NFI GROUP INC.

Annual Information Form

March 16, 2020

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NFI GROUP INC.

General

The information, including any financial information, disclosed in this Annual Information Form is stated as at December 29, 2019 or for the year ended December 29, 2019, as applicable, unless otherwise indicated. Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars and references to "$", "US$" and "U.S. dollars" are to the lawful currency of the United States. References to C$ are to the lawful currency of Canada. References in this Annual Information Form to "we", "us", "our" or the "Company" refer to NFI Group Inc., formerly New Flyer Industries Inc. ("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"), ARBOC Specialty Vehicles, LLC ("ARBOC"), KMG Fabrication, Inc. ("KMG"), Carfair Composites Inc. and Carfair Composites USA, Inc. (together, "Carfair"), Motor Coach Industries International, Inc. and its affiliated entities engaged in the motor coach and related parts and service businesses (collectively, "MCI") and NFI International Limited, Alexander Dennis Limited and its affiliated entities engaged in the single and double deck buses and related parts and service businesses (collectively, "ADL"). References to "New Flyer" generally refer collectively to NFI ULC, NFAI, Carfair and TCB. References to "NFI Parts" generally refer to TAPC. References to "NFI" refer to NFI Group Inc. References in this Annual Information Form to "management" are to management of the Company.

Certain statements in this Annual Information Form are "forward-looking statements", which reflect the expectations of management regarding the Company's future growth, results of operations, performance and business prospects and opportunities. The words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates" and similar expressions are intended to identify forward-looking statements. In addition, forward-looking statements can be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. These forward-looking statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this Annual Information Form. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors". Although the forward-looking statements contained in this Annual Information Form are based upon what management believes to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this Annual Information Form and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities law.

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 Annual Information Form with respect to market share, the number of transit buses, medium-duty buses, low-floor cutaway buses and motor coaches delivered and in service 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 or 45-foot heavy-duty transit bus, one double deck bus, one medium-duty bus, one low-floor cutaway bus or one motor coach. One articulated transit bus represents two equivalent units. An articulated transit bus is an extra-long 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.

As used herein, "North America" refers to Canada and the United States and the "UK" refers to England, Scotland, Wales and Northern Ireland.

Throughout this Annual Information Form all references to "IFRS" are to International Financial Reporting Standards.

Use of Market and Industry Data

This Annual Information Form includes market and industry data that has been obtained from third party sources, including industry publications, industry associations and customers, as well as industry data prepared by management on the basis of its knowledge of and experience in the industry in which the Company operates (including management's estimates and assumptions relating to the industry based on that knowledge). Management's knowledge of the industry has been developed through its experience and lengthy participation in the industry. Management believes that its industry data is accurate and that its estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although management believes it to be reliable, neither the Company, nor management have independently verified any of the data from third party sources referred to in this Annual Information Form or ascertained the underlying economic assumptions relied upon by such sources.

BUSINESS OF THE COMPANY

NFI, together with its subsidiaries, is a leading independent global bus and coach manufacturer.

Management estimates that in 2019, the Company had a leading market share in the following geographies:

- New Flyer had the leading market share of the combined United States and Canadian heavy-duty transit bus deliveries of equivalent units;

- ARBOC had the leading market share of the combined United States and Canadian deliveries of low-floor cutaway buses;

- MCI had the leading market share of the combined United States and Canadian deliveries of motor coaches; and

- in ADL's primary market of the UK, ADL had the leading market share of the single deck body market and is the global leader in the double deck body market.

From its production facilities in Canada, the United States and the UK, the Company has the broadest and most advanced product offering in North American bus and motor coach markets, plus the leading offering in the UK and Hong Kong, with a growing presence in New Zealand, Singapore and Western Europe.

New Flyer designs and manufactures a variety of transit buses from 30-feet to 60-feet in length with diverse propulsion systems, including clean diesel, diesel-electric hybrid, compressed natural gas ("CNG"), battery-electric, electric trolley and hydrogen fuel cell electric. ADL designs and manufactures lightweight single and double deck buses with a range of low and zero emission propulsions, including clean diesel, diesel-electric hybrid, biogas, and battery-electric. ARBOC designs and manufactures a variety of low-floor cutaway and medium-duty buses with diesel and natural gas propulsion systems. MCI designs and manufactures a variety of motor coaches, primarily in 35-foot, 40-foot and 45-foot lengths, with clean diesel, diesel-electric hybrid, CNG and battery-electric propulsion systems. Under ADL's Plaxton brand, the Company designs and manufactures a full range of motor coaches for the UK and Irish markets. In addition to its engineering, manufacturing and field service capabilities, the Company maintains the industry's leading aftermarket parts organizations, which are responsible for supporting an extensive range of post-sale activities, including parts distribution, support documentation and training.

