NFI GROUP

Third Quarter 2020 Financial Report

November 11, 2020

NOTES TO READERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS, 39-WEEKS AND 52-WEEKS ENDED September 27, 2020

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's unaudited interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period and the 39-week period ended September 27, 2020.

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

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

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 the heading entitled: "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings Per Share, regions including: North America, UK and Europe, Asia Pacific, and Other" in Appendix A for information about these measures, including how they are calculated and the way in which they are used.

Buses manufactured by New Flyer and ADL's single and double deck buses are classified as "transit buses". ARBOC manufactures body on-chassis or "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses". A "motor coach" or "coach" is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) one or two axles in the rear (related to the weight of the vehicle), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory), and (v) no room for standing passengers. "Product lines" include heavy-duty transit buses, motor coaches, pre-owned coaches, cutaway and medium-duty buses. 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

NEW FLYER

MCI

ARBOC

ALEXANDER DENNIS

PLAXTON

nfi.parts

2020 Q3 LTM Highlights (US $)

$2.6 billion
Revenue

4,986
EUs Delivered

684
EUs in New Orders

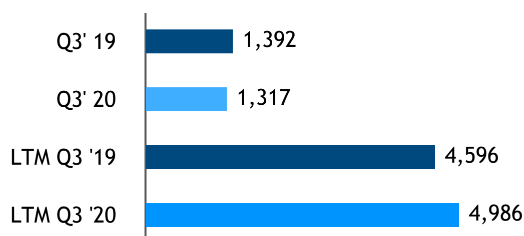
$197 million
Adjusted EBITDA(1)

$47 million
Free Cash Flow(1)

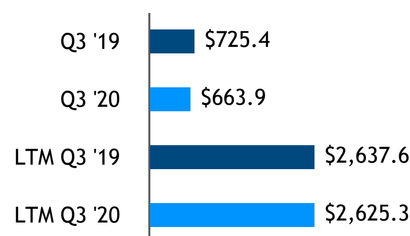
$4.5 billion
Ending Backlog of 8,882 EUs

KEY PERFORMANCE INDICATORS

Deliveries (EUs)



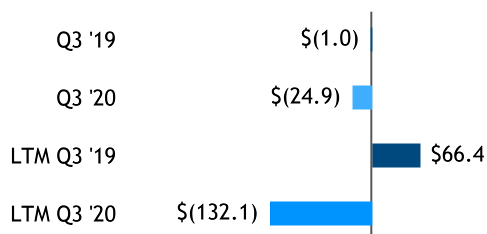
Revenue ($ millions)



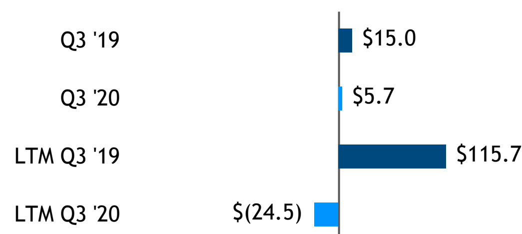
The decrease in deliveries from 2019 Q3 to 2020 Q3 was related to lower production volumes as the Company resumed operations following a temporary idling of production facilities during 2020 Q2 due to the COVID-19 pandemic. In addition, private customer deliveries were lower due to the economic impacts of COVID-19. On an LTM basis, deliveries were up by 390 EUs, or 8.5%, due to record fourth quarter 2019 deliveries and the acquisition of ADL, offset by significantly lower deliveries during 2020 Q2.

Revenue decreased by 8.5% from 2019 Q3 to 2020 Q3 due to the decline in vehicle deliveries. Aftermarket parts sales were also lower by 10.6% primarily from private operators idling their fleets due to the COVID-19 pandemic. On an LTM basis sales were essentially flat with the addition of ADL, higher 2019 Q4 deliveries and higher aftermarket revenues offset by significantly lower motor coach revenue.

Net earnings (loss) ($ millions)



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



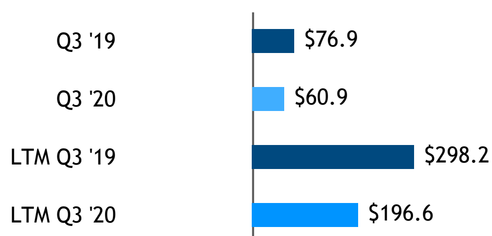
The 2020 Q3 net loss of $24.9 million, a change of $23.9 million from 2019 Q3, was driven by lower revenues mentioned above, combined with higher overhead and sales, general and administration ("SG&A") costs, offset by lower interest expenses from fair market value adjustments, income tax recoveries and unrealized foreign exchange gains. The net loss included a one-time, non-cash charge of $20.4 million related to an impairment of pre-owned motor coaches reflecting the value of the transaction whereby MCI sold its pre-owned coach pool to a third party subsequent to quarter-end. Losses from operations were partially offset by government grants of $14.8 million received through the Canadian Emergency Wage Subsidy ("CEWS") and the UK Job Retention ("UK Furlough") program.

The 2020 Q3 LTM net loss of $132.1 million was driven by the losses mentioned above, a significant loss in 2020 Q2 related to temporary shutdown of production facilities, and a loss in 2020 Q1, which was driven by a $50.8 million goodwill impairment in the Company's motor coach business unit. The goodwill impairment was primarily caused by near-term cash flow impacts from COVID-19.

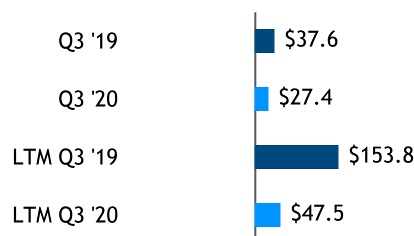
Third quarter 2020 Adjusted Net Earnings of $5.7 million was primarily driven by the same factors relating to the net loss, including a loss from operations, but adjusted for $30.6 million in one-time, non-recurring charges, including $16.1 million in inventory impairment which includes the above described sale of previously-owned motor coach inventory that was completed subsequent to quarter-end, $12.6 million in severance charges related to production reductions and the NFI Forward initiative, and $2.8 million in other COVID-19 related costs. 2020 Q3 LTM Adjusted Net Loss of ($24.5) million is normalized for the above noted one-time, non-

recurring charges plus a $50.8 million goodwill impairment and $11.4 million of tax affected mark-to-market losses on interest rate swaps.

Adjusted EBITDA[1] ($ millions)



Free Cash Flow[1] ($ millions)

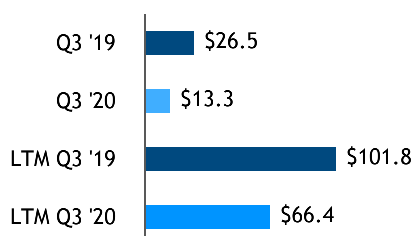


2020 Q3 Adjusted EBITDA decreased by $16.0 million, or 21%, driven by the Company's decrease in deliveries and aftermarket revenue due to the COVID-19 pandemic. While the Company was able to lower its variable direct costs, it incurred higher SG&A costs, that were only somewhat offset by the CEWS and UK Furlough schemes.

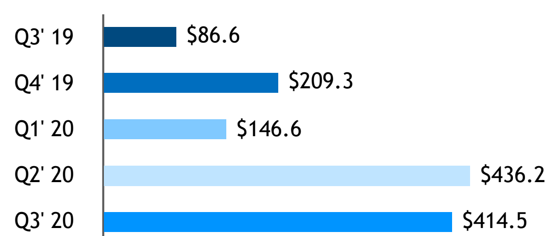
On an LTM basis Adjusted EBITDA decreased by $101.6 million, or 34%, as record fourth quarter 2019 deliveries and the acquisition of ADL were offset by significantly lower deliveries and aftermarket revenue during 2020 Q2, combined with lower Adjusted EBITDA in 2020 Q3.

Free cash flow in 2020 Q3 decreased by $10.2 million, or 27%, when compared to 2019 Q3, 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 69%, as lower Adjusted EBITDA and higher interest and cash taxes were offset by lower cash capital expenditures.

Declared dividends ($CAD millions)



Total Liquidity

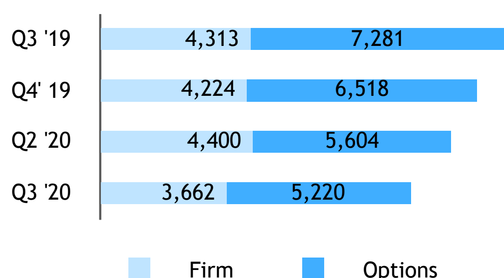


Declared dividends in 2020 Q3 decreased by 50% as a result of the Board of Directors (“Board”) approving a reduction of the Company’s quarterly dividend, starting with the period January 1 to March 31, 2020, to C$0.2125 per common share in direct response to the impact of COVID-19 on the Company's operating 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 34.7%, also driven by the first and second quarter reduction.

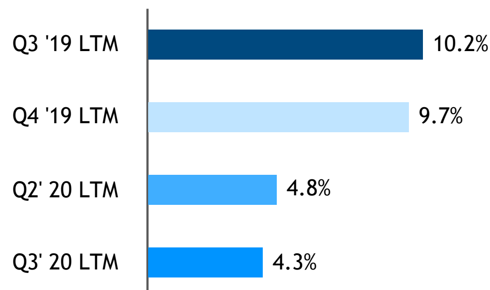
The Company's liquidity position, which combines cash on-hand plus available capacity under credit facilities, as at September 27, 2020 was $414.5 million. This liquidity includes the Company's $1.25 billion unsecured senior credit facility ("Credit Facility"), a $250 million unsecured, one-year liquidity facility (the "Sidecar"), and a £50 million unsecured facility (the "UK Facility"). The Company had a covenant waiver in place for its Total Leverage Ratio ("TLR") (which measures total leverage against Adjusted EBITDA on a trailing four quarter basis) on all of its facilities until September 28, 2020, with covenants resuming at more relaxed levels based on a pro-rated calculation that excluded 2020 Q2 results. The Company now expects that the combination of lower trailing Adjusted EBITDA in 2020 combined with the Company's current debt profile and the ongoing uncertainty created by the COVID-19 pandemic, may impact compliance with the TLR covenant starting in the first quarter of 2021. Management is currently in detailed negotiations with its banking partners to obtain covenant relief. Management believes the Company's cash position and credit capacity under its existing credit facilities is currently sufficient to fund operations, meet financial obligations as they come due and provide the necessary funds for capital expenditures, dividend payments and other operational needs. Based on the Company’s financial position and anticipated cash flow generation the Company does not expect to utilize the sidecar.

Further details regarding the credit facilities and the Company's covenants can be found in the Capital Allocation section of this MD&A.

Backlog (EUs)



ROIC[1]



At the end of 2020 Q3, the Company's total backlog (firm and options) of 8,882 EUs (valued at $4.5 billion) has decreased compared to 10,004 EUs (valued at $4.9 billion) at the end of 2020 Q2. The decrease was primarily driven by the Company delivering units in the backlog while new orders were lower during the period due to delays in new contract awards as a result of COVID-19 disruptions to public market customers. Backlog was also impacted by the expiry of 427 option EUs and the cancellation of 62 EUs. Notwithstanding the slower order activity, NFI added 684 units to the backlog during the period.

2020 Q3 LTM ROIC decreased 0.5% from 2019 Q3 LTM due to declines in Adjusted EBITDA, driven by the impacts of COVID-19, combined with one-time non-recurring lower of cost or net realizable value adjustments in respect of the Company's pre-owned coaches, and goodwill impairment in the MCI business unit, plus 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 higher invested capital related to the acquisition of ADL.

Footnotes

1. Non-IFRS Measure - See Appendix A

2020 Q3 REVIEW

The third quarter of 2020 saw significant improvement over the second quarter, as the Company was able to resume production and deliver vehicles. All of NFI's facilities resumed production while maintaining a primary focus on the health and safety of its employees following a safe return to work protocol complying with local health and government mandates.

The COVID-19 pandemic continued to impact NFI's end markets and customers during the quarter with delays in new public market vehicle awards and deferrals or cancellations of private orders. The Company focused on delivering upon its "NFI Forward" initiative to transform the organization and right-size its cost structure. Year-to-date several strategic initiatives under the NFI Forward program have generated $13.5 million of savings through material cost reductions, overhead restructuring to match lower production rates and the removal of fixed SG&A through restructuring and repositioning.

With the North American private motor coach market under significant pressure from the pandemic, NFI saw a rapid decline in the demand for pre-owned motor coaches and pressure on the market values of those vehicles. With demand for pre-owned vehicles declining and as part of the Company's strategy to focus on divesting of underperforming assets and deleveraging its balance sheet, NFI sought to sell the majority of its pre-owned coach pool. On October 22, 2020, NFI completed a transaction with a third-party for the sale of the majority of its pre-owned coach pool for total proceeds of approximately $19 million, subject to certain minor adjustments. Management determined that a write-down of this pre-owned coach inventory to net realizable value was required to reflect its current net realizable value less costs to complete. This write-down resulted in a $20.4 million charge to cost of goods sold during the third quarter.

