543	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(1,615)	(110,747)	37,447	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(1,882)	(75,506)	75,495	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(3,431)	(70,315)	210,928	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	—	2,835	July 15, 2027	C$35.98	C$4.90
December 31, 2019	519,916	—	—	—	519,916	December 31, 2027	C$26.81	C$3.36
	2,938,176	(1,330,073)	(27,927)	(733,012)	847,164		C$29.56	

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. 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	—	C$0.00	(6,928)	C$40.75
Exercised during the period	(8,646)	C$13.45	(158,031)	C$12.77
Balance at end of period	1,580,176	C$29.56	1,068,906	C$28.92

Restricted Share Unit Plan for Non-Employee Directors

Pursuant to the Company's Restricted Share Unit Plan for Non-Employee Directors, a maximum of 500,000 Shares are reserved for issuance to non-employee directors. The Company issued approximately $160 thousand of director restricted Share units ("Director RSUs") in 2020 Q2.

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.

<u>Maintaining Financial Flexibility</u>

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 April 23, 2020, NFI Group announced that it had obtained covenant relief under the Company's existing NFI $1.25 billion unsecured senior credit facility. The Company's banking partners have waived compliance with the total leverage ratio and interest coverage ratio covenants under the existing senior credit facility and the New Facility for fiscal periods up to September 28, 2020. As of that date, compliance with relaxed covenants will resume for the term of the New Facility.

When the covenants resume they will vary depending on whether or not the Company draws on the Sidecar. If the Company does not utilize the Sidecar, it must maintain a TLR of less than 4.75 to 1 for 2020 Q4. Alternatively, if the Company does utilize the New Facility then it must maintain a TLR of less than 5.5 to 1 for 2020 Q4. Starting with the first quarter of 2021 the covenants converge and are the same for both the Credit Facility and the Sidecar regardless of whether or not the Company has drawn funds from the New Facility. The TLR is 4.5 to 1 for the first quarter of 2021, 4.25 to 1 for the second quarter of 2021 and, for the Credit Facility, 3.75 to 1 for the third quarter of 2021 and beyond.

2020 Q2 results will be excluded from all covenant calculations and the calculations for the fourth quarter of 2020 and first three quarters of 2021 will be based on a pro-rated LTM calculations that exclude 2020 Q2. The calculation of the financial covenants for 2020 Q2 based on a pro-rated LTM calculations are provided for information purposes below:

	June 28, 2020	December 29, 2019
Total Leverage Ratio	3.79	3.24
Interest Coverage Ratio	5.78	7.73

The Company is 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 reduction of over 400 positions at MCI, Carfair and NFI Parts, generating savings of $10 million in fiscal 2020;
- A reduction in planned 2020 capital expenditures from $45 million to $25 million; and
- A 50% reduction in the Company's quarterly dividend

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.

As at June 28, 2020, the Company was in compliance with the liquidity requirement.

US dollars in thousands	June 28, 2020
Liquidity Position (must be greater than $50 million)	$ 436,241

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.

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in lean manufacturing operations to improve quality and cost effectiveness, and to continue to invest in ZEB, Infrastructure Solutions and ADAS. 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 and MCI invested in model upgrades to generate its first electric coach offering, which has been well received by the market. The Company has multiple autonomous bus projects in development with specialized partners who have a deep understanding of artificial intelligence and advanced driver assistance systems. The Company has also made numerous investments into telematics solutions to ensure customers can track detailed performance and maintenance metrics associated with its vehicles. Finally, New Flyer launched an Infrastructure Solutions business in 2019 to assist customers in exploring and executing on their ZEB transition plans.

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 Q2 Free Cash Flow was (C$58.9) million compared to declared dividends of C$13.3 million during this period. For 2019 Q2 Free Cash Flow was C$54.2 million compared to declared dividends of C$26.5 million. This resulted in a payout ratio of (22.6%) in 2020 Q2 compared to 48.9% in 2019 Q2.

To support cash management efforts while the Company's operations are impacted by COVID-19 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 the NCIB to replace the Former NCIB to repurchase its Shares through the facilities of the TSX and any alternative Canadian trading systems on which the Shares are traded. The Company is permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2019. The Company is permitted to repurchase Shares commencing on June 17, 2019 up to June 16, 2020, or earlier should the Company complete its repurchases prior to such date.

The actual number of Shares to be purchased and the timing and pricing of any purchases under the NCIB will depend on future market conditions and potential alternative uses for cash resources. The Company may elect to modify, suspend or discontinue the program at any time without prior notice. During 2019 Q1, the Company repurchased 232,100 Shares under the Former NCIB at an average price of C$31.82 per Share for a total repurchase of C$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including 232,100 Shares purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the Former NCIB or the NCIB subsequent to 2019 Q2.

Total Capital Distributions to Shareholders (U.S. dollars in millions)		**2020 Q2**		**2019 Q2**		**2020 Q2 YTD**		**2019 Q2 YTD**
Dividends paid	$	9.5	$	19.3	$	29.8	$	36.1
NCIB Share repurchase		—		—		—		5.7
Total	$	9.5	$	19.3	$	29.8	$	41.8

Critical accounting estimates and judgments

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

New and amended standards adopted by the Company

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.

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 29, 2019 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 June 28, 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 29, 2019 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 June 28, 2020, 62,506,539 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI’s annual information form, is available on SEDAR at www.sedar.com.