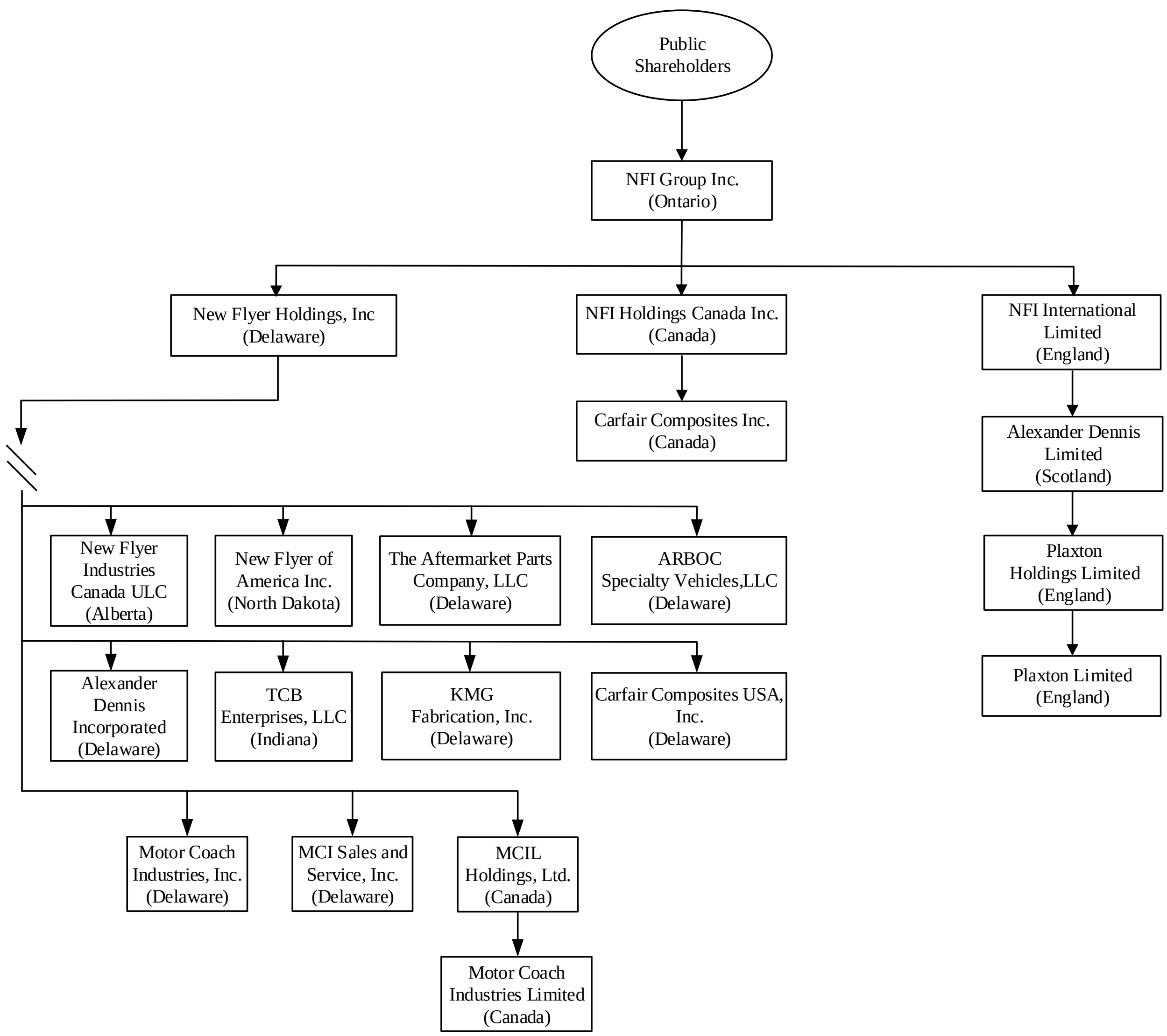
For the fiscal year ended December 29, 2019, the Company generated revenue of approximately $2.9 billion.

The common shares of NFI (the "Shares") are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol "NFI" and are included in the S&P/TSX Composite Index and the S&P/TSX Composite Dividend Index.

CORPORATE STRUCTURE

NFI is a corporation established under the *Business Corporations Act* (Ontario) on June 16, 2005. The registered office of NFI is located at Suite 3000, 79 Wellington Street West, Toronto, Ontario, M5K 1N2.

The chart below shows NFI and its principal subsidiaries, all of which are wholly-owned. The principal operating subsidiaries of the Company are: NFI ULC, NFAI, MCI, ADL, ARBOC and TAPC.



GENERAL DEVELOPMENT OF THE BUSINESS

Recent Developments

Fiscal 2017

The Company announced that effective January 1, 2017, the business would be restructured into three operating business units: the Transit Bus business unit focusing on the design, manufacture, sale and support of transit buses (and after the acquisition of ARBOC in December 2017, medium-duty buses and cutaways); the Motor Coach business unit focusing on the design, manufacture, sales and support of motor coaches and the Aftermarket Parts business unit focusing on sales of bus and coach parts and providing customer training for buses and coaches.

On February 15, 2017, MCI announced that it was developing a battery-electric propulsion system for its popular J-model coach, based on New Flyer's battery-electric propulsion expertise. MCI also announced that it was developing a 35-foot J-model coach in response to customers' requests for a smaller vehicle that offers the reliability and parts commonality of its popular 45-foot J-model coach. Production of the J3500 began in January 2019.

On May 10, 2017, NFI announced the termination of the joint venture between New Flyer and ADL for the manufacture of 30-foot and 35-foot medium-duty buses. In 2012, New Flyer and ADL entered into the joint venture to collaborate and introduce a medium-duty low-floor bus in North America. With the termination of the joint venture, the manufacture, sales, marketing and aftermarket parts sales for this bus were transitioned to ADL. In 2019, NFI acquired ADL. New Flyer continues to support all commitments made to existing MiDi® customers for care and product support.

On June 1, 2017, Carfair acquired Carlson Engineered Composites Inc. ("Carlson") and the assets of its US affiliated companies, a privately-owned composites company, headquartered in Winnipeg, Manitoba for approximately US$13 million. Carlson manufactures fiberglass reinforced polymer (FRP) components primarily for original equipment manufacturers of transportation vehicles and agricultural equipment. The Canadian and U.S. assets of Carlson are now operated by the Company through its subsidiaries, Carfair Composites Inc. and Carfair Composites USA, Inc.

On September 6, 2017, NFAI announced it would invest US$25 million in major building renovations and expansions at its Anniston, Alabama production campus. This investment builds on NFAI's commitment to American infrastructure, manufacturing, innovation, and jobs. It adds fabrication equipment that enhances component manufacturing, streamlines the weld process, expands the operational footprint, and adds capacity and an innovation center for zero-emission bus production. The 36-acre, five building campus is now home to a new Vehicle Innovation Center ("VIC"), North America's first innovation lab dedicated to the advancement of bus and motor coach technology. The mandate of the VIC, which opened in October 2017, includes research, development, and evolution of electric, autonomous and telematics technologies. Since opening, the VIC has received over 1,300 visitors and training participants.

On September 25, 2017, Carfair Composites USA, Inc. purchased certain assets and certain liabilities of Sintex-Wausaukee Composites Inc., a privately-owned composites company headquartered in Wausaukee, Wisconsin, for approximately $4 million.