In addition to the pre-owned coach value adjustment, the Company incurred several other one-time costs in the third quarter. In some cases these were driven by the market impacts of COVID-19, while in other cases these were driven by costs to realize the benefits of the NFI Forward initiative. These one-time costs have been normalized within Adjusted EBITDA and Adjusted Net Earnings. These adjustments (tax effected) include:

- Restructuring
    - $12.6 million in severance costs related to production reductions and NFI Forward initiatives realized mostly by ADL and MCI to restructure manufacturing operations and reduce overheads. These resulted in a combined reduction of approximately 750 employees.
    - $2.1 million in right-of-use asset impairments related to the sub-leasing of MCI's Los Alamitos service center and decreasing chassis production at ADL's Guildford facility.
- COVID-19
    - $16.1 million in inventory impairment which includes the above described sale of previously-owned motor coach inventory that was completed subsequent to quarter-end.
    - $0.8 million of COVID-19 operating costs that include, but are not limited to, the purchase of personal protective equipment, plant sanitation activities and incremental cleaning activities.

In addition, Adjusted Net Earnings are normalized for other related items including:

- $1.9 million mark-to-market gain on interest rate swap
- $2.5 million unrealized foreign exchange gains

After adjusting for these items, Adjusted Net Earnings is $5.7 million or $0.09 per share.

The third quarter remained a busy period for NFI with several significant events and milestones including:

- The Company recorded total new orders of 684 EUs, including 399 firm orders and 285 option orders.
- The 2020 Q3 Canada and U.S. active public Bid Universe has decreased from recent historic highs that were driven by award delays due to COVID-19. At the end of the quarter there were 6,221 EUs in bids submitted or in process ("Active Bids") and 19,280 EUs in forecasted procurement over the next five years for a total Bid Universe of 25,501 EUs. While the Bid Universe is down 13% from 2020 Q2, Active Bids are up 27% from the same period in 2019, representing significant ongoing demand for vehicles. See Appendix B for further details.
- New Flyer launched its Anniston Workforce Development Program, the first of its kind in the southern U.S. and a component of New Flyer's Community Benefits Framework. The program includes training and development, skill gap analysis, wage and benefit commitments, fulfillment of diversity and hiring objectives and pre-apprenticeship and apprenticeship programs.
- The Company continued to realize upon its strategy to be the leader in zero-emission, battery-electric buses and coaches ("ZEBs"). During the quarter New Flyer received several ZEB awards including an award for 28 EUs and an $8.7 million contract for New Flyer Infrastructure Solutions regarding the construction of charging infrastructure.

- ADL strengthened its position as the UK's go-to provider for ZEBs with delivery of battery-electric buses to National Express and was selected on three winning proposals to the Scottish government for the procurement of 35 battery-electric vehicles to local Scottish partners.

- NFI Parts continued to expanded its Clean and Protect product offering to assist its motor coach and public transportation customers provide a safer and cleaner experience for customers.

- On July 27, 2020, NFI announced a transformational initiative, NFI Forward, that is expected to generate more than $65 million in annualized cost savings, plus an additional $10 million in Free Cash Flow, 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 and 2021, 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 in the Outlook section of this MD&A.

FINANCIAL RESULTS

The continuing COVID-19 pandemic has had a significant negative impact on NFI's 2020 Q3 results across all financial metrics, including the Company's deliveries, which declined by 75 EUs, or 5.4%, from 2019 Q3. The decrease was experienced in most 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 requirements.

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

Deliveries (unaudited, EUs)	2020 Q3	2019 Q3	% Change	2020 Q3 LTM	2019 Q3 LTM	% Change
Transit buses	1,027	1,052	*(2.4)%*	3,752	3,263	*15.0 %*
Motor coaches	181	266	*(32.0)%*	801	988	*(18.9)%*
Medium-duty and cutaway	109	74	*47.3 %*	433	345	*25.5 %*
New Vehicle Deliveries	1,317	1,392	*(5.4)%*	4,986	4,596	*8.5 %*
Pre-owned coach	84	118	*(28.8)%*	372	480	*(22.5)%*

Revenue (unaudited, dollars in millions)	2020 Q3	2019 Q3	% Change	2020 Q3 LTM	2019 Q3 LTM	% Change
Transit buses	$ 458.8	$ 448.8	*2.2 %*	$ 1,726.4	$ 1,650.1	*4.6 %*
Motor coaches	92.7	141.0	*(34.3)%*	404.5	510.6	*(20.8)%*
Medium-duty	10.9	13.8	*(21.0)%*	51.2	41.0	*24.9 %*
Total new transit bus, coach and cutaway revenue	**$ 562.4**	**$ 603.6**	***(6.8)%***	**$ 2,182.1**	**$ 2,201.7**	***(0.9)%***
Pre-owned coach revenue	2.6	11.4	*(77.2)%*	23.1	43.2	*(46.5)%*
Fiberglass reinforced polymer components	1.2	1.1	*9.1 %*	5.2	7.0	*(25.7)%*
Manufacturing Revenue	**$ 566.2**	**$ 616.1**	***(8.1)%***	$ 2,210.4	$ 2,251.9	***(1.8)%***
Aftermarket	97.7	109.3	*(10.6)%*	414.9	385.7	*7.6 %*
Total Revenue	**$ 663.9**	**$ 725.4**	***(8.5)%***	**$ 2,625.3**	**$ 2,637.6**	*(0.5)%*
North America	512.7	589.2	*(13.0)%*	2,117.4	2,459.6	*(13.9)%*
United Kingdom and Europe	93.5	107.5	*(13.0)%*	400.3	145.7	*174.7 %*
Asia Pacific	57.1	28.3	*101.8 %*	105.2	31.7	*231.9 %*
Other	0.6	0.3	*100.0 %*	2.5	0.6	*316.7 %*

Manufacturing revenue for 2020 Q3 decreased by $49.9 million, or 8.1%, compared to 2019 Q3. The decrease is primarily driven by lower deliveries of both transit buses and motor coaches, as the Company lowered production volumes in response to public customer order deferrals and private customer order delays, which were both attributable to the economic impacts 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 Q3 decreased by $11.6 million, or 10.6% compared to 2019 Q3. The decline in revenue was driven by lower private parts volumes within both the NFI aftermarket and ADL aftermarket businesses.

Adjusted EBITDA[1] (unaudited, dollars in millions)	2020 Q3	2019 Q3	% Change	2020 Q3 LTM	2019 Q3 LTM	% Change
Manufacturing	44.6	61.5	*(27.5)%*	133.4	243.2	*(45.1)%*
Aftermarket	16.7	16.4	*1.8 %*	68.1	73.5	*(7.3)%*
Corporate	(0.4)	(1.0)	*60.0 %*	(4.9)	(18.5)	*73.5 %*
Total Adjusted EBITDA	**$60.9**	**$76.9**	***(20.8)%***	**$196.6**	**$298.2**	***(34.1)%***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	7.9 %	10.0 %	*(2.1)%*	6.0 %	10.8 %	*(4.8)%*
Aftermarket	17.0 %	15.0 %	*2.0 %*	16.4 %	19.1 %	*(2.7)%*
Total	**9.2 %**	**10.6 %**	***(1.4)%***	**7.5 %**	**11.3 %**	***(3.8)%***

Net Earnings (Loss) (unaudited, dollars in millions, except per Share amounts)	2020 Q3	2019 Q3	% Change	2020 Q3 LTM	2019 Q3 LTM	% Change
Manufacturing	(29.8)	14.5	*(305.5)%*	(94.1)	98.8	*(195.2)%*
Aftermarket	20.8	11.1	*87.4 %*	52.9	63.6	*(16.8)%*
Corporate	(15.9)	(26.6)	*40.2 %*	(90.9)	(96.0)	*5.3 %*
Net earnings (Loss)	**$ (24.9)**	**$ (1.0)**	***(2,390.0)%***	**$ (132.1)**	**$ 66.4**	***(298.9)%***
		—				
COVID-19 costs	24.4	—	*N/A*	41.9	—	*N/A*
Restructuring costs	25.4	—	*N/A*	26.5	—	*N/A*
Adjusted Net Earnings (Loss)[1]	5.7	15.0	*(62.0)%*	(24.5)	115.7	*(121.2)%*
Net earnings (Loss) Per Share	(0.40)	(0.02)	*(1,900.0)%*	(2.11)	1.07	*(297.2)%*
Adjusted Earnings (Loss) Per Share[1]	0.09	0.24	*(62.5)%*	$ (0.39)	$ 1.87	*(116.7)%*

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

2020 Q3 Manufacturing Adjusted EBITDA decreased by $16.9 million, or 27.5%. The Company was able to lower its variable overhead in step with production but was unable to reduce fixed costs as quickly, resulting in lower Adjusted EBITDA. The Company has embarked on NFI Forward to identify opportunities to reduce fixed costs. The decrease in Adjusted EBITDA was offest by $14.8 million in government grants. Manufacturing 2020 Q3 net earnings decreased by $44.3 million, or 305.5%, due to the items that impacted Adjusted EBITDA, combined with $24.4 million in exceptional costs related to COVID-19. The previously described exceptional COVID-19 costs included a $20.4 million impairment charge on the Company's pre-owned motor coach inventory, related to the previously described motor coach sale completed subsequent to quarter-end. Net earnings were also impacted by one-time, non-recurring restructuring charges of $25.4 million, including severance payments of $18.3 million. Restructuring charges were associated with production reductions and the NFI Forward initiative.

2020 Q3 Aftermarket Adjusted EBITDA increased by $0.3 million, or 1.8%. The impact of lower revenue was offset by lower operating costs at ADL, related to furloughed employees. Aftermarket 2020 Q3 net earnings increased by $9.7 million, or 87.4%. The increase was driven by a realized foreign exchange gain of $3.4 million and lower operating costs at ADL.

Corporate Adjusted EBITDA increased by $0.6 million, or 60.0%, primarily as a result of realized foreign exchange. Corporate expenses included in the calculation of net earnings decreased by $10.7 million, or 40.2%, primarily due to mark-to-market adjustments on interest rate swaps and unrealized foreign exchange gains on non-current monetary items.

Free Cash Flow[1] (unaudited, dollars in millions, except Per share amounts)	2020 Q3	2019 Q3	*% Change*	2020 Q3 LTM	2019 Q3 LTM	*% Change*
Free Cash Flow	$ 27.4	$ 37.6	*(27.1)%*	$ 47.5	$ 153.8	*(69.1)%*
Free Cash Flow (CAD dollars)	36.6	49.8	*(26.5)%*	61.6	205.1	*(70.0)%*
Declared Dividends (CAD dollars)	13.3	26.5	*(49.8)%*	66.4	101.8	*(34.8)%*
Free Cash Flow per Share (CAD dollars)	$ 0.58	$ 0.83	*(30.1)%*	$ 0.99	$ 3.35	*(70.4)%*
Dividends per Share (CAD dollars)	$ 0.21	$ 0.43	*(51.2)%*	$ 1.06	$ 1.65	*(35.8)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow	36.3 %	53.2 %	*(16.9)%*	107.8 %	49.6 %	*58.2 %*

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

Free Cash Flow in 2020 Q3 decreased by $10.2 million, or 27.1%, compared to 2019 Q3, primarily due to lower Adjusted EBITDA and higher cash interest expenses. The decrease in Free Cash Flow was partially offset by lower cash capital expenses and income taxes paid. Effective Q1 2020, quarterly dividends were reduced 50% 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 third quarter of 2020 saw significant improvement over the second quarter, as the Company was able to resume production and delivery of buses and coaches in North America and international markets. While results improved in 2020 Q3, the ongoing COVID-19 pandemic is expected to impact NFI's results through 2021. Rising COVID-19 case rates in the U.S., Canada and the UK, combined with ongoing work from home mandates, decline in travel and delayed stimulus funds have slowed the announcement of new vehicle awards and delayed or deferred purchases.

In July 2020 NFI responded to the impacts of COVID-19 by launching its transformative cost reduction initiative - NFI Forward - to significantly reduce manufacturing overhead and SG&A from 2019 levels. In addition to numerous cost savings projects aimed at reducing fixed costs, the Company also lowered weekly production rates to match firm backlog, expected option conversion and anticipated new awards for the remainder of 2020 and 2021. The NFI Forward initiatives are on track to meet management's previously announced expectations.

In international markets, ADL had originally forecasted record revenue for Fiscal 2020, driven by increased UK market activity following several years of lower capital investments by operators. ADL has experienced challenges in delivering on this plan due to the impacts of COVID-19 and the delay of UK government stimulus funds. The Company has responded by lowering production at its Scottish facilities, decreasing chassis production at its Guildford location and removing fixed costs through a reduction in administrative positions. Management expects there will be improvement in Fiscal 2021 delivery activity as ADL delivers more vehicles to customers in Germany and Ireland, and sees growth in Asia Pacific markets. Offsetting this improvement is the expectation that demand in the UK market will continue to be challenged while the pandemic is ongoing and government stimulus funds are delayed.