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

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

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

Forward-looking Statements

Certain statements in this MD&A are “forward-looking statements”, which reflect the expectations of management regarding the Company's future growth, liquidity, results of operations, performance and business prospects, plans and opportunities. The words “believes”, “anticipates”, “plans”, “expects”, “intends”, “projects”, “forecasts”, “estimates”, “may”, “will” and similar expressions are intended to identify forward looking statements.These forward-looking statements reflect management's current expectations regarding future events and 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 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. Actual results may differ materially and adversely from management expectations set forth in forward-looking statements for a variety of reasons and due to a number of factors, including, but not limited to those described below.

With respect to forward-looking statements relating to the Company’s “NFI Forward” initiative, including the costs savings, cash flow improvement and other benefits expected to be achieved and the costs expected to be expended in implementing the initiative, such factors 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 that can be generated or 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 the reduction of production or parts facilities may not achieve the efficiencies anticipated; and the impact of the global COVID-19 pandemic. There can be no assurance that the Company will be able to achieve the anticipated cost savings or other benefits of the initiative.

With respect to all forward-looking statements, such factors relating to the global COVID-19 pandemic include: the magnitude and length 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 (including to protect the health and safety of the Company’s employees); production rates may be further decreased as a result of the pandemic; continuing and worsening 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 delay, for an unknown period, customers’ purchases of the Company’s products; the anticipated return of the Company’s markets at some future date 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; the Company's financial performance and condition, obligations, cash flow and liquidity and its ability to maintain compliance with the covenants under its credit facilities, which may also negatively impact the ability of the Company to fund dividends. There can be no assurance that the Company will be able to maintain sufficient liquidity for an extended period, obtain future covenant relief under its credit facilities or access to additional capital or access to government financial support or as to when production operations will return to previous production rates. 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 and financial condition and any material adverse effects could very well be rapid, unexpected and may continue for an extended and unknown period of time.

A number of other factors that may cause actual results to differ materially from the results discussed in the forward-looking statements include: 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 FTA; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; uncertainty resulting from the exit of the UK from the European Union; requirements under Canadian content policies may change and/or become more onerous; operational risk resulting from inadequate or failed internal processes, people and/or systems or from external events, including fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, floods, technology failures, processing errors, business integration, damage to physical assets, employee safety and insurance coverage; international operations subject the Company to additional risks and costs and may cause profitability to decline; dependence on limited sources or unique sources of supply; dependence on supply of engines that comply with emission regulations; a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company's products; the Company's profitability can be adversely affected by increases in raw material and component costs; the Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events may lead to production curtailments or shutdowns; the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour; the Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage; the Company may be adversely affected by rising insurance costs; the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts; the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability claims; the Company may have difficulty selling pre-owned coaches and realizing expected resale values; the Company may incur costs in connection with regulations relating to axle weight restrictions and vehicle lengths; the Company may be subject to claims and liabilities under environmental, health and safety laws; dependence on management information systems and cyber security risks; the Company's ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees; the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business; the Company's risk management policies and procedures may not be fully effective in achieving their intended purposes; internal controls over financial reporting, no matter how well designed, have inherent limitations; there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products or model variants; acquisition risk; reliance on third-party manufacturers; third-Party Distribution/Dealer Agreements; availability to the Company of future financing; the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt; the restrictive covenants in the credit 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 NF Holdings and its U.S. subsidiaries (the "NF Group") to deduct interest expense for U.S. federal income tax purposes and may increase the NF Group’s tax liability and certain financing transactions could be characterized as “hybrid transactions” for U.S. tax purposes, which could increase the NF Group’s tax liability.

NFI cautions that the foregoing factors are not exhaustive of all potential risks. These factors and other risks and uncertainties are discussed in NFI’s press releases, Annual Information Form and materials filed with the Canadian securities regulatory authorities which are available on SEDAR at www.sedar.com. Due to the potential impact of these and other factors, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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

References to “Adjusted EBITDA” are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company. These adjustments include gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs and other pension costs or recovery, non-recurring restructuring costs, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, equity settled stock-based compensation, recovery of currency transactions, prior year sales tax provision, release of provision related to purchase accounting, COVID-19 costs and impairment loss on goodwill.

“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, Release of provision related to purchase accounting, 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 twelve month period (calculated as to shareholders’ equity plus long-term debt, obligations under leases, other long-term liabilities and derivative financial instrument liabilities less cash).

References to "Adjusted Net Earnings" are to net earnings after adjusting for the after tax effects of certain non-recurring and/or non-operational related items that do not reflect the current ongoing cash operations of the Company including: fair value adjustments of total return swap, unrealized foreign exchange loss or gain, unrealized gain or loss on the interest rate swap, portion of the total return swap realized, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, equity settled stock-based compensation, gain or loss on disposal of property, plant and equipment, past service costs and other pension costs or recovery, gain on release of provision related to purchase accounting, recovery on currency transactions, prior year sales tax provision, COVID-19 costs and non-recurring restructuring costs .