In October 8, 2017, NFI announced a new brand within its portfolio – NFI Parts™. All of the parts sales and support for original equipment manufacturers ("OEMs") products will be supported under this single brand. This new brand represents important activities associated with supporting the OEM products (buses and motor coaches), including part sales and support activities, technical publications, and training.

On October 9, 2017, MCI unveiled the D45 CRT LE, a new commuter coach model equipped with comfort, environmental-efficiency and maximum accessibility for an increasingly diverse commuting population. MCI designed the new coach to enhance the experience of commuter rapid transit (CRT) and bus rapid transit (BRT) systems for a range of commuters with the goal of improving accessibility through ground level entry via a vestibule design that permits passengers to self-secure wheel chairs and other mobility devices. Deliveries of the Buy-America compliant, Altoona-tested clean-diesel coach began in the fourth quarter of 2018. Other updated designs of the D-model coach are expected to be in production through to 2022, with an all-electric version expected to be in production in 2021.

Also on October 9, 2017, NFAI announced the introduction of the next generation of its industry leading, battery-electric heavy-duty transit bus: the Xcelsior CHARGE™. The Xcelsior CHARGE™ builds on the industry leading Xcelsior® transit bus platform, with extended range battery technology made in America, electric motors with efficient regenerative energy recovery, the highest torque available for cities with steep grades and charging infrastructure compliant with industry standards.

On November 16, 2017, NFAI announced it would invest in capital equipment and building preparations to establish a new part fabrication facility in Shepherdsville, Kentucky. The 300,000 square foot facility will fabricate parts for the manufacture of New Flyer transit buses, MCI motor coaches and spare parts for NFI Parts.

On December 1, 2017, the Company acquired ARBOC for cash consideration of $95 million. Established in 2008, ARBOC is a North American pioneer and leader in low-floor body-on-chassis (or “cutaway”) bus technology. ARBOC has also introduced a medium-duty, low-floor transit and shuttle bus based on its own chassis design.

Fiscal 2018

On January 3, 2018, New Flyer announced that its Anniston, Alabama facility completed its first full build of an Xcelsior CHARGE™ zero-emission, battery-electric, heavy-duty transit bus. All New Flyer manufacturing facilities (the others being in Winnipeg, Manitoba, and Crookston and St. Cloud, Minnesota) now have the capability to fully manufacture the Xcelsior CHARGE™.

On January 4, 2018, MCI announced that EvoBus GmBH (“Daimler”) had terminated the distribution rights agreement (“DRA”) for Daimler’s Setra motor coaches in the United States and Canada effective June 29, 2018. MCI entered into the DRA as part of a transaction that resulted in Daimler owning 10% of the equity of MCI in 2012. When New Flyer acquired 100% of the equity of MCI in December 2015, the DRA remained in place. The models covered by the agreement were the Setra S 407 and S 417 motor coaches. Since 2012, MCI has sold only 282 new Setra coaches. The decision came as MCI expands its own motor coach lineup and service network, including the redesign of its J4500 model and the introduction of the D45 CRT LE.

On March 1, 2018, New Flyer and A. Girardin Inc. (“Girardin”) mutually agreed to terminate the distribution agreement whereby Girardin distributed New Flyer’s Xcelsior® transit bus in Quebec. Following March 1, 2018, Girardin no longer distributes New Flyer buses nor offers service, support warranty requests, repairs, or parts.

On April 24, 2018, New Flyer became the first bus manufacturer in the world to join the Shared Mobility Principles for Livable Cities. It subsequently joined the Charging Interface Initiative (CharIN) to support industry charging standards for all electric vehicles, became the first licensee outside the Volvo Group to join OppCharge in North America, signed CALSTART’s Global Commercial Drive to Zero to support fast-tracking adoption of clean trucks and buses, and also signed the Transportation Electrification Accord focused on driving an equitable and prosperous future for electrified transportation – all in 2018.

On May 10, 2018, MCI announced the battery-electric J4500e proof of concept vehicle had become operational and had reached and sustained a highway speed of 70 MPH for the first time. The J4500e is the first in the family of MCI coaches to have a battery-electric propulsion system.

On August 24, 2018, New Flyer announced Canada's largest battery-electric transit bus contract with the Société de transport de Montréal ("STM") and the Société de transport de Laval ("STL") which ordered 40 forty-foot, battery-electric Xcelsior CHARGE™ buses. With this order, New Flyer now serves all 25 of the largest transit agencies in North America.

On November 29, 2018, ARBOC announced its Spirit of Equess®, the industry's first and only medium-duty, purpose-built transit bus, completed testing at the U.S. Federal Transit Administration ("FTA") proving grounds in Altoona, Pennsylvania ("Altoona"). ARBOC had previously secured its first customer order for the Equess in September 2018.

In November 2018, MCI announced that its all-new MCI D45 CRT LE, which provides for a major breakthrough in passenger accessibility, had completed testing at Altoona for new bus models. The MCI D45 CRT LE received a 10-month battery of tests accelerating a 12-year, 500,000 miles service life.

In November 2018, New Flyer announced that its 60-foot articulated heavy-duty transit bus has become the first and only 60-foot battery-electric bus to complete the FTA Model Bus Testing Program at Altoona. With successful completion of testing at Altoona, U.S. transit agencies can now utilize FTA funding in support of their purchases of 60-foot (battery and fuel cell) electric Bus Rapid Transit (eBRT) buses from New Flyer, further enabling smart mobility solutions for cities across North America.

On December 13, 2018 MCI received its first order for the new 35-foot J3500 coach from a private coach operator based in the U.S.

Fiscal 2019 and Year-to-date

On January 8, 2019, New Flyer announced the launch of New Flyer Infrastructure Solutions™ ("NFIS"), a service dedicated to providing safe, reliable, smart, and sustainable charging and mobility solutions to customers. It will support mobility projects from start to finish and focus on energy management optimization as well as infrastructure planning and development, providing cohesive transition of bus fleets to zero-emission bus ("ZEB") technology.