NFI's overall end markets recovery from COVID-19 are expected to be dependent on several factors, including government support, COVID-19 case rates and the length of the pandemic, 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 duration of the recovery from COVID-19 may delay vehicle awards and delivery timing. Management's recovery expectations are supported by continued support for transit operations by all levels of government and the Company's North American Bid Universe, which includes 6,221 EUs in active procurements. Management also views recent positive advancements in potential COVID-19 vaccines as a positive sign for potential market recovery.

Government support for transit operations remains strong within the United States, Canada and the UK. Governments have committed billions in funding to transit agencies and operators 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. On October 1, 2020, the Fixing Surface Transportation (FAST) Act was extended for one year, with dedicated funding until December 11, 2020, providing visibility to transit agencies during an election period. In July 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 proposed $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 in determing the US governments future funding plan for transit operations.

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. A recent development that supports the continued expectation of increased demand for ZEBs was the Canadian government's October 1, 2020 announcement of $1.5 billion in financing through the Canada Infrastructure Bank to support the adoption of zero-emission buses and charging infrastructure. The financing is expected to be delivered over a 24 to 36 month period. NFI is the leader in North America and the UK for ZEBs and is expected to be a significant beneficiary from an increased acceleration to ZEBs. Currently, ZEBs make up 8% of NFI's backlog, up from 4% at the end of 2019 Q3, and make up 26% of the Company's total North American Bid Universe. New Flyer can manufacture ZEBs at all of its facilities, ADL has delivered more ZEBs than any competitor in the UK, and MCI is now selling its innovative battery-electric coach and the electric Equess will begin testing in the near-term.

Within the aftermarket segment, management continues to expect steady 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 sanitize vehicles. NFI services a large fleet of active essential service transit vehicles which provides management with greater visibility and provides the Company with a generally recurring revenue stream. The private motor coach component of the aftermarket business is expected to be negatively impacted by operators idling their vehicles. This 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 mid-2021 and beyond.

Financial Guidance

Based on NFI's results for the nine-month period ended 2020 Q3 and the Company’s contractually obligated vehicle sales, updated production schedule, expected private market deliveries and anticipated aftermarket sales, management expects NFI will now

deliver Adjusted EBITDA of $145 million to $155 million for Fiscal 2020. Management expects deliveries and financial results for the fourth quarter of 2020 will continue to be impacted by the pandemic with results during that period being lower than the same period in 2019.

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 an ETR of 31% for balances that are tax effected.

Evaluating current market conditions and expected future demand, management expects that 2021 financial results will see significant improvement over fiscal 2020, but currently projects a transition period with the impacts of the COVID-19 pandemic continuing to create headwinds for NFI's end markets. Management has certain visibility on components of its expected 2021 results, driven by its firm backlog and expected option conversion and anticipated new awards, but delays in public awards, decreased private sector demand and uncertainty surrounding the timing and magnitude of government stimulus create risks to full year 2021 results. Management plans to release NFI's financial outlook in January 2021 at the Company's Virtual Investor Day.

NFI Forward

On July 27, 2020, 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.

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 North American part fabrication capabilities (including Carfair and KMG);
- consolidate NFI Parts and the North American parts business of ADL 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 NFI Forward initiative was successfully launched and is making significant progress. Initial efforts are focused on the combination of the New Flyer and MCI business units and the integration of ADL's North American parts business into NFI Parts. The restructuring of ADL's manufacturing facilities has also begun with staffing reductions taking place throughout the fourth quarter that will see chassis production at ADL's Guildford facility decrease and a reduction in administrative costs.

Management continues to expect that the aggregate programs of NFI Forward will drive $65.0 million in annual Adjusted EBITDA savings plus an additional $10.0 million in annualized Free Cash Flow generation, driven by interest savings and lower lease payments. NFI Forward is expected to deliver an 8% to 10% reduction to both manufacturing overhead and SG&A expenses, based on 2019 production rates, with investments of $15 million to $20 million required to deliver these savings.

Year-to-date, the NFI Forward initiative has achieved approximately $13.5 million in savings. These savings appear in NFI's gross margins and Adjusted EBITDA, as a reduction to direct material costs, manufacturing overhead and SG&A.

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.

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

Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA[(1)]	Earnings (loss) per Share
2020						
	Q3	$ 663,934	$ (16,453)	$ (24,912)	$ 60,885	$ (0.40)
	Q2	333,334	(72,001)	(74,050)	(24,229)	(1.18)
	Q1	710,384	(25,406)	(67,239)	56,071	(1.08)
	Total	**$ 1,707,652**	**$ (113,860)**	**$ (166,201)**	**$ 92,727**	**$ (2.66)**
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 THIRD QUARTER 2020 RESULTS

(U.S. dollars in thousands)	**2020 Q3**	**2019 Q3**	**39-Weeks Ended September 27, 2020**	**39-Weeks Ended September 29, 2019**	**52-Weeks Ended September 27, 2020**	**52-Weeks Ended September 29, 2019**
Statement of Earnings Data						
Revenue						
North America	$ 436,974	$ 499,896	$ 1,168,133	$ 1,525,342	$ 1,785,686	$ 2,101,862
United Kingdom and Europe	75,918	91,109	180,016	122,849	334,836	122,849
Asia Pacific	53,342	25,003	61,739	27,254	89,941	27,254
Other	—	—	—	—	—	—
Manufacturing operations	566,234	616,008	1,409,888	1,675,445	2,210,463	2,251,965
North America	75,693	89,311	238,710	272,251	331,761	357,751
United Kingdom and Europe	17,609	16,423	45,900	22,898	65,449	22,898
Asia Pacific	3,799	3,294	11,451	4,472	15,226	4,472
Other	599	311	1,703	629	2,493	629
Aftermarket operations	97,700	109,339	297,764	300,250	414,929	385,750
Total revenue	$ 663,934	$ 725,347	$ 1,707,652	$ 1,975,695	$ 2,625,392	$ 2,637,715
Earnings (loss) from operations	(16,453)	25,200	(113,860)	103,106	(43,902)	163,676
Earnings (loss) before interest and income taxes	(12,653)	20,300	(108,246)	101,504	(36,700)	162,909
Net earnings (loss)	(24,912)	(1,085)	(166,201)	23,571	(132,074)	66,386
Adjusted EBITDA[(1)]	60,885	76,868	92,727	218,292	196,598	298,160
Capital expenditures	4,627	13,872	17,330	34,139	24,948	56,330

(Footnotes on page 15 and 16)

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 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019	52-Weeks Ended September 27, 2020	52-Weeks Ended September 29, 2019
Net earnings (loss)	$ (24,912)	$ (1,085)	$ (166,201)	23,571	$ (132,072)	$ 66,386
Addback[1]						
Income taxes	(3,014)	2,355	(11,343)	15,879	14,775	23,812
Interest expense	15,273	19,030	69,298	62,055	80,598	72,711
Amortization	26,374	32,055	84,660	73,435	115,795	91,452
Loss (gain) on disposition of property, plant and equipment	(191)	(93)	201	(98)	253	(106)
Fair value adjustment for total return swap[11]	7	1,432	1,702	676	1,975	6,305
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	(3,609)	4,993	(5,815)	1,700	(7,455)	3,011
Costs associated with assessing strategic and corporate initiatives[8]	—	342	1,231	13,685	615	13,685
Past service costs[13] and other pension costs (recovery)	—	(1,671)	(415)	(1,671)	(345)	(1,671)
Non-recurring costs (recoveries) relating to business acquisition	—	—	—	—	360	—
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[10]	—	20,158	—	28,848	2,156	28,848
Proportion of the total return swap realized[12]	303	(800)	(1,166)	(424)	(1,369)	(4,805)
Equity settled stock-based compensation	597	152	1,162	1,129	1,599	1,163
Recovery on currency transactions[15]	—	—	—	(4,287)	—	(4,287)
Prior year sales tax provision [16]	233	—	147	3,794	447	3,794
Release of provisions related to purchase accounting[14]	—	—	—	—	—	(2,138)
COVID-19 costs[17]	24,392	—	41,949	—	41,949	—
Impairment loss on goodwill[18]	—	—	50,790	—	50,790	—
Non-recurring restructuring costs[9]	25,429	—	26,527	—	26,527	—
Adjusted EBITDA[1]	$ 60,885	$ 76,868	$ 92,727	$ 218,292	$ 196,598	$ 298,160
Adjusted EBITDA is comprised of:						
Manufacturing	$ 44,615	$ 61,460	47,702	170,382	$ 133,413	$ 243,199
Aftermarket	16,650	16,374	49,646	56,159	68,059	73,498
Corporate	(380)	(966)	(4,618)	(8,249)	(4,871)	(18,537)

(Footnotes on page 15 and 16)

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 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019	52-Weeks Ended September 27, 2020	52-Weeks Ended September 29, 2019
Net cash generated by (used in) operating activities	$ (3,908)	$ (27,558)	$ (23,774)	$ (65,153)	$ 139,988	$ 2,187
Changes in non-cash working capital items[4]	(9,136)	57,800	(18,562)	176,706	(103,953)	178,698
Interest paid[4]	16,683	13,608	47,394	32,229	62,841	38,567
Interest expense[4]	(17,339)	(14,354)	(46,604)	(34,915)	(62,235)	(41,188)
Income taxes paid[4]	10,121	13,548	22,569	32,939	29,797	45,093
Current income tax expense[4]	(8,406)	(7,094)	(20,847)	(30,495)	(51,689)	(39,990)
Principal portion of finance lease payments	(3,503)	(4,613)	(11,058)	(11,056)	(12,458)	(12,603)
Cash capital expenditures	(4,627)	(13,349)	(16,256)	(30,607)	(23,224)	(50,751)
Proceeds from disposition of property, plant and equipment	356	146	506	174	506	184
Costs associated with assessing strategic and corporate initiatives[8]	—	342	1,231	13,685	615	13,685
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue [10]	—	20,158	—	28,848	2,156	28,848
Defined benefit funding[5]	1,347	3,022	4,389	6,171	6,358	6,779
Defined benefit expense[5]	(1,538)	(1,544)	(4,551)	(4,527)	(5,873)	(6,282)
Past service costs[13] and other pension costs (recovery)	—	(1,671)	(415)	(1,671)	(345)	(1,671)
Proportion of the total return swap[12]	303	(800)	(1,166)	(423)	(1,369)	(4,805)
Recovery on currency transactions[15]	—	—	—	(4,287)	—	(4,287)
Prior year sales tax provision [16]	233	—	147	3,794	447	3,794
Non-recurring restructuring costs[9]	22,401	—	23,498	—	23,862	—
Release of provision related to purchase accounting[14]	—	—	—	—	—	(2,138)
COVID-19 costs[17]	24,392	—	41,949	—	$ 41,949	—
Foreign exchange gain (loss) on cash held in foreign currency[6]	(16)	(37)	17	(19)	119	(308)
Free Cash Flow[2]	$ 27,363	$ 37,604	$ (1,533)	$ 111,393	$ 47,492	$ 153,812
U.S. exchange rate[3]	1.3393	1.3244	1.6354	1.3210	1.2973	1.3336
Free Cash Flow (C$)[2]	36,647	49,803	(2,507)	147,276	61,611	205,127
Free Cash Flow per Share (C$)[7]	0.5773	0.8302	(0.0401)	2.4429	0.9859	3.3543
Declared dividends on Shares (C$)	13,287	26,528	39,853	78,901	66,414	101,791
Declared dividends per Share (C$)[7]	$ 0.2125	$ 0.4252	$ 0.6375	$ 1.2809	$ 1.0628	$ 1.6485

(1) Adjusted EBITDA is not a recognized earnings measure and does not have standardized meaning prescribed by IFRS. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings and Adjusted Net Earnings per Share" in Appendix A. Management believes that Adjusted EBITDA is a useful supplemental measure in evaluating performance of the Company.

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

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

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

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

(6) Foreign exchange loss on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS; however, because it is a cash item, management believes it should be included in the calculation of Free Cash Flow.

(7) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2020 Q3 was 62,511,734 and 62,391,178 for 2019 Q3. The weighted average number of Shares outstanding for 2020 Q3 YTD and 2019 Q3 YTD are 62,505,778 and 61,601,132, respectively. The weighted average number of Shares outstanding for the 52-weeks ended September 27, 2020 and September 29, 2019 are 62,487,963 and 61,749,622, respectively. Per Share calculations for declared dividends (C$) 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. Free Cash Flow reconciling item is net of right-of-use asset impairments. Third quarter costs relate to production reductions and the NFI Forward initiative and include severance costs of $18.3 million, right-of-use asset impairments of $3.0 million, inventory impairments of $1.8 million and property, plant and equipment impairments of $1.7 million.

(10) The revaluation of ADL's inventory included an adjustment of $31.0 million in Fiscal 2019. These revaluation adjustments relate to purchase accounting as a result of the related acquisition.