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

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

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

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

2020 Appendix B - 2020 Second Quarter Order Activity

Demand for Transit Buses and Motor Coaches

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

The second quarter of 2020 saw significant growth in the Company's Bid Universe, with Active Bids up by 34.4%, or 1,883 EUs, from 2020 Q1 and 76.7%, or 3,189 EUs from 2019 Q2. The total Bid Universe was 29,438 EUs, an increase of 18.5% from 2019 Q2 and 0.7% from 2020 Q1. 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 Q2	1,231	2,929	4,160	20,686	24,846
2019 Q3	1,216	3,691	4,907	22,588	27,495
2019 Q4	1,760	2,934	4,694	22,954	27,648
2020 Q1	2,005	3,461	5,466	23,770	29,236
2020 Q2	**2,975**	**4,374**	**7,349**	**22,089**	**29,438**

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

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

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

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

Order activity

New orders (firm and options) during 2020 Q2 totaled 491 EUs, an improvement of 3.6% from 2019 Q2 and a decrease of 63.5% from 2020 Q1. The new firm and option orders awarded to the Company for 2020 Q2 LTM were 4,031 EUs, and improvement of 34.5% from 2019 Q2. The Company was also successful at converting 401 EUs of options during 2020 Q2 to firm orders, an increase of 14.6% from 2019 Q2 and 188.4% from 2020 Q1. These conversions contributed to the 1,582 EUs of options converted to firm orders during 2020 Q2 LTM, an improvement of 19.4% from 2019 Q2 LTM and 3.3% from 2020 Q1 LTM.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2019 Q2	474	2,998	350	1,325
2019 Q3	1,035	3,276	229	1,554
2019 Q4	1,159	5,188	813	1,630
2020 Q1	1,346	4,014	139	1,531
2020 Q2	**491**	**4,031**	**401**	**1,582**

Options

In 2020 Q2, 492 option EUs expired, compared to 34 option EUs that expired during 2019 Q2 and 163 EUs that expired in 2020 Q1.

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	655					4,258
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795	1,518	401					9,670
C) Current Options by year of expiry (EUs)							1,055	1,159	2,075	638	230	5,157
D) Conversion rate % = B / (A+B)	**54%**	**73%**	**79%**	**81%**	**71%**	**75%**						

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

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

The Company's 2020 Q2 LTM Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 100%, an increase of 140 basis points from 86% in 2019 Q2 LTM and 86% in 2020 Q1 LTM.

In addition, 530 EUs of new firm and option orders were pending from customers at the end of 2020 Q2, 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 32.8% of the total backlog. ZEBs represent approximately 9.7% of total backlog.

	2020 Q2			2019 Q4			2019 Q2		
	Firm Orders	**Options**	**Total**	**Firm Orders**	**Options**	**Total**	**Firm Orders**	**Options**	**Total**
Beginning of period	4,082	6,497	10,579	4,313	7,281	11,594	3,576	7,011	10,587
New orders	491	—	491	950	209	1,159	410	64	474
Options exercised	401	(401)	—	813	(813)	—	350	(350)	0
Shipments[1]	(545)	—	(545)	(1,844)	—	(1,844)	(1,029)	—	(1,029)
Cancelled/expired	(29)	(492)	(521)	(8)	(159)	(167)	(1)	(34)	(35)
End of period	**4,400**	**5,604**	**10,004**	**4,224**	**6,518**	**10,742**	**3,306**	**6,691**	**9,997**
Consisting of:									
Heavy-duty transit buses	3,161	5,130	8,291	3,236	5,722	8,958	2,406	5,921	8,327
Motor coaches	867	474	1,341	615	796	1,411	630	770	1,400
Cutaway and medium-duty buses	372	—	372	373	—	373	270	—	270
Total Backlog	**4,400**	**5,604**	**10,004**	**4,224**	**6,518**	**10,742**	**3,306**	**6,691**	**9,997**

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

At the end of 2020 Q2, the Company's total backlog (firm and options) of 10,004 EUs (valued at $4.9 billion) has decreased compared to 10,579 EUs (valued at $5.1 billion) at the end of 2020 Q1. The decrease was driven by deliveries in the quarter and cancellations. The summary of the values is provided below.

	2020 Q2		2019 Q4		2019 Q2	
		Equivalent Units		**Equivalent Units**		**Equivalent Units**
Total firm orders	$ 2,032.9	4,400	$ 1,928.8	4,224	$ 1,626.3	3,306
Total options	2,817.9	5,604	3,245.1	6,518	3,189	6,691
Total backlog	**$ 4,850.8**	**10,004**	**$ 5,177.9**	**10,742**	**$ 4,815.3**	**9,997**

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

June 28, 2020

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NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)

13-Weeks ended and 26-Weeks ended June 28, 2020 ("2020 Q2" and "2020 Q2 YTD", respectively) and 13-Weeks and 26-Weeks ended June 30, 2019 ("2019 Q2" and "2019 Q2 YTD", respectively)

(in thousands of U.S. dollars except per share figures)