On March 12, 2019, New Flyer announced the unveiling of the Xcelsior CHARGE H2™, the Company's fuel cell-electric heavy-duty transit bus, and announced that both the 40-foot and 60-foot model of the Xcelsior CHARGE H2™ had successfully completed the testing at Altoona. The Xcelsior CHARGE H2™ is the first 60-foot fuel cell-electric bus to complete testing at Altoona and establishes New Flyer as the only manufacturer to offer both a 40-foot and 60-foot fuel cell-electric bus model that qualifies for U.S. federal funding.

On May 15, 2019, NFAI announced an exclusive partnership with Robotic Research, LLC ("Robotic Research") to advance autonomous bus technology through developing and deploying advanced driver-assistance systems ("ADAS") in heavy-duty transit bus applications. The partnership between New Flyer and Robotic Research will pursue development of an Xcelsior CHARGE™ battery-electric bus equipped with Society of Automotive Engineers ("SAE") Standard J3016 Level 4 ADAS technology. SAE J3016 Level 4 is defined as high automation where the vehicle performs all driving tasks autonomously while actively monitoring the driving environment. Testing of the technology, on a closed course at Robotic Research facilities, took place in early 2020. With the announcement of its Robotic Research partnership, New Flyer further supports the FTA's Strategic Transit Automation Research Plan to assess potential risks, barriers and mitigation strategies associated with the implementation of automation technologies in transit buses. This plan also adopts SAE J3016 standards.

On May 28, 2019, NFI acquired ADL for a total transaction value of £320 million on a cash-free, debt-free basis, subject to certain adjustments. ADL is one of the world's leading independent bus and coach manufacturers and the number one global producer of double deck buses. With a long history spanning more than a century, ADL has over 31,000 vehicles in service in the UK, Europe, Hong Kong, Singapore, New Zealand, Mexico, Canada and the United States sold under the Alexander Dennis and Plaxton brands.

On December 2, 2019, NFI announced the selection of Pipasu H. Soni as NFI's next Chief Financial Officer ("CFO"). Mr. Soni joined NFI as Executive Vice President, Finance in a transition role that will lead to him becoming Executive Vice President and CFO on or prior to March 30, 2020. Mr. Soni succeeds Glenn Asham who is retiring at the end of March 2020 after 28 years of service with the Company, fifteen of which as CFO.

DESCRIPTION OF THE BUSINESS

Industry Overview

Heavy-Duty Transit Buses (New Flyer and ADL)

The Company is the leading manufacturer of heavy-duty transit buses (sometimes referred to in the industry as intra-city buses) in the United States, Canada and the UK and the leading manufacturer of double-deck buses in Hong Kong. Heavy-duty transit buses are the backbone of intra-city urban public transportation systems. They consist of vehicles that are generally between 30 and 60 feet in length, in single-deck or double-deck variations and with seating capacity for up to 70 passengers. These transit buses operate in arduous stop and go conditions, often for up to 16 hours a day, seven days a week. Heavy-duty transit buses use a variety of propulsion systems in addition to clean diesel, including diesel-electric hybrid, CNG, battery-electric, electric trolley, biogas and hydrogen fuel cell-electric.

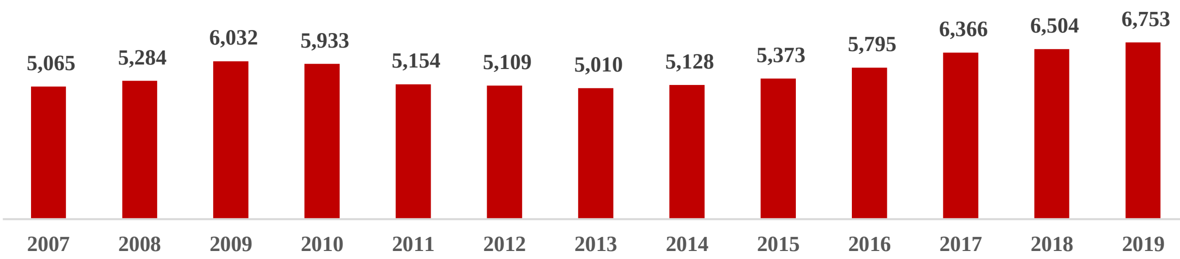
Customer funding models vary significantly by geographic region. In the United States there are well-established federal funding programs for transit fleet replacements that typically fund approximately 80% of the total purchase, with the remaining 20% coming from local funding contributions. There can be significant pressure on local funding as a result of the effect of general economic conditions on local tax revenues. In Canada, funding is primarily generated from local and provincial governments with some federal funding provided through specific programs.

The bus market in the UK is dominated by private companies working in a deregulated environment or on franchised contracts with local governments. There is no general grant funding mechanism for the purchase of new buses, resulting in orders being placed on a purely commercial basis and on short lead times to delivery. Customers place orders with manufacturers frequently, instead of making provisions for future purchase options under the purchase agreements. The Company provides leasing and financing solutions to customers through third parties. Funding mechanisms in other geographical markets in which ADL operates vary.

Global macro focus on environmental concerns and climate change continues to grow, and the pressure placed on public transit services to expand and transition to zero-emission vehicles has heightened over the past few years. Within numerous jurisdictions government grants have been made available to organizations and transit agencies to develop or test new technologies, including alternative zero emission propulsion systems such as battery-electric/hydrogen fuel cell-electric systems.

Management's estimates of total heavy-duty transit deliveries, presented in equivalent units, to customers in North America and the UK are presented in the charts below.

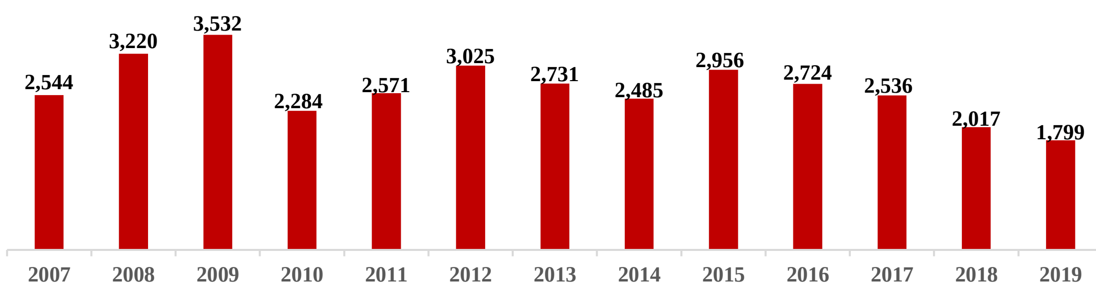
Annual Heavy-Duty Bus Deliveries in Canada and the United States (EUs)



Source: Management estimates.
Notes: Deliveries indicated in number of equivalent units.