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

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

(13) In 2019 Q3, the Company received $1.6 million recovery related to the closing of one of its pension plans. An additional amount of $0.5 million was received in 2020 Q1.

(14) During the fourth quarter of 2018, purchase accounting provisions recorded in respect of 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. COVID-19 costs include asset impairments of $23.3 million in 2020 Q3 (2020 Q3 YTD - $39.0 million). These write downs include but are not limited to the write down of accounts receivable and the write down of inventory. Also included are other operating costs of $1.1 million 2020 Q3 and $2.9 million 2020 Q3 YTD that include but are not limited to the purchase of personal protective equipment and plant sanitation activities. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.

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

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

Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) per Share are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted Net Earnings 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 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019	52-Weeks Ended September 27, 2020	52-Weeks Ended September 29, 2019
Net earnings (loss)	(24,912)	(1,085)	(166,201)	23,571	(132,074)	66,386
Adjustments, net of tax [1] [8]						
Fair value adjustments of total return swap[5]	4	892	1,174	404	1,319	4,678
Unrealized foreign exchange (gain) loss	(2,489)	3,143	(4,012)	1,016	(4,993)	2,011
Unrealized loss on interest rate swap	(1,902)	1,571	14,476	15,836	11,361	17,518
Impairment loss on goodwill[12]	—	—	50,790	—	50,790	—
Portion of the total return swap realized[6]	209	(496)	(805)	(253)	(914)	(3,578)
Costs associated with assessing strategic and corporate initiatives[2]	—	342	1,231	13,685	615	13,685
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[4]	—	11,624	—	17,236	707	17,236
Equity settled stock-based compensation	412	44	802	675	1,033	701
Gain on disposition of property, plant and equipment	(131)	(56)	139	(59)	171	(65)
Past service costs[7] and other pension costs (recovery)	—	(998)	(286)	(998)	(215)	(998)
Gain on release of provision related to purchase accounting [9]	—	—	—	—	—	(1,623)
Recovery on currency transactions[10]	—	207	—	(2,561)	80	(2,561)
Prior year sales tax provision [11]	160	(183)	101	2,267	203	2,267
COVID-19 costs [13]	16,831	—	28,945	—	28,945	—
Non-recurring restructuring costs [3]	17,546	—	18,303	—	18,514	—
Adjusted Net Earnings (Loss)	$ 5,728	15,005	(55,343)	70,819	$ (24,458)	115,657
Earnings (Loss) per Share (basic)	$ (0.40)	$ (0.02)	$ (2.66)	$ 0.38	$ (2.11)	$ 1.08
Earnings (Loss) per Share (fully diluted)	$ (0.40)	$ (0.02)	$ (2.66)	$ 0.38	$ (2.11)	$ 1.07
Adjusted Earnings (Loss) per Share (basic)	$ 0.09	$ 0.24	$ (0.89)	$ 1.15	$ (0.39)	$ 1.87
Adjusted Earnings (Loss) per Share (fully diluted)	$ 0.09	$ 0.24	$ (0.89)	$ 1.15	$ (0.39)	$ 1.87

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. Third quarter costs relate to production reductions and the NFI Forward initiative and include severance costs of $12.6 million, right-of-use asset impairments of $2.1 million, inventory impairments of $1.2 million and property, plant and equipment impairments of $1.2 million.
4. The revaluation of ADL's inventory included an adjustment of $31.0 million in Fiscal 2019. The after-tax value of the adjustment was $17.9 million. These revaluation adjustments relate to purchase accounting as a result of the related acquisition.
5. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted Net Earnings (Loss).

6. A portion of the fair value adjustment of the total return swap is excluded from Adjusted Net Earnings (Loss) to match the equivalent portion of the related deferred compensation expense recognized.
7. In 2019 Q3, the Company received $1.0 million recovery related to the closing of one of its pension plans. An additional amount of $0.3 million was received in 2020 Q1.
8. In 2020 Q3, the Company has utilized a rate of 31% to tax effect the adjustments.
9. During 2018 Q4 purchase accounting provisions recorded in respect of 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 excluded from the calculation of Adjusted Net Earnings (Loss).
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 with respect to MCI's goodwill.
13. Normalized to exclude non-recurring COVID-19 related costs. COVID-19 costs include asset impairments of $16.1 million in 2020 Q3 (2020 Q3 YTD - $26.8 million). These write downs include but are not limited to the write down of accounts receivable and the write down of inventory. Also included are other operating costs of $0.8 million 2020 Q3 and $2.0 million 2020 Q3 YTD that include but are not limited to the purchase of personal protective equipment and plant sanitation activities. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.

Results of Operations

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

Revenue

(U.S. dollars in thousands)	2020 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019
Manufacturing Revenue	566,234	616,008	1,409,888	1,675,446
Aftermarket Revenue	97,700	109,339	297,764	300,249
Total Revenue	$ 663,934	$ 725,347	$ 1,707,652	$ 1,975,695
Earnings (loss) from Operations	$ (16,453)	$ 25,200	$ (113,860)	$ 103,106
Earnings (loss) before interest and income taxes	(12,653)	20,300	(108,246)	101,504
Earnings (loss) before income tax expense	(27,927)	1,270	(177,545)	39,450
Net earnings (loss) for the period	(24,912)	(1,085)	(166,201)	23,571

Manufacturing revenue for 2020 Q3 decreased by $49.9 million, or 8.1%, compared to 2019 Q3. Manufacturing revenue for 2020 Q3 YTD decreased by $266.0 million, or 15.8%, compared to 2019 Q3 YTD. Third quarter figures were lower in 2020 as a result of the Company reducing production volumes in response to public customer order delays and private customer order deferrals, which were both attributable to the COVID-19 pandemic. Year-to-date figures were significantly impacted by the idling of production facilities in the second quarter of 2020. The YTD decrease was partially offset by the acquisition of ADL.

Revenue from aftermarket operations in 2020 Q3 decreased by $11.6 million, or 10.6%, compared to 2019 Q3. Revenue from aftermarket operations for 2020 Q3 YTD decreased by $2.5 million, or 0.8%, compared to 2019 Q3 YTD. The decline in both periods were driven by lower private parts volumes within both the NFI parts and ADL parts businesses. The acquisition of ADL partially offset the COVID-19 related revenue decline in the year-to-date comparative.

Cost of sales

(U.S. dollars in thousands)	2020 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019
Manufacturing				
Direct cost of sales	$ 469,108	$ 476,726	$ 1,141,790	$ 1,266,410
Depreciation and amortization	23,750	29,470	76,832	65,715
Other overhead	55,459	56,508	161,148	154,160
Manufacturing cost of sales	$ 548,317	$ 562,704	$ 1,379,770	$ 1,486,285
As percent of Manufacturing Sales	96.8 %	91.3 %	97.9 %	88.7 %
Aftermarket				
Direct cost of sales	$ 66,210	$ 73,926	$ 206,966	$ 206,186
Depreciation and amortization	2,624	2,584	7,827	7,720
Aftermarket cost of sales	$ 68,834	$ 76,510	$ 214,793	$ 213,906
As percent of Aftermarket Sales	70.5 %	70.0 %	72.1 %	71.2 %
Total Cost of Sales	$ 617,151	$ 639,214	$ 1,594,563	$ 1,700,191
As percent of Sales	93.0 %	88.1 %	93.4 %	86.1 %

The consolidated cost of sales for 2020 Q3 decreased by $22.1 million, or 3.5%, compared to 2019 Q3. The consolidated cost of sales for 2020 Q3 YTD decreased by $105.6 million, or 6.2%, compared to 2019 Q3 YTD.

Cost of sales from Manufacturing operations in 2020 Q3 was $548.3 (96.8% of Manufacturing operations revenue) compared to $562.7 million (91.3% of Manufacturing operations revenue) in 2019 Q3, a decrease of $14.4 million or 2.6%. Cost of sales increased as a percentage of revenue mainly as a result of lower production volumes absorbing more fixed overhead on a per unit basis. Cost of sales also increased as a percentage of revenue as a result of the Company incurring exceptional, COVID-19 related costs, including a $20.4 million lower of cost or net realizable value adjustment on pre-owned motor coach inventory, related to the previously described sale completed subsequent to quarter-end. The cost of sales increase as a percentage of revenue was increased further by non-recurring restructuring costs, including severance costs of $15.2 million, right-of-use asset impairments of $3.0 million and inventory impairments of $1.8 million. The cost of sales increase as

a percentage of revenue was partially offset by government grants of $12.6 million, which were netted against wages in the presentation of cost of sales.

Cost of sales from Manufacturing operations in 2020 Q3 YTD was $1,379.8 million (97.9% of Manufacturing operations revenue) compared to $1,486.3 million (88.7% of Manufacturing operations revenue) in 2019 Q3 YTD, a decrease of $106.5 million or 7.2%. Cost of sales increased as a percentage of revenue mainly due to lower production volumes absorbing more fixed overhead on a per unit basis, primarily as a result of the Company idling production facilities for the majority of Q2 2020. Cost of sales also increased as a percentage of revenue as a result of the Company incurring expenses related to COVID-19 and restructuring activities. The cost of sales increase as a percentage of revenue was partially offset by government grants, which were netted against wages in the presentation of cost of sales.

Cost of sales from Aftermarket operations in 2020 Q3 was $68.8 million (70.5% of Aftermarket revenue) compared to $76.5 million (70.0% of Aftermarket revenue) in 2019 Q3, a decrease of $7.7 million or 10.1%. Cost of sales from Aftermarket operations in 2020 Q3 YTD was $214.8 million (72.1% of Aftermarket revenue) compared to $213.9 million (71.2% of Aftermarket revenue) in 2019 Q3 YTD, an increase of $0.9 million or 0.4%. Lower cost of sales in the third quarter was offset by the addition of ADL to Q1 and Q2 figures. Cost of sales as a percentage of revenue was consistent with 2019 Q3 results.

Gross Margins

(U.S. dollars in thousands)	2020 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019
Manufacturing	$ 17,917	$ 53,304	$ 30,118	$ 189,161
Aftermarket	28,866	32,829	82,971	86,344
Total Gross Margins	$ 46,783	$ 86,133	$ 113,089	$ 275,505
As a percentage of sales				
Manufacturing	3.2 %	8.7 %	2.1 %	11.3 %
Aftermarket	29.5 %	30.0 %	27.9 %	28.8 %
	7.0 %	11.9 %	6.6 %	13.9 %

Manufacturing gross margins for 2020 Q3 of $17.9 million (3.2% of revenue), decreased by $35.4 million, or 66.4%, compared to $53.3 million (8.7% of revenue) for 2019 Q3. Manufacturing gross margins for 2020 Q3 YTD of $30.1 million (2.1% of revenue), decreased by $159.0 million, or 84.1%, compared to 2019 Q3 YTD.

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 and restructuring. Gross margin decline was partially offset by government grants, which were netted against direct labor wages in the presentation of cost of sales.The gross margin decline was also partially offset by improvements at KMG's part fabrication facility.

Gross margins from Aftermarket operations in 2020 Q3 of $28.9 million (29.5% of revenue) decreased by $4.0 million, or 12.1%, compared to 2019 Q3 gross margins of $32.8 million (30.0% of revenue). Gross margins from Aftermarket operations in 2020 Q3 YTD of $83.0 million (27.9% of revenue) decreased by $3.4 million, or 3.9%, compared to 2020 Q3 YTD gross margins of $86.3 million (28.8% of revenue).

Gross margins as a percentage of revenue were consistent with comparatives for both periods.

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

(U.S. dollars in thousands)	2020 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019
Selling expenses	$ 5,826	$ 6,818	$ 16,252	$ 16,687
General and administrative expenses	52,920	55,096	152,077	143,215
Other costs	5,362	42	7,422	12,973
Total SG&A	$ 64,108	$ 61,956	$ 175,751	$ 172,875

The consolidated SG&A for 2020 Q3 of $64.1 million (9.7% of consolidated revenue) increased by $2.2 million, or 3.5%, compared to $62.0 million (8.5% of consolidated revenue) in 2019 Q3. The consolidated SG&A for 2020 Q3 YTD of $175.8 million (10.3% of consolidated revenue) increased by $2.9 million, or 1.7%, compared to $172.9 million (8.8% of consolidated revenue) in 2019 Q3 YTD.

The increase in Q3 is related to non-recurring restructuring costs of $5.4 million, including severance costs of $3.1 million. The increase was partially offset by government grants of $2.2 million, which were netted against expenses in the presentation of SG&A. The YTD increase was related to Q3 restructuring and the addition of ADL in Q2 2019, partially offset by government grants and reduced spending to preserve cash during COVID-19.

Realized foreign exchange loss/gain

During 2020 Q3, the Company recorded a realized foreign exchange gain of $0.9 million compared to a gain of $1.0 million in 2019 Q3.