	2020 Q2	2019 Q2	2020 Q2 YTD	2019 Q2 YTD
Revenue (note 15)	$ 333,334	$ 683,353	$ 1,043,718	$ 1,250,348
Cost of sales (note 4)	350,713	584,568	977,412	1,060,976
Gross profit (loss)	(17,379)	98,785	66,306	189,372
Sales, general and administration costs and other operating expenses	52,186	61,562	111,643	110,919
Foreign exchange loss	2,436	223	1,280	547
Impairment loss on goodwill (note 5)	—	—	50,790	—
Earnings (loss) from operations	(72,001)	37,000	(97,407)	77,906
Gain (loss) on disposition of property, plant and equipment	(229)	(15)	(392)	5
Unrealized foreign exchange gain on non-current monetary items	2,163	2,358	2,206	3,293
Earnings (loss) before interest and income taxes	(70,067)	39,343	(95,593)	81,204
Interest and finance costs				
Interest on long-term debt	11,799	8,197	22,880	14,766
Accretion in carrying value of long-term debt (note 10)	798	261	1,024	374
Interest expense on lease liability	1,875	1,719	3,769	3,356
Other interest and bank charges	1,160	2,157	2,616	2,439
Fair market value loss on interest rate swap	1,258	12,633	23,736	22,089
	16,890	24,967	54,025	43,024
Earnings (loss) before income tax expense	(86,957)	14,376	(149,618)	38,180
Income tax (recovery) expense (note 9)	(12,907)	5,869	(8,329)	13,524
Net earnings (loss) for the period	$ (74,050)	$ 8,507	$ (141,289)	$ 24,656
Other comprehensive income (loss)				
Actuarial income (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	(8,941)	(4,778)	(6,683)	(8,679)
Unrealized foreign exchange loss on translation of foreign operations	(1,557)	(2,057)	(22,865)	(2,057)
Total comprehensive income (loss) for the period	$ (84,548)	1,672	(170,837)	13,920
Net earnings (loss) per share (basic) (note 12)	$ (1.18)	$ 0.14	$ (2.26)	$ 0.40
Net earnings (loss) per share (diluted) (note 12)	$ (1.18)	$ 0.14	$ (2.26)	$ 0.40

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

NFI GROUP INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 28, 2020
(in thousands of U.S. dollars)

		June 28, 2020		December 29, 2019
Assets				
Current				
Cash	$	10,363	$	28,233
Accounts receivable (note 3, 13)		262,914		531,736
Income tax receivable		18,394		17,375
Inventories (note 4)		729,898		672,243
Derivative financial instruments (note 14 b,c)		806		—
Prepaid expenses and deposits		15,787		10,094
		1,038,162		1,259,681
Property, plant and equipment		253,447		268,748
Right-of-use asset		144,400		153,323
Goodwill and intangible assets (note 5)		1,164,329		1,250,518
Accrued benefit asset		1,576		3,879
Other long-term asset (note 6)		35,423		19,612
	$	2,637,337	$	2,955,761
Liabilities				
Current				
Bank indebtedness	$	7,773	$	—
Accounts payable and accrued liabilities		378,145		581,612
Derivative financial instruments (note 14 b,c)		2,511		4,651
Current portion of long-term liabilities (note 7)		150,247		144,524
		538,676		730,787
Accrued benefit liability		18,531		11,916
Obligations under leases		136,487		143,999
Deferred compensation obligation		1,575		2,790
Deferred revenue		13,574		13,354
Provisions (note 8)		69,021		62,180
Deferred tax liabilities		79,839		105,023
Derivative financial instruments (note 14 b,c)		39,124		15,388
Long-term debt (note 10)		1,112,602		1,053,126
	$	2,009,429	$	2,138,563
Commitments and contingencies (note 16)				
Shareholders' equity				
Share capital (note 11)		681,147		680,962
Stock option and restricted share unit reserve		7,397		6,828
Accumulated other comprehensive income (loss)		(28,779)		769
Retained earnings (deficit)		(31,857)		128,639
	$	627,908	$	817,198
	$	2,637,337	$	2,955,761

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended June 28, 2020
(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive Income (Loss)	Treasury shares	Retained Earnings (Deficit)	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	—	—	—	—	$ (141,289)	(141,289)
Other comprehensive loss	—	—	(29,548)	—	—	(29,548)
Dividends declared on common shares	—	—	—	—	(19,207)	(19,207)
Share-based compensation, net of deferred income taxes	—	658	—	—	—	658
Shares issued	185	(89)	—	—	—	96
Balance, June 28, 2020	**$ 681,147**	**$ 7,397**	**$ (28,779)**	**$ —**	**$ (31,857)**	**$ 627,908**

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

13-Weeks ended and 26-Weeks ended June 28, 2020 ("2020 Q2" and "2020 Q2 YTD", respectively) and 13-Weeks and 26-Weeks ended June 30, 2019 ("2019 Q2" and "2019 Q2 YTD", respectively)

(in thousands of U.S. dollars)