Although no precise public data source exists regarding industry deliveries in Canada and the United States, management estimates the heavy-duty transit bus industry delivered approximately 6,753 equivalent units in 2019, a 3.8% increase to the estimated total number of equivalent units delivered in 2018.

Annual Bus Registrations in the United Kingdom (EUs)



Source: Transport Resources International Ltd. 2006 – 2018 and management estimates.
Note: Registrations indicated in number of buses.

In Europe, the market for transit buses is dominated by municipal companies or international transport groups under contract to transport authorities. Procurement by customers of new vehicles on an annual basis is typical with little provision for option purchases in future years. In addition to direct or indirect government funding for the purchase of new transit vehicles in most European countries, additional funding is available from the European Union, primarily through the European Regional Development Fund mechanism.

Low-floor Cutaway and Medium-Duty Buses (ARBOC)

The Company is also the leading manufacturer of low-floor cutaway buses in the United States and Canada as well as a leader in medium-duty buses. These buses generally range between 21 and 34 feet in length and have average seating capacities from 10 and 37 passengers. The principal purchasers of these buses are municipal transit agencies, universities, entities in the healthcare sector (e.g., nursing homes and assisted living homes), and airport shuttle operators. Buses manufactured by ARBOC are sold through its broad network of approximately 14 dealers. Commercial terms with the dealers typically require the dealer to pay for the bus, in full, prior to ARBOC delivering the bus. ARBOC's largest end-user customers are municipal transit agencies who obtain rolling stock funding in the same manner as described for heavy-duty transit buses. For private market sales, the ARBOC dealer, and not ARBOC, may offer leasing or financing options.

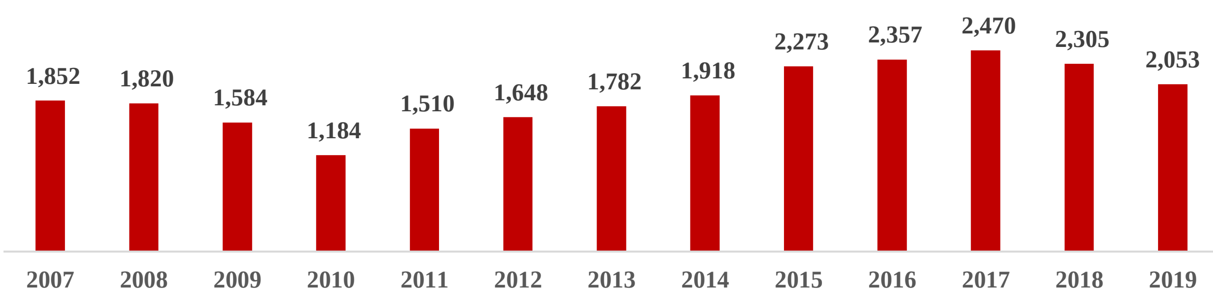
Motor Coaches (MCI) and Plaxton

The Company is also the leading manufacturer of motor coaches (sometimes referred to in the industry as over-the-highway, inter-city or long-haul buses) in the United States and Canada. Coaches generally range between 35 and 45 feet in length and have a seating capacity of approximately 40-60 passengers. Most coaches have clean diesel propulsion systems, but the Company also manufactures coaches with diesel-electric hybrid and CNG propulsion systems and is currently developing a battery-electric propulsion system as another option for customers. The principal purchasers of motor coaches are private tour and charter operators, limousine/livery operators, inter-city line-haul operators, employee shuttle operators, private and public fleet operators and municipal and other local transit agencies.

Funding for public fleet operators follows the same pattern as for heavy-duty transit buses. New coach funding for private fleet operators is provided from their operations or by their financial institutions, with a significant portion of private fleet operators choosing to finance new coach purchases. In some cases MCI assists in arranging third party financing. MCI also has the financial capability to offer private operators financing, on a case-by-case basis. Pre-owned coaches are purchased in the same manner by private customers, with a lower percentage of coaches being financed.

Coaches built by Plaxton are assembled in the UK on chassis supplied by Volvo and Scania, with clean diesel propulsion systems. Plaxton coaches are sold predominantly in the UK market.

Annual Motor Coach Deliveries in Canada and the United States (EUs)



Source: Management estimates.
Notes: Deliveries indicated in number of equivalent units.

As is the case with heavy-duty transit buses, no precise public data exists regarding total deliveries of motor coaches in the United States and Canada. Management, however, estimates the motor coach industry delivered approximately 2,053 coaches in 2019, which represents a decrease of 10.9% compared to the estimated 2018 industry volume of approximately 2,305 coaches.

Aftermarket Parts and Support

NFI Parts is North America’s most comprehensive bus and motor coach parts organization, providing replacement parts, technical publications, training, service, and support.

ADL, through the “AD24” brand, utilizes its global service network to supply parts to customers, ensuring availability and quick delivery. This network is comprised of global part centers and service workshops to provide maintenance and warranty repairs to customers.

Company History

The Company's predecessor was founded in 1930 as a manufacturer of motor coaches and school buses. The name "Flyer Industries Limited" was adopted in 1971, at which time the company began to focus exclusively on heavy-duty transit buses. With its acquisition in 1986 by Den Oudsten, B.V. ("Den Oudsten"), Holland's largest transit bus manufacturer, the company became "New Flyer Industries Limited". Den Oudsten was an innovation leader in the European transit bus manufacturing industry, having been the first manufacturer to introduce the low-floor transit bus concept. Den Oudsten brought the low-floor transit bus to North America in 1988 and it eventually became the transit industry standard.