During 2020 Q3 YTD, the Company recorded a realized foreign exchange loss of $0.4 million compared to a gain of $0.5 million in 2019 Q3 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 favorable forward rates compared to the spot rates at settlement were the primary reason for the gain in 2020 Q3. The purchase of these currencies using foreign exchange forward contracts at unfavorable forward rates compared to spot rates at settlement date were the primary reason for the loss in 2020 Q3 YTD.

Earnings (loss) from operations

Consolidated losses from operations in 2020 Q3 were $16.5 million (-2.5% of consolidated revenue) compared to earnings of $25.2 million (3.5% of consolidated revenue) in 2019 Q3, a decrease of $41.7 million or 165.3%. Consolidated losses from operations in 2020 Q3 YTD were $113.9 million (-6.7% of consolidated revenue) compared to earnings of $103.1 million (5.2% of consolidated revenue) in 2019 Q3 YTD, a decrease of $217.0 million or 210.5%.

Losses from operations related to Manufacturing operations in 2020 Q3 were $26.5 million (-4.7% of Manufacturing revenue) compared to losses of $5.9 million (-1.0% of Manufacturing revenue) in 2019 Q3, a decrease of $20.6 million or 349.2%. Losses from operations related to Manufacturing operations in 2020 Q3 YTD were $148.2 million (-10.5% of Manufacturing revenue) compared to earnings of $56.2 million (3.4% of Manufacturing revenue) in 2019 Q3 YTD, a decrease of $204.4 million or 363.7%. The decrease in 2020 Q3 as a percentage of revenues is primarily due to lower production volumes, exceptional COVID-19 costs of $24.3 million and non-recurring restructuring costs of $24.1 million, partially offset by government grants of $14.2 million. The decrease in 2020 Q3 YTD as a percentage of revenues is due to the same factors as Q3, in addition to a $50.8 million goodwill impairment charge incurred in 2020 Q1.

Earnings from operations related to Aftermarket operations in 2020 Q3 were $14.0 million (14.3% of Aftermarket revenue) compared to $12.8 million (11.7% of Aftermarket revenue) in 2019 Q3, an increase of $1.2 million or 9.4%. Earnings from operations related to Aftermarket operations in 2020 Q3 YTD were $41.2 million (13.8% of Aftermarket revenue) compared to $48.4 million (16.1% of Aftermarket revenue) in 2019 Q3 YTD, a decrease of $7.2 million or 14.9%. The 2020 Q3 increase as a percentage of revenue is driven by lower operating costs at ADL as a result of furloughed employees. The decrease as a percentage of revenue for the 2020 Q3 YTD figures is due to the Company continuing to incur fixed overhead and SGA expenses, while also experiencing lower sales volumes as a result of 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 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019
Unrealized (gain) loss on forward foreign exchanges contracts	$ (2,355)	$ 3,596	$ (6,895)	$ (322)
Unrealized (gain) loss on other long-term monetary assets/liabilities	(1,254)	1,397	1,080	2,022
	$ (3,609)	$ 4,993	$ (5,815)	$ 1,700

At September 27, 2020, the Company had $127 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). The related asset of $3.4 million (December 29, 2019: $3.7 million) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net earnings and total comprehensive income.

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

In 2020 Q3, the Company recorded an EBIT loss of $12.7 million compared to EBIT of $20.3 million in 2019 Q3. In 2020 Q3 YTD, the Company recorded an EBIT loss of $108.2 million compared to EBIT of $101.5 million in 2019 Q3 YTD. EBIT has been impacted by non-cash and non-recurring items as follows:

(U.S. dollars in thousands)	2020 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ —	$ 342	$ 1,231	$ 13,685
Unrealized foreign exchange gain	(3,609)	4,993	(5,815)	1,699
Equity settled stock-based compensation	597	152	1,162	1,129
Loss (gain) on disposition of property, plant and equipment	(191)	(93)	201	(98)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue	—	20,158	—	28,848
Fair value adjustment of total return swap	7	1,432	1,702	676
Past service costs recovery	—	—	(415)	—
Recovery on currency transactions	—	—	—	(4,287)
COVID-19	24,392	—	41,949	—
Prior year sales tax provision	233	—	147	3,794
Impairment loss on goodwill	—	—	50,790	—
Non-recurring restructuring costs	25,429	—	26,527	—
Amortization	26,374	32,055	84,660	73,435
Total non-cash and non-recurring charges:	$ 73,232	$ 59,039	$ 202,139	$ 118,881

Interest and finance costs

The interest and finance costs for 2020 Q3 of $15.3 million decreased by $3.8 million when compared 2019 Q3. The decrease is primarily due to a fair market value gain on interest rate swap of $2.8 million in 2020 Q3 compared to a loss of $4.4 million in 2019 Q3. The favorable interest rate swap variance was partially offset by a $1.8 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 Q3 YTD of $69.3 million increased by $7.2 million when compared to 2019 Q3 YTD. The increase is primarily due to increased interest on long-term debt of $9.9 million due to higher average Credit Facility draws for the acquisition of ADL and to finance fixed operating expenses during the temporary idling of production facilities due to COVID-19. The increase was partially offset by a fair market value loss on interest rate swap of $21.0 million in 2020 Q3 YTD, compared to a loss of $26.5 million in 2019 Q3 YTD.

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 Q3 of $27.9 million loss decreased by $29.2 million compared to EBT of $1.3 million in 2019 Q3. EBT for 2020 Q3 YTD of $177.5 million loss decreased by $217.0 compared to EBT of $39.5 million in 2019 Q3 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 recovery for 2020 Q3 was $3.0 million compared to $2.4 million expense in 2019 Q3. The Effective Tax Rate ("ETR") for 2020 Q3 was 10.8% and the ETR for 2019 Q3 was 185.4%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the base erosion and anti-abuse tax ("BEAT") and a write-off of unapplied foreign tax credits.

The income tax recovery for 2020 Q3 YTD was $11.3 million compared to $15.9 million expense in 2019 Q3 YTD. The ETR for 2020 Q3 YTD was 6.4% and the ETR for 2019 Q3 YTD was 40.3%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the Company incurring non-deductible interest, revaluing UK deferred tax liabilities as a result of a reversal of a previously enacted rate reduction, and the non-deductible goodwill impairment charge in 2020 Q1.

Net earnings (loss)

The Company reported a net loss of $24.9 million in 2020 Q3, a decrease of 2,163.6% compared to a net loss of $1.1 million in 2019 Q3. The Company reported a net loss of $166.2 million in 2020 Q3 YTD, a decrease of 806.8% compared to net earnings of $23.6 million in 2019 Q3 YTD. The decrease in net earnings is due to lower production volumes, exceptional COVID-19 costs and non-recurring restructuring costs associated with production reductions and the NFI Forward initiative. The 2020 Q3 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 Q3**	**2019 Q3**	**39-Weeks Ended September 27, 2020**	**39-Weeks Ended September 29, 2019**
Earnings (loss) from operations	$ (16.5)	$ 25.2	$ (113.9)	$ 103.1
Non-cash gain (loss)	3.8	(4.9)	5.6	(1.6)
Interest expense	(15.2)	(19.0)	(69.2)	(62.0)
Income tax expense	3.0	(2.4)	11.3	(15.9)
Net earnings (loss)	$ (24.9)	$ (1.1)	$ (166.2)	$ 23.6
Net earnings (loss) per Share (basic)	$ (0.40)	$ (0.02)	$ (2.66)	$ 0.38
Net earnings (loss) per Share (fully diluted)	$ (0.40)	$ (0.02)	$ (2.66)	$ 0.38

The Company's net loss per Share in 2020 Q3 of $0.40 increased from net loss per Share of $0.02 in 2019 Q3. The Company's net loss per Share in 2020 Q3 YTD of $2.66 decreased from net earnings per Share of $0.38 generated in 2019 Q3 YTD. Net earnings per Share were lower in 2020 Q3 and 2020 Q3 YTD due to lower production volumes, exceptional COVID-19 related costs, non-recurring restructuring costs and goodwill impairment charges.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)	**2020 Q3**	**2019 Q3**	**39-Weeks Ended September 27, 2020**	**39-Weeks Ended September 29, 2019**
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 13,760	$ 57,398	$ 27,627	$ 176,721
Interest paid	(16,683)	(13,608)	(47,394)	(32,229)
Income taxes paid	(10,121)	(13,548)	(22,569)	(32,939)
Net cash earnings (loss)	(13,044)	30,242	(42,336)	111,553
Cash flow generated by (used in) changes in working capital	9,136	(57,800)	18,562	(176,706)
Cash flow generated by (used in) operating activities	(3,908)	(27,558)	(23,774)	(65,153)
Cash flow from (used in) financing activities	(991)	48,471	27,960	443,186
Cash flow from (used in) investing activities	(4,271)	(13,213)	(31,260)	(357,821)

Cash flows from operating activities

The 2020 Q3 net operating cash outflow of $3.9 million is mostly comprised of $13.0 million of net cash losses, partially offset by $9.1 million of cash inflows related to changes in working capital. The 2019 Q3 net operating cash outflow of $27.6 million is comprised of $30.2 million of net cash earnings offset by cash used for working capital of $57.8 million.

The 2020 Q3 YTD net operating cash outflow of $23.8 million is mostly comprised of $42.3 million of net cash losses, offset by $18.6 million of cash inflows related to changes in working capital. The 2019 Q3 YTD net operating cash outflow of $65.2 million is comprised of $111.6 million of net cash earnings offset by cash used for working capital of $176.7 million.

Cash flow from financing activities

The cash outflow of $1.0 million during 2020 Q3 is comprised mainly of lease obligation payments of $3.5 million and dividends paid to shareholders of $9.7 million, offset by proceeds from long-term debt of $10.0 million and proceeds from short-term debt of $2.2 million.

The cash inflow of $28.0 million during 2020 Q3 YTD is comprised mainly of proceeds from short-term debt of $10.0 million and proceeds from long-term debt of $68.4 million, partially offset by lease obligation payments of $11.1 million and dividends paid to shareholders of $39.5 million.

Cash flow from investing activities

(U.S. dollars in thousands)	2020 Q3	2019 Q3	39-Weeks Ended September 27, 2020	39-Weeks Ended September 29, 2019
Acquisition of intangible assets	$ —	$ (10)	$ —	$ (27)
Proceeds from disposition of property, plant and equipment	356	146	506	174
Long-term restricted deposits	—	—	(15,510)	—
Net cash used in acquisitions	—	—	—	(327,361)
Acquisition of property, plant and equipment	(4,627)	(13,349)	(16,256)	(30,607)
Cash from investing activities	$ (4,271)	$ (13,213)	$ (31,260)	$ (357,821)

Investing activities were lower in 2020 Q3, as the Company reduced maintenance capital expenditures to preserve cash during the pandemic. Year-to-date outflows from investing activities were lower as a result of the acquisition of ADL in 2019 Q2, as well as lower maintenance capital expenditures to preserve cash during COVID-19.

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.

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

The fair value of the interest rate swap liability of $36.4 million at September 27, 2020 (2019: $15.5 million liability) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded as finance costs for the reported period. The unrealized losses recorded on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

Credit risk

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

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

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within SG&A. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A in the unaudited interim condensed 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	**September 27, 2020**	December 29, 2019
Current, including holdbacks	$ 316,151	$ 487,807
Past due amounts but not impaired		
1 – 60 days	35,021	37,413
Greater than 60 days	13,285	6,800
Less: allowance for doubtful accounts	(974)	(284)
Total accounts receivables, net	$ 363,483	$ 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 leases and accrued benefit liabilities as at September 27, 2020:

U.S. dollars in thousands	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Post 2024**
Leases	195,025	6,220	22,345	20,320	17,724	12,736	115,680
Accrued benefit liability	782	782	—	—	—	—	—
	$ 195,807	$ 7,002	$ 22,345	$ 20,320	$ 17,724	$ 12,736	$ 115,680

As at September 27, 2020, outstanding surety bonds guaranteed by the Company amounted to $367.0 million, representing a decrease compared to $384.5 million at December 29, 2019. The estimated maturity dates of the surety bonds outstanding at September 27, 2020 range from October 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 September 27, 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 September 27, 2020, letters of credit totaling $21.2 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 September 27, 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	—	—	(709)	2,126	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)	(733,721)	846,455		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	—	—	(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 $0.3 million of director restricted Share units (“Director RSUs”) in 2020 Q3. Of these Director RSUs issued, approximately $171 thousand were exercised and exchanged for 20,929 Shares.

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 unaudited interim condensed consolidated statement of net earnings (loss) and total comprehensive income (loss) over the periods in which the Company recognizes and expenses the related costs for which the grants are intended to compensate. Grants related to income are deducted in reporting the related expense.

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

On April 23, 2020, NFI Group announced that it had obtained covenant relief under the Company's existing $1.25 billion senior Credit Facility. The Company's banking partners have waived compliance with the TLR and interest coverage ratio covenants under the existing senior 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 Sidecar.