	2020 Q2	2019 Q2	2020 Q2 YTD	2019 Q2 YTD
Operating activities				
Net earnings (loss) for the period	$ (74,050)	$ 8,507	$ (141,289)	$ 24,656
Income tax (recovery) expense	(12,907)	5,869	(8,329)	13,524
Depreciation of plant and equipment	17,420	14,410	35,007	25,364
Amortization of intangible assets	10,726	7,989	23,279	16,016
Share-based compensation	551	558	565	977
Interest and finance costs recognized in profit or loss	16,891	24,967	54,027	43,024
Fair value adjustment for total return swap	(275)	(800)	1,695	(756)
Unrealized foreign exchange gain on non-current monetary items	(2,173)	(2,358)	(2,216)	(3,293)
Foreign exchange gain (loss) on cash held in foreign currency	14	24	(33)	(18)
Impairment loss on goodwill	—	—	50,790	—
Loss (gain) on disposition of property, plant and equipment	229	15	392	(5)
Defined benefit expense	1,522	1,511	3,013	2,983
Defined benefit funding	(1,522)	(1,744)	(3,042)	(3,149)
Cash generated (consumed) by operating activities before non-cash working capital items and interest and income taxes paid	(43,574)	58,948	13,859	119,323
Changes in non-cash working capital items (note 13)	55,644	(64,049)	9,435	(118,906)
Cash generated from (used in) operating activities before interest and income taxes paid	12,070	(5,101)	23,294	417
Interest paid	(15,005)	(10,274)	(30,711)	(18,621)
Income taxes paid	(547)	(15,069)	(12,448)	(19,391)
Net cash used in operating activities	(3,482)	(30,444)	(19,865)	(37,595)
Financing activities				
Debt issue costs	—	(1,093)	—	(1,106)
Repayment of obligations under lease	(4,481)	(3,544)	(7,555)	(6,443)
Proceeds from long-term debt	1,647	370,516	58,452	408,716
Share issuance	—	35,262	96	35,371
Proceeds from short-term debt	7,773	—	7,773	—
Repurchase of shares	—	—	—	(5,682)
Dividends paid	(9,503)	(19,357)	(29,815)	(36,141)
Net cash generated from (used in) financing activities	(4,564)	381,784	28,951	394,715
Investing activities				
Acquisition of intangible assets	—	—	—	(17)
Proceeds (loss) from disposition of property, plant and equipment	50	—	150	28
Investment in long-term restricted deposits	—	—	(15,510)	—
Net cash used in acquisitions	—	(327,361)	—	(327,361)
Acquisition of property, plant and equipment	(4,056)	(10,248)	(11,629)	(17,258)
Net cash used in investing activities	(4,006)	(337,609)	(26,989)	(344,608)
Effect of foreign exchange rate on cash	(14)	(24)	33	18
(Decrease) increase in cash	(12,066)	13,707	(17,870)	12,530
Cash — beginning of period	22,429	9,643	28,233	10,820
Cash — end of period	$ 10,363	$ 23,350	$ 10,363	$ 23,350

The accompanying notes are an integral part of the 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 unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on August 5, 2020.

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 requires 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.

(in thousands of U.S. dollars except per share figures)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Fiscal Periods

The Company's 2020 fiscal period is divided into quarters 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

2.5 Translation of unrealized foreign exchange gains on translation of foreign operations

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 or "GBP". 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.

3. ACCOUNTS RECEIVABLE

	June 28, 2020	December 29, 2019
Trade, net of allowance for doubtful accounts	$ 198,412	$ 471,552
Other	64,502	60,184
	$ 262,914	$ 531,736

4. INVENTORIES

	June 28, 2020	December 29, 2019
Raw materials	$ 288,750	$ 300,447
Work in process	260,333	263,343
Finished goods	180,815	108,453
	$ 729,898	$ 672,243

(in thousands of U.S. dollars except per share figures)

4. INVENTORIES (Continued)

		2020 Q2		2019 Q2		**2020 Q2 YTD**		2019 Q2 YTD
Cost of inventories recognized as expense and included in cost of sales	$	341,388	$	582,190	$	960,183	$	1,051,821
Write-down of inventory to net realizable value in cost of sales		18,592		1,048		20,183		2,760
Reversals of a previous write-down in inventory		—		—		403		—

5. GOODWILL

During the fourth quarter of each fiscal year, the Company performs an annual goodwill impairment test for each of its cash generating units ("CGUs"). Management has determined that for purposes of this evaluation the Company has six CGUs: bus manufacturing, motor coach manufacturing, ARBOC, ADL manufacturing, ADL aftermarket parts operations and aftermarket parts operations. The Company also tests goodwill for impairment whenever events or circumstances occur which, in management's judgment, could reduce the recoverable amount of one or more CGUs below its carrying amount. Potential impairment indicators include, but are not limited to, (i) the results of the most recent annual impairment test, in particular the magnitude of the excess of recoverable amount over carrying amount observed, (ii) significant downward revisions to a CGU's budgeted net cash flows, and (iii) significant increases in market interest rates or other market rates of return that are likely to affect the discount rate used in calculating a CGU's value-in-use and decrease the CGU's recoverable amount materially.

During the first quarter of 2020, the Company idled bus and coach production 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 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 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 CGU. The uncertainty surrounding the outbreak of COVID-19 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 March 29, 2020.

In performing the 2020 Q1 interim quantitative impairment test and consistent with prior practice, the Company determined the recoverable amount of each CGU based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering a three-year period and discount rates based on weighted average cost of capital of like businesses that range between 7.5% and 14.5% per annum for the bus, ADL and motor coach manufacturing CGUs, between 11.5% and 17.5% for the ARBOC CGU, and between 6.5% and 11.5% per annum for the aftermarket parts and ADL parts CGU. Discount rates were increased approximately 50 basis points from the previous annual impairment assessment. Cash flows beyond the three-year forecast 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 gross margins based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risk relating to the relevant CGUs.

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 that, as the carrying amount exceeded the recoverable amount, a goodwill impairment charge of $50.8 million was recorded.

During the second quarter of 2020, management conducted a review to assess whether indicators of impairment existed. Management concluded that COVID-19's continued negative impact on financial results, relative to budgeted results, once again created indicators of impairment at all CGUs. Accordingly, management performed an interim quantitative impairment test for all CGUs as at June 28, 2020.