In 2002, a private investor group acquired a controlling interest in the Company and the Company was sold to another private investor group in 2004. In 2005, NFI and NFI ULC completed their initial public offering (the "IPO").

In 2011, NFI commenced a series of steps starting with a non-cash rights offering to facilitate its conversion from an income deposit securities ("IDS") structure to a traditional common share structure. These steps concluded in August 2012 with the redemption of all of the subordinated notes of NFI ULC, the de-listing of the IDSs from the TSX and the commencement of trading of the Shares forming part of the IDSs separately under the trading symbol "NFI".

In 2013, Marcopolo S.A. ("Marcopolo"), a Brazilian manufacturer of transit buses and motor coaches, made a strategic investment to acquire newly issued Shares, representing at that time, a 19.99% stake in NFI. In 2016, Marcopolo sold 4.5 million Shares and continued to own, at that time, 10.8% of the outstanding Shares of NFI.

In 2013, NFI ULC acquired certain assets from Daimler Buses North America relating to its Orion aftermarket parts business and shortly thereafter acquired North American Bus Industries, Inc. ("NABI") from an affiliate of Cerberus Capital Management, L.P. In 2015, NFI acquired MCI from KPS Capital Partners, L.P. On December 1, 2017, NFI acquired ARBOC.

In May 2018, NFI changed its name from "New Flyer Industries Inc." to "NFI Group Inc." to better reflect the multi-platform nature of NFI's business that includes buses and motor coaches built by New Flyer, MCI and ARBOC and parts sold by NFI Parts.

On May 28, 2019, NFI acquired ADL. ADL is the world's leading manufacturer of double deck transit buses, and a significant manufacturer of lightweight single deck transit buses. ADL is also the UK's leading bus and coach manufacturer. ADL offers single and double deck buses under the Alexander Dennis brand as well as Plaxton coaches, with vehicles in service in the UK, North America, Ireland, Europe, Hong Kong, Singapore, New Zealand and Mexico.

Business Strengths

Management believes the Company possesses the following key business strengths that allow it to maintain its strong competitive position in its industry.

Leading Market Position

The Company has built its leading market position through its broad product offering, innovation, extensive in-house engineering capabilities, timely delivery of buses and motor coaches to specifications, product reliability, high quality and aftermarket parts and service support capabilities.

- **New Flyer -** Management estimates that in 2019, New Flyer had the leading market share of the combined United States and Canadian heavy-duty transit bus manufacturing industry based on the number of equivalent unit deliveries. Although the Company's market share may fluctuate year-to-year, management believes that since 2000 the Company has consistently maintained its leading market share. Management estimates there are approximately 30,000 New Flyer transit buses (of the approximately 48,000 transit buses New Flyer has delivered) and approximately 5,400 NABI transit buses (of the approximately 10,500 transit buses NABI has delivered) currently in service in the United States and Canada.

- **MCI -** Management estimates that in 2019, MCI had the leading market share of the combined United States and Canadian public and private coach market based on the number of coach deliveries. Although the coach industry is more cyclical and dependent on economic factors than the heavy-duty transit bus industry and the Company's market share may fluctuate year-to-year, management believes that since 2003, MCI has consistently maintained its leading market share. Management estimates there are approximately 25,000 MCI coaches currently in service in the United States and Canada. This represents approximately 45% of the estimated 55,000 active coach buses in the United States and Canada.

- **ADL -** Management estimates that in 2019, ADL had the leading market share in UK in respect of buses built on an ADL chassis and third party chassis, resulting in a leading market share in the single deck body market and double deck body market in UK. Although ADL's market share may fluctuate year-to-year, ADL has consistently maintained UK market leadership for more than a decade. In addition to being leader in the UK, ADL is a market leader in Hong Kong and New Zealand, with strong presence in growth markets across North America and Asia.

- **ARBOC -** Management estimates that in 2019, ARBOC had the leading market share of the combined United States and Canadian low-floor cutaway sector based on the number of equivalent unit deliveries. Although ARBOC's market share may fluctuate year-to-year, management believes that since 2008 ARBOC has consistently maintained its leading market share of the combined United States and Canadian low-floor cutaway transit bus sector. Management estimates there are approximately 2,900 ARBOC low-floor cutaway transit buses (of the approximately 3,800 active low-floor cutaway transit buses ARBOC has delivered) currently in service in the United States and Canada.

Broadest Product Portfolio and Innovation Leader in North America

In North America the Company has the broadest product and most advanced propulsion systems offering in the industry with the engineering capabilities to meet the diverse needs of its customers. The Company is recognized in the industry for product innovation and has consistently been at the forefront of developing and integrating new technologies. Examples of the Company's innovation include products such as the low-floor transit bus, which has become the industry standard, on-board electronics, bus styling, hybrid drive systems, battery-electric propulsion, driver assistance technology, articulated transit buses and double-deck buses. The Company's leadership in innovation is a result of its extensive in-house engineering capabilities that involve many disciplines, such as structural design, powertrain, hydraulic, electrical and HVAC systems.

The Company's breadth of product offering and its demonstrated product development capability allow it to bid on almost any transit bus or motor coach contract in North America.

In October 2008, New Flyer introduced Xcelsior®, the customer-centric evolution of its proven standard low-floor transit bus. Its many product improvements make Xcelsior® a "best-in-class" vehicle. See "Description of the Business – Product Development and Innovation".

MCI offers North America's best-selling public and private motor coaches. The D-model coach comprises the largest installed base of motor coaches with public transit agencies in the industry. In 2017, MCI unveiled the new D45 CRT LE which improves accessibility through ground level entry via a vestibule design that permits passengers to self-secure wheel chairs and other mobility devices. MCI's forty-five foot coach, commonly known as the J4500, comprises the largest installed fleet of private motor coaches in North America and has undergone several styling refreshes to maintain a market leading appearance. In 2019 MCI began delivering the J3500 and the D45 CRT LE to customers.

The Company's product range outside of North America is focused on ADL's Enviro family of low-floor buses, including the Enviro200 single deck, Enviro400 two-axle double deck and Enviro500 three-axle double deck models. The Enviro's modular design allows it to be tailored to the requirements of transit agencies and bus operators in various jurisdictions.