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 Sidecar 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 Sidecar. 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 2020 Q4 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 Q3 based on a pro-rated LTM calculations are provided for information purposes below:

	September 27, 2020	December 29, 2019
Total Leverage Ratio	4.17	3.24
Interest Coverage Ratio	5.05	7.73

The Company now expects that the combination of lower trailing Adjusted EBITDA in 2020 combined with the Company's current debt profile and the ongoing uncertainty created by the COVID-19 pandemic, may impact compliance with the TLR covenant starting in the first quarter of 2021. Management is currently in detailed negotiations with its banking partners to obtain covenant relief. Management believes the Company's cash position and credit capacity under its existing credit facilities is currently sufficient to fund operations, meet financial obligations as they come due and provide the necessary funds for capital expenditures, dividend payments and other operational needs

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

- Permanent workforce 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
- The 50% reduction in the Company's quarterly dividend in 2020 Q1

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 September 27, 2020, the Company was in compliance with the liquidity requirement.

US dollars in thousands	**September 27, 2020**
Liquidity Position (must be greater than $50 million)	$ 414,451

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 Advanced Driver Assistance Systems. 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 has 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 their 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 Q3 Free Cash Flow was C$36.7 million compared to declared dividends of C$13.3 million during this period. For 2019 Q3 Free Cash Flow was C$49.8 million compared to declared dividends of C$26.5 million. This resulted in a payout ratio of 36.2% in 2020 Q3 compared to 53.2% in 2019 Q3.

To support cash management efforts while the Company's operations are impacted by COVID-19, in 2020 Q1 the Board reduced the Company's quarterly dividend to C$0.2125 per Share. While the dividend payment was reduced, the continued payment reflects the Board's confidence in the Company's business while maintaining the financial flexibility required to operate during a period of significant economic uncertainty.

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

On June 12, 2019 the Company announced that the TSX had accepted a notice filed by the Company of its intention to implement a Normal Course Issuer Bid to replace the Former NCIB to repurchase its Shares (the "Second NCIB"). The Company was permitted to repurchase for cancellation up to 5,357,914 Shares, representing approximately 10% of the outstanding public float of Shares on June 4, 2019. The Company was permitted to repurchase Shares commencing on June 17, 2019 up to June 16, 2020, or earlier should the Company complete its repurchases prior to such date.

During 2019 Q1, the Company repurchased 232,100 Shares under the Former NCIB at an average price of C$31.82 per Share for a total repurchase of C$7.4 million. The Company canceled 986,075 Shares during 2019 Q1, including 232,100 Shares purchased in 2019 Q1 and 753,975 Shares that were purchased in 2018 Q4. There were no shares purchased or canceled under the Former NCIB or the Second NCIB subsequent to 2019 Q2. The Second NCIB expired on June 16, 2020. The Company did not file another normal course issuer bid to replace the expired Second NCIB.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2020 Q3**	**2019 Q3**	**2020 Q3 YTD**	**2019 Q3 YTD**
Dividends paid	$ 9.7	$ 20.3	$ 39.5	$ 56.4
NCIB Share repurchase	—	—	—	5.7
Total	$ 9.7	$ 20.3	$ 39.5	$ 62.1

Controls and Procedures

Internal Controls over Financial Reporting

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

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

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of December 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 September 27, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at December 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 September 27, 2020, 62,524,842 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI's annual information form, is available on SEDAR at www.sedar.com.

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

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

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

Forward-looking Statements

Certain statements in this MD&A are "forward-looking statements", which reflect the expectations of management regarding the Company's future growth, liquidity, financial performance and results of operations and the Company's plans, business prospects 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 (including the return of the Company's markets) and the Company's financial and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. 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, reduction in working capital, deleveraging of the Company's balance sheet, reduction in the number of the Company's facilities, maximizing production capacity and the other benefits expected to be achieved and the costs and resources 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 and production efficiencies that can be generated or may have underestimated the amount of costs to be expended; the implementation of the initiative may take longer than planned to achieve the expected savings; further restructuring and cost-cutting may be required in order to achieve the objectives of the initiative; the estimated amount of savings generated under the initiative may not be sufficient to achieve the planned benefits; combining business units and/or reducing the number of production or parts facilities may not achieve the efficiencies anticipated; and the impact of the continuing global COVID-19 pandemic. There can be no assurance that the Company will be able to achieve the anticipated financial and operational benefits, cost savings or other benefits of the initiative.

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 or the reduction of production rates (including to protect the health and safety of the

Company's employees or as a result of employees being unable to come to work due to COVID-19 infections with respect to them or their family members); production rates may be further decreased as a result of the pandemic; supply delays and shortages of parts and components and disruption to labour supply as a result of the pandemic; the pandemic will likely adversely affect operations of customers and reduce and delay, for an unknown period, customers' purchases of the Company's products; the anticipated 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 satisfactory 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. There is also no assurance that governments will provide stimulus funding after the pandemic for public transit agencies to purchase transit vehicles or that public or private demand for the Company's vehicles will return to pre-pandemic levels in the anticipated period of time. The Company cautions that due to the dynamic, fluid and highly unpredictable nature of the pandemic and its impact on global and local economies, businesses and individuals, it is impossible to predict the severity of the impact on the Company's business, operating performance 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 U.S. Federal Transit Administration; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; uncertainty resulting from the exit of the UK from the European Union; requirements under Canadian content policies may change and/or become more onerous; operational risk resulting from inadequate or failed internal processes, people and/or systems or from external events, including fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, floods, technology failures, processing errors, business integration, damage to physical assets, employee safety and insurance coverage; international operations subject the Company to additional risks and costs and may cause profitability to decline; 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, ASIA PACIFIC, AND OTHER

References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company. These adjustments include gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs and other pension costs or recovery, non-recurring 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" or "APAC" refers to Hong Kong, Malaysia, Singapore, Australia, and New Zealand; and the "Other" category includes any sales that do not fall into the categories above.

2020 Appendix B - 2020 Third 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 third quarter of 2020 saw some decline in the Company's Bid Universe after it reached record highs in the first and second quarter of 2020. The decrease in Active Bids, which were down by 15.3%, or 1,128 EUs, from 2020 Q2 was due to the issuance of new awards. Compared to the same period in 2019, Active Bids was up by 26.8%, or 1,134 EUs, reflecting the pent-up demand in the market caused by the disruption of the pandemic.

The decrease in the forecasted five-year industry procurement which was down 12.7%, or 2,809 EUs, was primarily driven by the removal of public coach units that no longer represent an accurate reflection of management's estimate of customers' demand. There was also a reduction in expected transit procurements. These decreases are the direct result of pressures facing operators and agencies due to the COVID-19 pandemic and changes to longer-term capital plans.

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 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
2020 Q3	**1,927**	**4,294**	**6,221**	**19,280**	**25,501**

(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 occurrence of the pandemic. 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 Q3 totaled 684 EUs, a decrease of 33.9% from 2019 Q3 and an increase of 39.3% from 2020 Q2. The new firm and option orders awarded to the Company for 2020 Q3 LTM were 3,680 EUs, an improvement of 12.3% from 2019 Q3 LTM. The Company was also successful at converting 242 EUs of options during 2020 Q3 to firm orders, an increase of 5.7% from 2019 Q3 and a decrease of 39.7% from 2020 Q2. These conversions contributed to the 1,595 EUs of options converted to firm orders during 2020 Q3 LTM, an improvement of 2.6% from 2019 Q3 LTM and flat with 2020 Q2 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 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
2020 Q3	**684**	**3,680**	**242**	**1,595**

Options

In 2020 Q3, 242 option EUs expired, compared to 71 option EUs that expired during 2019 Q3 and 492 EUs that expired in 2020 Q2.

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
A) Options Expired (EUs)	965	504	550	331	741	512	1,082					4,685
B) Options Exercised (EUs)	1,149	1,339	2,064	1,404	1,795	1,518	782					10,051
C) Current Options by year of expiry (EUs)							558	1,240	2,012	608	224	4,642
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 original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order.

The Company's 2020 Q3 LTM Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 90.3%, an increase of 0.6% from 89.7% in 2019 Q3 LTM.

In addition, 445 EUs of new firm and option orders were pending from customers at the end of 2020 Q3, 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 32.9% of the total backlog. ZEBs represent approximately 7.5% of total backlog.

	2020 Q2			2019 Q4			2019 Q3		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	4,400	5,604	10,004	4,313	7,281	11,594	3,306	6,691	9,997
Acquired Backlog (ADL)	—	—	—	—	—	—	1,226	805	2,031
New orders	399	285	684	950	209	1,159	950	85	1,035
Options exercised	242	(242)	—	813	(813)	—	229	(229)	0
Shipments[1]	(1,317)	—	(1,317)	(1,844)	—	(1,844)	(1,392)	—	(1,392)
Cancelled/expired	(62)	(427)	(489)	(8)	(159)	(167)	(6)	(71)	(77)
End of period	**3,662**	**5,220**	**8,882**	**4,224**	**6,518**	**10,742**	**4,313**	**7,281**	**11,594**
Consisting of:									
Heavy-duty transit buses	2,519	4,640	7,159	3,236	5,722	8,958	3,295	6,480	9,775
Motor coaches	805	580	1,385	615	796	1,411	664	801	1,465
Cutaway and medium-duty buses	338	—	338	373	—	373	354	—	354
Total Backlog	**3,662**	**5,220**	**8,882**	**4,224**	**6,518**	**10,742**	**4,313**	**7,281**	**11,594**

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

At the end of 2020 Q3, the Company's total backlog (firm and options) of 8,882 EUs (valued at $4.5 billion) has decreased compared to 10,004 EUs (valued at $4.9 billion) at the end of 2020 Q2. The decrease was driven by deliveries in the quarter and delays in new awards within North American and UK transit operations. The summary of the values is provided below.

	2020 Q2		2019 Q4		2019 Q3	
		Equivalent Units		Equivalent Units		Equivalent Units
Total firm orders	$ 1,788.5	3,662	$ 1,928.8	4,224	$ 1,877.3	4,313
Total options	2,703.1	5,220	3,245.1	6,518	3,598.6	7,281
Total backlog	**$ 4,491.6**	**8,882**	**$ 5,177.9**	**10,742**	**$ 5,475.9**	**11,594**

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

September 27, 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 39-Weeks ended September 27, 2020 ("2020 Q3" and "2020 Q3 YTD", respectively) and 13-Weeks and 39-Weeks ended September 29, 2019 ("2019 Q3" and "2019 Q3 YTD", respectively)

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

	2020 Q3	2019 Q3	2020 Q3 YTD	2019 Q3 YTD
Revenue (note 15)	$ 663,934	$ 725,347	$ 1,707,652	$ 1,975,695
Cost of sales (note 4)	617,151	639,214	1,594,563	1,700,190
Gross profit	46,783	86,133	113,089	275,505
Sales, general and administration costs and other operating expenses	64,108	61,956	175,751	172,875
Foreign exchange loss (gain)	(872)	(1,023)	408	(476)
Impairment loss on goodwill (note 5)	—	—	50,790	—
(Loss) earnings from operations	(16,453)	25,200	(113,860)	103,106
Gain (loss) on disposition of property, plant and equipment	191	93	(201)	98
Unrealized foreign exchange gain (loss) on non-current monetary items	3,609	(4,993)	5,815	(1,700)
(Loss) earnings before interest and income taxes	(12,653)	20,300	(108,246)	101,504
Interest and finance costs				
Interest on long-term debt	13,195	11,421	36,075	26,187
Accretion in carrying value of long-term debt (note 10)	690	261	1,714	635
Interest expense on lease liability	1,749	1,914	5,518	5,270
Other interest and bank charges	2,395	1,019	5,011	3,458
Fair market value loss (gain) on interest rate swap	(2,756)	4,415	20,980	26,504
	15,273	19,030	69,298	62,054
(Loss) earnings before income tax expense	(27,926)	1,270	(177,544)	39,450
Income tax (recovery) expense (note 9)	(3,014)	2,355	(11,343)	15,879
Net (loss) earnings for the period	$ (24,912)	$ (1,085)	$ (166,201)	$ 23,571
Other comprehensive income (loss)				
Actuarial (loss) income on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	(2,571)	122	(9,254)	(8,557)
Unrealized foreign exchange gain (loss) on translation of foreign operations	11,052	(12,378)	(11,813)	(14,435)
Total comprehensive (loss) income for the period	$ (16,431)	(13,341)	(187,268)	579
Net (loss) earnings per share (basic) (note 12)	$ (0.40)	$ (0.02)	$ (2.66)	$ 0.38
Net (loss) earnings per share (diluted) (note 12)	$ (0.40)	$ (0.02)	$ (2.66)	$ 0.38

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 September 27, 2020
(in thousands of U.S. dollars)