The methodologies and discount rates used to estimate the recoverable amount of the CGUs were consistent with the first quarter of 2020. Management updated the value-in-use calculations to reflect revised estimates of future cash flows and determined that the recoverable amount of each CGU exceeded the carrying amount as at June 28, 2020 and, as a result, a goodwill impairment charge was not recorded.

Sensitivity testing was conducted as part of the June 28, 2020 impairment tests. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of the bus manufacturing, ARBOC, ADL manufacturing or aftermarket parts operations CGUs to exceed the recoverable amount.

(in thousands of U.S. dollars except per share figures)

5. GOODWILL (Continued)

Impairment of the motor coach manufacturing CGU may result if one of the following occurs:

- the cash flow projections are lower by 7.8% annually;
- the long-term annual average growth rate is decreased by 0.75%; or
- the discount rate is higher by at least 0.87%.

Impairment of the ADL aftermarket parts operations CGU may result if one of the following occurs:

- the cash flow projections are lower by 1.8% annually;
- the long-term annual average growth rate is decreased by 0.19%; or
- the discount rate is higher by at least 0.17%.

6. OTHER LONG-TERM ASSETS

	June 28, 2020	December 29, 2019
Long-term restricted deposit (note 16c)	$ 30,000	$ 14,490
Long-term accounts receivable	5,423	5,122
	$ 35,423	$ 19,612

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

7. CURRENT PORTION OF LONG TERM LIABILITIES

	June 28, 2020	December 29, 2019
Deferred revenue	$ 108,604	$ 94,372
Provisions (note 8)	21,565	29,314
Deferred compensation obligation	388	1,678
Obligations under finance leases	19,690	19,160
	$ 150,247	$ 144,524

(in thousands of U.S. dollars except per share figures)

8. PROVISIONS

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

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 provision for the base warranty costs during the periods are as follows:

	Insurance Risk Retention	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	4,139	24,239	28,378
Amounts used/realized	(5,429)	(22,724)	(28,153)
Unused provision	—	(84)	(84)
Unwinding of discount and effect of changes in the discount rate	—	24	24
Exchange rate differences	—	(1,073)	(1,073)
	26,207	64,379	90,586
Less current portion	3,000	18,565	21,565
June 28, 2020	$ 23,207	$ 45,814	$ 69,021

9. INCOME TAX (RECOVERY) EXPENSE

The income tax expense for 2020 Q2 was $(12.9) million compared to $5.9 million in 2019 Q2. The Effective Tax Rate ("ETR") for 2020 Q2 was 14.9% and the ETR for 2019 Q2 was 40.8%. The income tax expense for 2020 Q2 YTD was $(8.3) million compared to $13.5 million in 2019 Q2 YTD. The ETR for 2020 Q2 YTD was 5.6% and the ETR for 2019 Q2 YTD was 35.4%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the incurrence of non-deductible interest, the impact of revaluing UK deferred tax liabilities as a result of a reversal of a previously enacted rate reduction, and the non-deductible goodwill impairment charge in 2020 Q1.

10. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value June 28, 2020**	Net Book Value December 29, 2019
Revolving Credit Facility, Unsecured (“Credit Facility”)	1,059,100	2,648	1,056,452	1,053,126
Revolving Credit Facility, Unsecured ("UK Facility")	56,928	334	56,594	—
Revolving Credit Facility, Unsecured ("Sidecar")	—	443	(443)	—
	1,116,028	3,425	1,112,603	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. $12.8 million of outstanding letters-of-credit were drawn against the Credit Facility at June 28, 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. Amounts drawn under the Credit Facility 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.

10. LONG-TERM DEBT (Continued)

On April 23, 2020 NFI entered into the $250 million unsecured, one-year Sidecar facility that can be utilized for general corporate purposes. Amounts drawn under the Sidecar 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. The Sidecar matures on April 23, 2021.

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.

11. SHARE CAPITAL

	June 28, 2020	December 29, 2019
Authorized - Unlimited		
Issued - 62,506,539 Common Shares (December 29, 2019: 62,493,880)	$ 681,147	$ 680,962

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	4	89
Balance – June 28, 2020	62,507	$ 681,147

12. EARNINGS PER SHARE

	2020 Q2	2019 Q2	2020 Q2 YTD	2019 Q2 YTD
Net earnings (loss) attributable to equity holders	$ (74,050)	$ 8,507	$ (141,289)	$ 24,656
Weighted average number of Shares in issue	62,506,539	61,391,499	62,502,800	61,206,109
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units	—	297,437	—	284,546
Weighted average number of Shares for diluted earnings per Share	62,506,539	61,688,936	62,502,800	61,490,655
Net earnings (loss) per Share (basic)	$ (1.1847)	$ 0.1386	$ (2.2605)	$ 0.4028
Net earnings (loss) per Share (diluted)	$ (1.1847)	$ 0.1379	$ (2.2605)	$ 0.4010

Basic earnings per Share is calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of Shares outstanding during the period excluding Shares purchased by the Company and held as treasury shares. During the period the Company held no treasury shares.

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.