ARBOC offers its innovative low-floor cutaway vehicles, with industry leading mobility and accessibility, and in 2017 it introduced the Spirit of Equess®, its low-floor, medium-duty transit bus.

High Quality and Large Customer Base

The Company sells buses to all of the 25 largest transit authorities in the United States and Canada. These agencies operate either New Flyer, Orion or NABI buses, or a combination thereof. New Flyer has active business relationships (which includes the sale of aftermarket parts) with approximately 500 transit authorities in Canada and the United States. In 2019, MCI delivered coaches to 13 of the top 25 motor coach operators in the industry and also sells coaches to certain public transit agencies. Through sales to dealers, ARBOC delivered cutaway and medium-duty transit buses to a diverse end-user base of over 80 public transit agencies and private operators in 2019. ADL leads the bus market in the UK with the majority of new buses produced partly or in full by ADL in 2019. The Company has active business relationships for new vehicles or aftermarket parts sales with all large operators and the majority of smaller bus companies in the United Kingdom and Ireland. The Company also leads the Hong Kong market where it enjoys strong relationships with both major transport companies, is the leading supplier of city buses in New Zealand and is the leading provider of double-deck buses in North America.

Aftermarket Parts and Support Capability

Aftermarket parts and support is an important element in the purchase criteria of transit bus and coach operators. The Company's leading share of all buses and motor coaches currently in service provides recurring demand for and an opportunity to grow its aftermarket parts business. The Company provides aftermarket parts and support for products manufactured by New Flyer, NABI, Orion, MCI, ARBOC, ADL as well as other manufacturers. ADL provides its own aftermarket parts and support for its products, including the AD24 digital aftermarket portal offering 24/7 access with a personalized user experience for customers and access to all manuals and service bulletins. The cost of aftermarket support (including warranty and training requirements) is typically included in the customer's transit bus or coach purchase contract, while aftermarket parts are sold separately when required after the initial transit bus or coach purchase. Management believes that in North America the Company provides the most comprehensive aftermarket service and support of all manufacturers in the industry. Aftermarket operations represented approximately 14% of the Company's 2019 revenue.

Experienced and Committed Management Team

The Company's senior management team consists of experienced and committed individuals who have implemented robust processes to manage bidding, contracts management, engineering, strategic sourcing, manufacturing, quality assurance and aftermarket parts and service which have resulted in the Company's growth and profitability. Management brings expertise from a wide range of transportation manufacturing industries including bus, motor coach, railcar, automotive, military vehicles and aerospace. The Company's management team also has extensive experience in LEAN manufacturing and "Operational Excellence" initiatives and processes. The Company's executive leadership teams participate in NFI's performance unit plan, restricted share unit plan and share option plan, and all of the Company's management and sales teams participate in some form of incentive plan. See "Risk Factors — Risks Related to Operations — 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".

Vertical Integration and Parts Fabrication Capabilities

In North America the Company has important parts fabrication capabilities, with the goal of controlling costs, delivery time and quality. Nearly all of the Company's North American production facilities also manufacture certain parts for installation on the Company's vehicles. Carfair, a wholly-owned subsidiary, produces fibreglass reinforced parts for certain of the Company's subsidiaries. In 2018, the Company launched KMG (a wholly-owned subsidiary) from a 300,000 square foot facility that fabricates certain parts for New Flyer and ARBOC vehicles and for NFI Parts.

Corporate Mission, Vision and Strategy

The Company's mission statement is – "To design and deliver exceptional transportation solutions that are safe, accessible, efficient and reliable."

The Company's business strategy is to seek long-term success through industry-leading transportation solutions and commit to continuous investment in our people and processes to optimize, defend, diversify and grow our business. Our products, services and our company are "Built to Rely On".

The Company's vision is to enable the future of mobility with innovative and sustainable solutions.

Environmental, Social and Governance Focus

As one of the world's leading independent global bus and coach manufacturers, a strong environmental, social and governance ("ESG") focus is integral to how the Company conducts business. NFI is very proud of the commitment it has made to ESG. Having a robust ESG strategy is crucial for the Company to create long-term and sustainable value for all of its stakeholders. The Company's ESG focus covers all aspects of its business, including environmental, health and safety, governance and standards of business conduct, shared mobility principles, diversity and inclusion, employee workplace satisfaction and advancement and commitment to the communities where we work. In addition, the Company's products have significant positive impact on the communities in which they operate, including with respect to emissions, gridlock reduction and economic enablement. The Company's ESG report can be found at NFI's website at www.nfigroup.com.

Operational Excellence and Quality at Source

One of the core operating principles of the Company is developing and implementing strategies and tactics to support LEAN manufacturing and operational efficiencies. New Flyer's "Operational Excellence" program, for example, is focused on providing and maintaining for all employees a safe, clean and efficient working environment to enable New Flyer to be the most efficient bus manufacturer and achieve the highest level of first-time quality in its products through the implementation of well-defined and robust processes and procedures that are sustainable for future growth. Management believes that Operational Excellence improves employee safety and morale, reduces the cost of manufacturing, improves quality and improves overall customer satisfaction. The "Quality at Source" (or QAS) program at MCI has the same objectives and principles as the New Flyer "Operational Excellence" program regarding safety, quality, and manufacturing improvements.

For 2015, 2016 and 2017, New Flyer's Winnipeg, MB manufacturing facility was selected as a finalist for the IndustryWeek Best Plant Award. The award recognizes manufacturing facilities that are on the leading edge of efforts to increase competitiveness, enhance customer satisfaction, and create stimulating and rewarding work environments.

Products and Services

The Company derived its revenue and cash flows from the following two segments:

- *OEM Manufacturing Operations* — design, manufacture and sales of transit buses, motor coaches (including the sale of pre-owned coaches), medium-duty buses and cutaways of various body lengths with diverse propulsion systems. OEM manufacturing operations, represented approximately 84%, 85% and 86% of the Company's revenue in 2017, 2018 and 2019, respectively.