	September 27, 2020	December 29, 2019
Assets		
Current		
Cash	$ 1,176	$ 28,233
Accounts receivable (note 3)	363,483	531,736
Income tax receivable	20,029	17,375
Inventories (note 4)	712,600	672,243
Derivative financial instruments (note 14 b,c)	3,449	—
Prepaid expenses and deposits	15,011	10,094
	1,115,748	1,259,681
Property, plant and equipment	240,746	268,748
Right-of-use asset	137,410	153,323
Goodwill and intangible assets (note 5)	1,166,289	1,250,518
Accrued benefit asset	—	3,879
Other long-term asset (note 6)	37,219	19,612
	$ 2,697,412	$ 2,955,761
Liabilities		
Current		
Bank indebtedness	$ 10,000	$ —
Accounts payable and accrued liabilities	483,992	581,612
Derivative financial instruments (note 14 b,c)	2,574	4,651
Current portion of long-term liabilities (note 7)	135,017	144,524
	631,583	730,787
Accrued benefit liability	20,608	11,916
Obligations under leases	133,550	143,999
Deferred compensation obligation	2,063	2,790
Deferred revenue	14,542	13,354
Provisions (note 8)	65,034	62,180
Deferred tax liabilities	68,205	105,023
Derivative financial instruments (note 14 b,c)	36,368	15,388
Long-term debt (note 10)	1,123,281	1,053,126
	$ 2,095,234	$ 2,138,563
Commitments and contingencies (note 16)		
Shareholders' equity		
Share capital (note 11)	681,319	680,962
Stock option and restricted share unit reserve	7,847	6,828
Accumulated other comprehensive (loss) income	(20,298)	769
Retained (deficit) earnings	(66,690)	128,639
	$ 602,178	$ 817,198
	$ 2,697,412	$ 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 September 27, 2020

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Treasury shares	Retained (Deficit) Earnings	Total Shareholders' Equity
Balance, December 30, 2018	**$ 654,307**	**$ 5,796**	**$ (6,706)**	**$ (8,835)**	**$ 152,925**	**$ 797,487**
Net earnings	—	—	—	—	23,571	23,571
Other comprehensive income	—	—	(22,992)	—	—	(22,992)
Dividends declared on common shares	—	—	—	—	(59,639)	(59,639)
Repurchase and cancellation of common shares	(10,451)	—	—	—	(2,029)	(12,480)
Change in share purchase commitment	—	—	—	8,835	—	8,835
Share-based compensation, net of deferred income taxes	—	1,111	—	—	—	1,111
Shares issued	36,187	(394)	—	—	—	35,793
Balance, September 29, 2019	**$ 680,043**	**$ 6,513**	**$ (29,698)**	**$ —**	**$ 114,828**	**$ 771,686**
Net earnings	—	—	—	—	$ 34,127	34,127
Other comprehensive loss	—	—	30,467	—	—	30,467
Dividends declared on common shares	—	—	—	—	(20,311)	(20,311)
Repurchase and cancellation of common shares	—	—	—	—	(5)	(5)
Share-based compensation, net of deferred income taxes	—	404	—	—	—	404
Shares issued	919	(89)	—	—	—	830
Balance, December 29, 2019	**$ 680,962**	**$ 6,828**	**$ 769**	**$ —**	**$ 128,639**	**$ 817,198**
Net loss	—	—	—	—	$ (166,201)	(166,201)
Other comprehensive loss	—	—	(21,067)	—	—	(21,067)
Dividends declared on common shares	—	—	—	—	(29,128)	(29,128)
Share-based compensation, net of deferred income taxes	—	1,280	—	—	—	1,280
Shares issued	357	(261)	—	—	—	96
Balance, September 27, 2020	**$ 681,319**	**$ 7,847**	**$ (20,298)**	**$ —**	**$ (66,690)**	**$ 602,178**

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

13-Weeks ended and 39-Weeks ended September 27, 2020 ("2020 Q3" and "2020 Q3 YTD", respectively) and 13-Weeks and 39-Weeks ended September 29, 2019 ("2019 Q3" and "2019 Q3 YTD", respectively)

(in thousands of U.S. dollars)

	2020 Q3	2019 Q3	2020 Q3 YTD	2019 Q3 YTD
Operating activities				
Net (loss) earnings for the period	$ (24,912)	$ (1,085)	$ (166,201)	$ 23,571
Income tax (recovery) expense	(3,014)	2,355	(11,343)	15,879
Depreciation of plant and equipment	17,768	16,700	52,775	42,064
Amortization of intangible assets	8,606	15,355	31,885	31,371
Share-based compensation	597	152	1,162	1,129
Interest and finance costs recognized in profit or loss	15,273	19,030	69,298	62,054
Fair value adjustment for total return swap	7	1,432	1,702	676
Unrealized foreign exchange (gain) loss on non-current monetary items	(3,609)	4,993	(5,815)	1,700
Foreign exchange gain (loss) on cash held in foreign currency	16	37	(17)	19
Impairment loss on goodwill	—	—	50,790	—
(Gain) loss on disposition of property, plant and equipment	(191)	(93)	201	(98)
Impairment loss on right-of-use asset	3,028	—	3,028	—
Defined benefit expense	1,538	1,544	4,551	4,527
Defined benefit funding	(1,347)	(3,022)	(4,389)	(6,171)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	13,760	57,398	27,627	176,721
Changes in non-cash working capital items (note 13)	9,136	(57,800)	18,562	(176,706)
Cash generated (used in) from operating activities before interest and income taxes paid	22,896	(402)	46,189	15
Interest paid	(16,683)	(13,608)	(47,394)	(32,229)
Income taxes paid	(10,121)	(13,548)	(22,569)	(32,939)
Net cash used in operating activities	(3,908)	(27,558)	(23,774)	(65,153)
Financing activities				
Debt issue costs	—	(506)	—	(1,612)
Repayment of obligations under lease	(3,503)	(4,613)	(11,058)	(11,056)
Proceeds from long-term debt	9,989	73,350	68,441	482,066
Share issuance	—	490	96	35,861
Bank indebtedness	2,227	—	10,000	—
Repurchase of shares	—	—	—	(5,682)
Dividends paid	(9,704)	(20,250)	(39,519)	(56,391)
Net cash generated from (used in) financing activities	(991)	48,471	27,960	443,186
Investing activities				
Acquisition of intangible assets	—	(10)	—	(27)
Proceeds from disposition of property, plant and equipment	356	146	506	174
Investment in long-term restricted deposits	—	—	(15,510)	—
Net cash used in acquisitions	—	—	—	(327,361)
Acquisition of property, plant and equipment	(4,627)	(13,349)	(16,256)	(30,607)
Net cash used in investing activities	(4,271)	(13,213)	(31,260)	(357,821)
Effect of foreign exchange rate on cash	(16)	(37)	17	(19)
(Decrease) increase in cash	(9,186)	7,663	(27,057)	20,193
Cash — beginning of period	10,362	23,350	28,233	10,820
Cash — end of period	$ 1,176	$ 31,013	$ 1,176	$ 31,013

The accompanying notes are an integral part of the unaudited interim condensed 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 November 10, 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 Statement of Compliance

The Statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all the information required for annual financial statements.

2.2 Basis of preparation

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

2.3 Principles of consolidation

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

Subsidiaries

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

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

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

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

2.4 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 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

2.6 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. 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 (loss).

3. ACCOUNTS RECEIVABLE

	September 27, 2020	December 29, 2019
Trade, net of allowance for doubtful accounts	$ 306,326	$ 471,552
Other	57,157	60,184
	$ 363,483	$ 531,736

4. INVENTORIES

	September 27, 2020	December 29, 2019
Raw materials	$ 304,769	$ 300,447
Work in process	257,781	263,343
Finished goods	150,050	108,453
	$ 712,600	$ 672,243

	2020 Q3	2019 Q3	**2020 Q3 YTD**	2019 Q3 YTD
Cost of inventories recognized as expense and included in cost of sales	$ 594,872	$ 655,236	$ 1,555,055	$ 1,707,057
Write-down of inventory to net realizable value in cost of sales (note 19)	21,145	2,885	41,328	4,597
Reversals of a previous write-down in inventory	—	292	403	292

5. GOODWILL

During the first quarter of 2020, the Company idled production facilities to manage the adverse impacts of the COVID-19 pandemic on the Company's business and operations and that of its customers and suppliers and to address the health and safety concerns of its employees. The idling of production facilities resulted in significant downward revisions to the budgeted net cash flows of all manufacturing CGUs. The expected impact of Government lock-downs on demand for aftermarket parts and services also resulted in significant downward revisions to the budgeted net cash flows of all aftermarket CGUs. The COVID-19 pandemic also caused a significant decline in private markets, resulting in the cancellation or deferral of many private customer orders for coaches in North America and coaches and buses in the UK, further reducing budgeted net cash flows at the motor coach manufacturing and ADL manufacturing CGUs. 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.

Based upon the results of the interim quantitative impairment test performed during the first quarter of 2020, management determined that the estimated recoverable amount of the motor coach manufacturing CGU was $295 million and, as the carrying amount exceeded the recoverable amount, a goodwill impairment charge of $50.8 million was recorded.

At the end of the second quarter of 2020, management conducted a review to assess whether indicators of impairment existed and concluded that COVID-19's continued negative impact on the business once again created indicators of impairment at all CGUs. Accordingly, management performed an interim quantitative impairment test for all CGU's as at June 28, 2020 and determined that the recoverable amount of each CGU exceeded the carrying amount and, as a result, did not record a goodwill impairment.

During the third quarter of 2020, the Company announced its commitment to a significant restructuring program called "NFI Forward" (see Note 18). Prior to this restructuring, management monitored goodwill for impairment separately at each of its six cash generating units ("CGUs"): bus manufacturing, motor coach manufacturing, ARBOC, ADL manufacturing, ADL aftermarket parts operations and aftermarket parts operations. As a result of the restructuring, management has determined that is appropriate to combine the goodwill and intangible assets of the bus manufacturing and motor coach manufacturing CGUs for impairment testing purposes. This determination is based on the Company combining the business operations of the two CGUs as part of NFI Forward. While both CGUs still generate separately identifiable cash inflows, management is no longer able to separately identify the cash outflows of each CGU. Both CGUs are expected to benefit from the synergies of the combination, which further supports management's decision to monitor for impairment at the combined level. The NFI Forward restructuring program also combined the North American aftermarket parts operations of ADL and NFI parts. As a result of this combination, the Company reallocated $6.2 million of goodwill and $10.5 million of intangible assets from the ADL aftermarket parts operations CGU to the aftermarket parts operations CGU for impairment testing purposes.

At the end of the third quarter, management conducted a review to assess whether indicators of impairment existed and concluded that COVID-19's continued negative impact on the business once again created indicators of impairment at all CGUs, and groups of CGUs, to which goodwill has been allocated. Accordingly, management performed an interim quantitative impairment test for all CGU's as at September 27, 2020.

In performing the third quarter interim quantitative impairment test and consistent with prior practice, the Company determined the recoverable amount of each CGU, or groups of CGUs, 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 ADL and bus/motor coach manufacturing CGUs, between 11.5% and 17.5% for the ARBOC CGU, and between 7.0% and 12.0% per annum for the aftermarket parts and ADL parts CGUs. 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.

Management has determined that the recoverable amount of each CGU, or group of CGUs, to which goodwill has been allocated exceeded the carrying amount as at September 27, 2020 and, as a result, a goodwill impairment charge was not recorded in the third quarter.

Sensitivity testing was conducted as part of the September 27, 2020 impairment tests. Management believes that any reasonable change in the key assumptions used to determine the recoverable amounts would not result in an impairment at bus/coach manufacturing, ARBOC, ADL aftermarket parts operations or aftermarket parts operations.

5. GOODWILL (Continued)

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

- the cash flow projections are lower by 7.2% annually;
- the long-term annual growth rate is decreased by 1.3%; or
- the discount rate is increased by 1.0%.

6. OTHER LONG-TERM ASSETS

	September 27, 2020	December 29, 2019
Long-term restricted deposit (note 16c)	$ 30,000	$ 14,490
Long-term accounts receivable	5,433	5,122
Non-current asset held for sale	1,786	—
	$ 37,219	$ 19,612

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

The non-current asset held for sale represents a service facility that is being sold to a third party, should all closing conditions be satisfied. The sale of the property is expected to occur in late 2020 or early 2021. The service facility is part of the manufacturing segment operations.

7. CURRENT PORTION OF LONG TERM LIABILITIES

	September 27, 2020	December 29, 2019
Deferred revenue	$ 83,603	$ 94,372
Provisions (note 8)	31,508	29,314
Deferred compensation obligation	545	1,678
Obligations under finance leases	19,361	19,160
	$ 135,017	$ 144,524

8. PROVISIONS

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

The restructuring provision consists of employee termination benefits associated with the NFI Forward restructuring initiative that was announced on July 27, 2020 (note 18).