(in thousands of U.S. dollars except per share figures)

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2020 Q2	2019 Q2	2020 Q2 YTD	2019 Q2 YTD
Accounts receivable	$ 185,497	$ 5,674	$ 270,390	$ 43,354
Income tax receivable	(3,129)	(2,592)	(1,017)	2,110
Inventories	19,808	(30,657)	(59,049)	(99,816)
Prepaid expenses and deposits	(4,091)	(57)	(5,695)	(133)
Accounts payable and accrued liabilities	(159,699)	(17,453)	(203,466)	(38,291)
Deferred revenue	12,371	(10,926)	14,451	7,528
Provisions	(284)	(5,482)	(890)	(5,551)
Long-term restricted deposits (note 6)	—	798	—	(13,692)
Other	5,171	(3,354)	(5,289)	(14,415)
	$ 55,644	$ (64,049)	$ 9,435	$ (118,906)

14. 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.

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.

(in thousands of U.S. dollars except per share figures)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)

	June 28, 2020				
	Fair value level		Carrying amount		Fair value
Financial assets recorded at fair value					
Cash	Level 1	$	10,363	$	10,363
Long-term restricted deposit	Level 1	$	30,000	$	30,000
Foreign exchange forward contracts	Level 2	$	806	$	806
Derivative financial instrument assets - current		$	806	$	806
Financial liabilities recorded at fair value					
Bank Indebtedness	Level 1	$	7,773	$	7,773
Total return swap contracts	Level 2	$	2,511	$	2,511
Derivative financial instrument liabilities - current		$	2,511	$	2,511
Interest rate swap	Level 2	$	39,124	$	39,124
Derivative financial instrument liabilities - long term		$	39,124	$	39,124

	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 and total comprehensive income consistent with the underlying nature and purpose of the derivative instruments.

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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)

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 June 28, 2020 the Company held a position of 239,825 Shares at a weighted average price of C$31.08. 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.

At June 28, 2020, the Company had $169 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. The related liability of $0.8 million (December 29, 2019: $3.7 million liability) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net earnings (loss) and total comprehensive income (loss).

(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 June 28, 2020, the Company had a cash balance of $10.4 million (December 29, 2019: $28.2 million), the $1.059 billion under the Credit Facility due in 2024 (December 29, 2019: $1.056 billion), $56.9 million under the UK Facility due in 2022, and $12.8 million of outstanding letters of credit (December 29, 2019: $12.8 million). In addition, there are $50.7 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 and the Sidecar has a total borrowing limit of $250 million. The liquidity position as at June 28, 2020 is $436.2 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 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 June 28, 2020:

US dollars in thousands	Total	2020	2021	2022	2023	2024	Post 2024
Leases	245,717	13,979	25,316	23,363	20,515	15,521	147,023
Accrued benefit liability	2,837	2,837	—	—	—	—	—
	$ 248,554	$ 16,816	$ 25,316	$ 23,363	$ 20,515	$ 15,521	$ 147,023

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 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 2020 Q2, the Company recorded a bad debt expense of $383 as compared to $54 bad debt expense in 2019 Q2.

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 unaudited consolidated statements of net earnings and total comprehensive income 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":

14. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)**

		June 28, 2020		December 29, 2019
Current, including holdbacks	$	234,744	$	487,807
Past due amounts but not impaired				
1 – 60 days		22,740		37,413
Greater than 60 days		6,539		6,800
Less: Allowance for doubtful accounts		(1,109)		(284)
Total accounts receivables, net	$	262,914	$	531,736

As at June 28, 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 April 23, 2020, NFI Group announced that it had obtained covenant relief under the Company's existing NFI $1.25 billion Credit Facility. The Company's banking partners have waived compliance with the total leverage ratio ("TLR") and interest coverage ratio covenants and placed a liquidity requirement of greater than $50.0 million under the Credit Facility and the Sidecar for fiscal periods up to September 28, 2020. As of that date, compliance with relaxed covenants will resume for the term of the new facility.

When the covenants resume they will vary depending on whether or not the Company draws on the Sidecar. If the Company does not utilize the Sidecar, it must maintain a TLR of less than 4.75 to 1 for 2020 Q4. Alternatively, if the Company does utilize the New Facility then it must maintain a TLR of less than 5.5 to 1 for 2020 Q4. Starting with the first quarter of 2021 the covenants converge and are the same for both the Credit Facility and the Sidecar regardless of whether or not the Company has drawn funds from the New Facility. The TLR is 4.5 to 1 for the first quarter of 2021, 4.25 to 1 for the second quarter of 2021 and, for the Credit Facility, 3.75 to 1 for the third quarter of 2021 and beyond.

2020 Q2 results will be excluded from all covenant calculations and the calculations for the fourth quarter of 2020 and first three quarters of 2021 will be based on a pro-rated LTM calculations that exclude 2020 Q2. The calculation of the financial covenants for 2020 Q2 based on a pro-rated LTM calculations are provided for information purposes below:

	June 28, 2020	December 29, 2019
Total Leverage Ratio	3.79	3.24
Interest Coverage Ratio	5.78	7.73

As at June 28, 2020, the Company was in compliance with the liquidity requirement.

US dollars in thousands		June 28, 2020
Liquidity Position (must be greater than $50 million)	$	436,241

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.

(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.

(in thousands of U.S. dollars except per share figures)

15. SEGMENT INFORMATION

The Company has two reportable segments which are the Company's strategic business units: bus, coach and medium-duty and 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 transit bus, motor coach and medium-duty and cutaway 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 $1,538 thousand (2019 Q2: $2,035 thousand), 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:

	2020 Q2			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 248,598	$ 84,736	—	$ 333,334
Operating costs and expenses	322,270	76,580	21,441	420,291
Earnings (loss) before income tax expense	(73,672)	8,156	(21,441)	(86,957)
Total assets	1,885,561	493,837	257,939	2,637,337
Addition of capital expenditures	3,813	243	—	4,056
Addition of goodwill and intangibles assets	—	—	—	—
Impairment loss on goodwill	—	—	—	—
Goodwill	330,432	185,768	—	516,200

	2020 Q2 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 843,654	$ 200,064	—	$ 1,043,718
Operating costs and expenses	957,407	173,914	62,016	1,193,337
Earnings (loss) before income tax expense	(113,753)	26,150	(62,016)	(149,619)
Total assets	1,885,561	493,837	257,939	2,637,337
Addition of capital expenditures	11,123	506	—	11,629
Addition of goodwill and intangibles assets	6,095	—	—	6,095
Impairment loss on goodwill	(50,790)	—	—	(50,790)
Goodwill	330,432	185,768	—	516,200

In 2019 Q3 the company reallocated Goodwill between Manufacturing and Aftermarket based on changes within the business. The impact of the change is an increase in Goodwill in Aftermarket and a decrease in Manufacturing of $20.5 million.

(in thousands of U.S. dollars except per share figures)

15. SEGMENT INFORMATION (Continued)

	2019 Q2			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 583,070	$ 100,283	—	683,353
Operating costs and expenses	561,641	81,189	26,147	668,977
Earnings (loss) before income tax expense	21,429	19,094	(26,147)	14,376
Total assets	2,223,273	447,650	238,325	2,909,248
Addition of capital expenditures	9,954	294	—	10,248
Addition of goodwill and intangibles assets	294,852	—	—	294,852
Goodwill	579,156	151,974	—	731,130

	2019 Q2 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,059,437	$ 190,911	—	1,250,348
Operating costs and expenses	1,006,035	156,464	49,669	1,212,168
Earnings (loss) before income tax expense	53,402	34,447	(49,669)	38,180
Total assets	2,223,273	447,650	238,325	2,909,248
Addition of capital expenditures	16,822	436	—	17,258
Addition of goodwill and intangibles assets	294,869	—	—	294,869
Goodwill	579,156	151,974	—	731,130

The Company's revenue by geography is summarized below:

	2020 Q2	2019 Q2	2020 Q2 YTD	2019 Q2 YTD
North America	$ 288,164	$ 641,391	$ 894,176	$ 1,208,386
UK and Europe	33,071	38,215	132,389	38,215
Asia Pacific	11,655	3,429	16,049	3,429
Other	444	318	1,104	318
Total	$ 333,334	$ 683,353	$ 1,043,718	$ 1,250,348

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

	2020 Q2	2019 Q2	2020 Q2 YTD	2019 Q2 YTD
Transit buses	$ 210,534	$ 440,545	$ 692,724	$ 823,471
Motor coaches	29,806	119,449	119,861	193,584
Medium-duty and cutaway buses	6,491	10,608	22,038	17,872
Pre-owned coach	824	10,843	6,831	20,851
Fiberglass reinforced polymer components	943	1,625	2,200	3,659
Manufacturing revenue	$ 248,598	$ 583,070	$ 843,654	$ 1,059,437

16. 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 June 28, 2020 range from July 2020 to December 2026.

At June 28, 2020, outstanding surety bonds guaranteed by the Company totaled $381.3 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 June 28, 2020, letters of credit totaling $12.8 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 $63.6 million. As at June 28, 2020, letters of credit totaling $20.8 million were outstanding under the bi-lateral credit facility. Additionally, there are $30.0 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

As at June 28, 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.

17. 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.

For the second quarter of 2020, the Company submitted claims of $14.4 million under the CEWS program, all of which is included in 'Accounts Receivable' on the Company's unaudited interim consolidated statement of financial position at June 28, 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 ($11.4 million against 'Cost of Sales' and $1.6 million against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's unaudited interim consolidated statement of net earnings and total comprehensive income for the 13-weeks and 26-weeks ended June 28, 2028. 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 quarters.

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.

For the second quarter of 2020, the Company submitted claims of $13.3 million under the CJRS program, $2.5 million of which is included in 'Accounts Receivable' on the Company's unaudited interim consolidated statement of financial position at June 28, 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 ($12.5 million against 'Cost of Sales' and $0.8 million against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's unaudited interim consolidated statement of net earnings and total comprehensive income for the 13-weeks and 26-weeks ended June 28, 2028. The Company will continue to evaluate its eligibility under the CJRS program in subsequent quarters.

18. SUBSEQUENT EVENTS

On July 27, NFI announced a transformational initiative, "NFI Forward", that is expected to generate more than $75 million in annualized 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.

18. SUBSEQUENT EVENTS (Continued)

NFI has grown through a balanced combination of organic growth and strategic acquisitions. Since 2010, the Company has made eight acquisitions that have generated significant synergies and management has identified additional opportunities to remove overhead costs. Management's strategic plan developed prior to COVID-19, set out an aggressive vision to transform NFI by pivoting from a holding company to an integrated operating business.

NFI Forward aims to improve NFI's competitive positioning, drive sales recovery and growth, and create a more efficient organization. While many projects were originally slated to begin in 2020, with the impacts of COVID-19 the Company is now accelerating and extending NFI Forward's execution.

19. COMPARATIVE FIGURES

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