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

	Insurance Risk Retention	Restructuring	Warranty	Total
December 30, 2018	$ 24,504	—	76,280	100,784
Assumed as a result of business acquisition	—	—	7,434	7,434
Additions	8,880	—	44,226	53,106
Amounts used/realized	(5,383)	—	(47,693)	(53,076)
Unused provision	(504)	—	(16,642)	(17,146)
Unwinding of discount and effect of changes in the discount rate	—	—	225	225
Exchange rate differences	—	—	167	167
December 29, 2019	$ 27,497	$ —	$ 63,997	$ 91,494
Additions	6,208	18,339	30,669	55,216
Amounts used/realized	(7,231)	(5,025)	(32,034)	(44,290)
Unused provision	—	—	(5,163)	(5,163)
Unwinding of discount and effect of changes in the discount rate	—	—	60	60
Exchange rate differences	—	—	(775)	(775)
	26,474	13,314	56,754	96,542
Less current portion	3,000	13,314	15,194	31,508
September 27, 2020	$ 23,474	$ —	$ 41,560	$ 65,034

9. INCOME TAX (RECOVERY) EXPENSE

The income tax (recovery) expense for 2020 Q3 was $(3.0) million compared to $2.4 million in 2019 Q3. The Effective Tax Rate ("ETR") for 2020 Q3 was 10.8% and the ETR for 2019 Q3 was 185.4%. The reduction in the overall income tax expense is primarily due to lower earnings before taxes. The ETR is negatively impacted by the base erosion and anti-abuse tax ("BEAT") and a write-off of unapplied foreign tax credits.

The income tax expense (recovery) for 2020 Q3 YTD was $(11.3) million compared to $15.9 million in 2019 Q3 YTD. The ETR for 2020 Q3 YTD was 6.4% and the ETR for 2019 Q3 YTD was 40.3%. 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 September 27, 2020**	Net Book Value December 29, 2019
Revolving Credit Facility, Unsecured (“Credit Facility”)	1,074,100	2,450	1,071,650	1,053,126
Revolving Credit Facility, Unsecured ("UK Facility")	52,295	289	52,006	—
Revolving Credit Facility, Unsecured ("Sidecar")	—	375	(375)	—
	1,126,395	3,114	1,123,281	1,053,126

10. LONG-TERM DEBT (Continued)

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 September 27, 2020. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

On April 23, 2020 NFI entered into the $250 million unsecured, one-year Sidecar facility that 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

	September 27, 2020	December 29, 2019
Authorized - Unlimited		
Issued - 62,524,842 Common Shares (December 29, 2019: 62,493,880)	$ 681,319	$ 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	22	261
Balance – September 27, 2020	62,525	$ 681,319

12. EARNINGS PER SHARE

	2020 Q3	2019 Q3	2020 Q3 YTD	2019 Q3 YTD
Net (loss) earnings attributable to equity holders	$ (24,912)	$ (1,085)	$ (166,201)	$ 23,571
Weighted average number of Shares in issue	62,511,734	62,391,178	62,505,778	61,601,132
Add: net incremental Shares from assumed conversion of stock options and exercise of restricted share units	—	214,033	—	242,331
Weighted average number of Shares for diluted earnings per Share	62,511,734	62,605,211	62,505,778	61,843,463
Net (loss) earnings per Share (basic)	$ (0.3985)	$ (0.0174)	$ (2.6590)	$ 0.3826
Net (loss) earnings per Share (diluted)	$ (0.3985)	$ (0.0173)	$ (2.6590)	$ 0.3811

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.

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.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2020 Q3	2019 Q3	2020 Q3 YTD	2019 Q3 YTD
Accounts receivable	$ (100,506)	$ (22,526)	$ 169,884	$ 20,828
Income tax receivable	(1,635)	(6,555)	(2,652)	(4,445)
Inventories	19,257	7,878	(39,792)	(91,938)
Prepaid expenses and deposits	776	1,254	(4,919)	1,121
Accounts payable and accrued liabilities	105,852	(25,138)	(97,623)	(63,429)
Deferred revenue	(24,032)	(9,553)	(9,581)	(2,025)
Provisions	5,949	(5,621)	5,059	(11,172)
Long-term restricted deposits (note 6)	—	(798)	—	(14,490)
Other	3,475	3,259	(1,814)	(11,156)
	$ 9,136	$ (57,800)	$ 18,562	$ (176,706)

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
Bank indebtedness	Fair value through profit or loss
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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	September 27, 2020		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 1,176	$ 1,176
Long-term restricted deposit	Level 1	$ 30,000	$ 30,000
Foreign exchange forward contracts	Level 2	$ 3,449	$ 3,449
Derivative financial instrument assets - current		$ 3,449	$ 3,449
Financial liabilities recorded at fair value			
Bank Indebtedness	Level 1	$ 10,000	$ 10,000
Total return swap contracts	Level 2	$ 2,574	$ 2,574
Derivative financial instrument liabilities - current		$ 2,574	$ 2,574
Interest rate swap	Level 2	$ 36,368	$ 36,368
Derivative financial instrument liabilities - long term		$ 36,368	$ 36,368

	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.

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

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 September 27, 2020 the Company held a position of 242,910 Shares at a weighted average price of C$30.68. 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 September 27, 2020, the Company had $127 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. The related asset of $3.4 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 asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed 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 September 27, 2020, the Company had a cash balance of $1.2 million (December 29, 2019: $28.2 million), the $1.074 billion under the Credit Facility due in 2024 (December 29, 2019: $1.056 billion), $52.3 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 $51.2 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 September 27, 2020 is $414.5 million.

The Company's principal sources of funds are cash generated from its operating activities, share issuances and borrowing capacity remaining under the credit facilities. Management believes these sources of funds 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 September 27, 2020:

US dollars in thousands	Total	2020	2021	2022	2023	2024	Post 2024
Leases	195,025	6,220	22,345	20,320	17,724	12,736	115,680
Accrued benefit liability	782	782	—	—	—	—	—
	$ 195,807	$ 7,002	$ 22,345	$ 20,320	$ 17,724	$ 12,736	$ 115,680

Credit risk

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

Additionally, up to 80% of the capital cost of new transit buses and coaches sold to public transit authorities and municipalities in the United States typically come from the U.S. Federal Transit Administration, while the remaining 20% comes from state and municipal sources. The maximum exposure to the risk of credit for accounts receivable corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. During 2020 Q3, the Company recorded a bad debt expense of $517 as compared to $62 bad debt expense in 2019 Q3.

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 interim condensed 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)

	September 27, 2020	December 29, 2019
Current, including holdbacks	$ 316,151	$ 487,807
Past due amounts but not impaired		
1 – 60 days	35,021	37,413
Greater than 60 days	13,285	6,800
Less: Allowance for doubtful accounts	(974)	(284)
Total accounts receivables, net	$ 363,483	$ 531,736

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

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

On 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 on September 28, 2020, 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 from September 28, 2020 until the Fiscal Quarter ending December 27, 2020. Alternatively, if the Company does utilize the Sidecar then it must maintain a TLR of less than 5.5 to 1 from September 28, 2020 until the Fiscal Quarter ending December 27, 2020. Starting from December 28, 2020, 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 from December 28, 2020 until the Fiscal Quarter ending April 4, 2021, 4.25 to 1 from April 5, 2021 until the Fiscal Quarter ending July 24, 2021 and, for the Credit Facility, 3.75 to 1 from July 25, 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 last twelve months ("LTM") calculations that exclude 2020 Q2. The calculation of the financial covenants for 2020 Q3 based on a pro-rated LTM calculations are provided for information purposes below:

	September 27, 2020	December 29, 2019
Total Leverage Ratio	4.17	3.24
Interest Coverage Ratio	5.05	7.73

As at September 27, 2020, the Company was in compliance with the liquidity requirement.

US dollars in thousands	**September 27, 2020**
Liquidity Position (must be greater than $50 million)	$ 414,451

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.

15. SEGMENT INFORMATION

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

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

The Manufacturing Operations segment has recorded vendor rebates of $812 (2019 Q3: $1,862), 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 Q3			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 566,235	$ 97,699	—	$ 663,934
Operating costs and expenses	591,990	83,997	15,873	691,860
Earnings (loss) before income tax expense	(25,755)	13,702	(15,873)	(27,926)
Total assets	1,979,753	470,041	247,618	2,697,412
Addition of capital expenditures	5,587	—	—	5,587
Addition of goodwill and intangibles assets	6	—	—	6
Impairment loss on goodwill	—	—	—	—
Goodwill	333,646	186,889	—	520,535

	2020 Q3 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,409,889	$ 297,763	—	$ 1,707,652
Operating costs and expenses	1,549,396	257,911	77,889	1,885,196
Earnings (loss) before income tax expense	(139,507)	39,852	(77,889)	(177,544)
Total assets	1,979,753	470,041	247,618	2,697,412
Addition of capital expenditures	16,708	506	—	17,214
Addition of goodwill and intangibles assets	6,101	—	—	6,101
Impairment loss on goodwill	(50,790)	—	—	(50,790)
Goodwill	333,646	186,889	—	520,535

15. SEGMENT INFORMATION (Continued)

	2019 Q3			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 616,008	$ 109,339	—	725,347
Operating costs and expenses	601,776	95,682	26,619	724,077
Earnings (loss) before income tax expense	14,232	13,655	(26,619)	1,268
Total assets	2,253,714	426,409	266,052	2,946,175
Addition of capital expenditures	13,196	153	—	13,349
Addition of goodwill and intangibles assets	47,625	—	—	47,625
Goodwill	400,597	151,974	—	552,572

	2019 Q3 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,675,445	$ 300,250	—	1,975,695
Operating costs and expenses	1,607,811	252,146	76,288	1,936,245
Earnings (loss) before income tax expense	67,634	48,102	(76,288)	39,448
Total assets	2,253,714	426,409	266,052	2,946,175
Addition of capital expenditures	30,018	589	—	30,607
Addition of goodwill and intangibles assets	338,786	—	—	338,786
Goodwill	400,597	151,974	—	552,571

The Company's revenue by geography is summarized below:

	2020 Q3	2019 Q3	2020 Q3 YTD	2019 Q3 YTD
North America	$ 512,667	$ 589,207	$ 1,406,843	$ 1,797,593
UK and Europe	93,527	107,532	225,916	145,747
Asia Pacific	57,142	28,297	73,190	31,726
Other	598	311	1,703	629
Total	$ 663,934	$ 725,347	$ 1,707,652	$ 1,975,695

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

	2020 Q3	2019 Q3	2020 Q3 YTD	2019 Q3 YTD
Transit buses	$ 458,763	$ 448,796	$ 1,151,487	$ 1,272,267
Motor coaches	92,691	140,955	212,552	334,539
Medium-duty and cutaway buses	10,939	13,757	32,977	31,629
Pre-owned coach	2,597	11,389	9,428	32,240
Fiberglass reinforced polymer components	1,245	1,111	3,445	4,770
Manufacturing revenue	$ 566,235	$ 616,008	$ 1,409,889	$ 1,675,445

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 September 27, 2020 range from October 2020 to December 2026.

At September 27, 2020, outstanding surety bonds guaranteed by the Company totaled $367.0 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 September 27, 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 September 27, 2020, letters of credit totaling $21.2 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 September 27, 2020, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

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.

The claims submitted or expected to be submitted under the CEWS program are $8.2 million for the third quarter and $22.6 million for the year, $6.2 million of which is included in 'Accounts Receivable' on the Company's unaudited interim condensed consolidated statement of financial position at September 27, 2020. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CEWS has been recognized as an offset to wage expense ($7.2 million in Q3 2020 and $18.6 million in Q3 2020 YTD against 'Cost of Sales' and $1.0 million in Q3 2020 and $2.6 million in Q3 2020 YTD against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's unaudited interim condensed consolidated statement of net earnings and total comprehensive income. An additional $1.4 million was used to reimburse employee vacation credits in Q2 2020. 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.

The claims submitted under the CJRS program are $6.6 million for the third quarter and $19.9 million for the year, $2.2 million of which is included in 'Accounts Receivable' on the Company's unaudited interim condensed consolidated statement of financial position at September 27, 2020. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CJRS has been recognized as an offset to wage expense ($5.4 million in Q3 2020 and $17.9 million in Q3 2020 YTD against 'Cost of Sales' and $1.2 million in Q3 2020 and $2.0 million in Q3 2020 YTD against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's unaudited interim condensed consolidated statement of net earnings and total comprehensive income. The Company will continue to evaluate its eligibility under the CJRS program in subsequent quarters.

18. RESTRUCTURING

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

		2020 Q3
Employee termination benefits (Note 8)	$	18,339
Right-of-use asset impairments		3,028
Write-down of inventory to net realizable value (Note 4)		1,849
Write-down of property, plant and equipment		1,728
Other		485
Total restructuring costs	$	25,429

19. SUBSEQUENT EVENT

On October 22, 2020, the Company sold the majority of its pre-owned motor coach inventory to a third party for total proceeds of $19 million paid at close, subject to certain minor adjustments. During 2020 Q3, the Company recorded a write-down of this inventory to net realizable value in cost of sales of $20.4 million (note 4).

20. COMPARATIVE FIGURES

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