- *Aftermarket Operations* — support of all post-sale activities, including parts distribution, field services, support documentation and training. Aftermarket operations represented approximately 16%, 15% and 14% of the Company's revenue in 2017, 2018 and 2019, respectively.

Transit Bus and Motor Coach Manufacturing Operations

The Company has the broadest and most advanced product offering in the North American and UK transit bus and motor coach markets. The Company's sales, reputation, product range, engineering capabilities and product quality position it as the leading manufacturer in the transit bus, coach and low-floor cutaway markets and in specialty transit bus areas such as bus rapid transit vehicles, electric trolleys, hydrogen fuel cell and battery-electric propulsion system buses. The Company offers the following vehicle types, all of which can be modified to meet a wide range of customer specifications:

Model	Lengths	Propulsion System(s)
New Flyer Xcelsior® (heavy-duty transit bus)	35', 40', 60'	Clean diesel, CNG, diesel-electric hybrid, battery-electric, trolley-electric and hydrogen fuel cell electric
ADL Enviro200	30', 35', 40'	Clean diesel, battery-electric
ADL Enviro400	35'	Clean diesel, CNG, diesel-electric hybrid, and battery-electric
ADL Enviro500	40', 45'	Clean diesel, battery-electric
MCI D-model coaches	40', 45'	Clean diesel, CNG, diesel-electric hybrid, battery-electric
MCI J-model coaches	45', 35'	Clean diesel, battery-electric
Plaxton coaches	40', 45', 50'	Clean diesel
ARBOC Spirit of Equess® (medium-duty bus)	29', 32', 35'	Clean diesel, CNG
ARBOC Spirit of Liberty® (medium-duty bus)	30', 34'	Clean diesel, CNG
ARBOC Spirit of America® (medium-duty bus)	30', 34'	Clean diesel, CNG
ARBOC Spirit of Mobility® (cutaway bus)	23', 26', 28'	Gas, clean diesel, CNG
ARBOC Spirit of Freedom® (cutaway bus)	24', 27', 29'	Gas, clean diesel

Model	Lengths	Propulsion System(s)
ARBOC Spirit of Independence® (cutaway bus)	21', 23'	Gas, clean diesel

Public transit agencies and commercial operators require transit buses and motor coaches to be highly customized to meet specific customer needs and preferences based on geographic and local factors. Each customer contract includes a precise set of technical specifications for the transit buses or motor coaches being ordered. The Company's sales and engineering departments work directly with the customer to ensure that all specifications are met and that any changes to the specifications are incorporated into the component sourcing and production process.

Motor coaches for private or commercial customers tend to be more standardized than for public customers, but may be customized for certain commercial customers. Private customers have fewer options and, for the most part, customizations typically entail exterior livery, interior seats, trim and interior colors.

Medium-duty and cutaway buses typically offer a standard listing of configurations and customer options with fewer customizations than with transit buses or motor coaches sold to public customers.

Product Development and Innovation

The Company continually seeks new solutions to meet the needs of its customers, and many of its product innovations have become the industry standard. The sales group tests design criteria and concepts. The Company ensures that its engineering capacity is appropriately balanced between new product development and ongoing manufacturing operations. Innovation concepts are directed to the Company's new product development groups ("NPD") for development and prototyping. NPD's primary objectives are to implement product design concepts, fabricate, test and certify engineering prototypes, and develop practical solutions to problems identified by the engineering and marketing departments and customers.

Throughout its history the Company has introduced a variety of product innovations that have driven the transit bus, medium duty bus, motor coach, and low-floor cutaway markets in North America, the UK, Hong Kong and in other international markets in which the Company operates. These innovations include the introduction of the first low-floor bus and the first 60-foot articulated bus in North America, the development of hydrogen fuel-cell transit buses and the development of battery-electric variants of its single-deck, double-deck and motor coach products.

Aftermarket Parts and Support Services

Aftermarket parts and support have become increasingly important to transit bus and coach operators in their purchase decisions. The increasing complexity of the technologies of transit buses and coaches, combined with operators' increasingly constrained operating budgets and high transit bus and coach utilization levels, have driven demand for aftermarket parts and support. The Company's leading share of transit buses, and motor coaches currently in service provides recurring demand for and an opportunity to continue to grow its aftermarket parts and service business. The Company, under the brand NFI Parts, provides parts and support for not only products manufactured by the Company, but for products manufactured by competitors. Management believes that NFI Parts provides the most comprehensive aftermarket parts support of all manufacturers in the industry. Internationally, ADL's aftermarket division supports the UK, Hong Kong, Singapore, New Zealand and specific customers in a number of markets that are being developed by ADL (i.e., Mexico and Germany).

The Company operates seven service centers in North America that perform commercial work on MCI coaches, as well as competitors' coaches. These centers also support the sale of motor coaches providing locations for new coach acceptance and warranty work. In addition, these service centers hold pre-owned coach inventory and perform work on these pre-owned coaches to ready them for resale into the market.

ADL operates two service centers in the UK that perform commercial and warranty work on ADL and Plaxton vehicles.

Aftermarket parts and support services consist of the following components:

Parts

The aftermarket parts team is recognized as a leader in its area, both in size, variety of parts and service quality. From its many parts distribution centers, the Company distributes a wide assortment of service parts for a variety of models of transit buses and coaches, including products built by other manufacturers. The Company provides the following competitive advantages over its competition: widest original equipment product assortment, a wide network of distribution centers in North America, robust industry knowledge and the ability to cross reference products to create solutions for customers. The cost of aftermarket support is typically included in the customer's transit bus or motor coach purchase contract, while parts are sold separately when required after the initial purchase.

Part of the Company's strategy is to have warehousing and distribution capability to provide industry-leading response times to all of the Company's customers in North America. This network of strategically located parts distribution centers has significantly improved the response times to the customers and minimizes transportation costs. This industry-leading network also provides a solid logistics infrastructure to facilitate planned growth in the new and additional areas of customer life cycle support. Beyond North America, ADL's aftermarket division sells body and chassis parts to bus and coach operators in the UK and in the Asia-Pacific markets with over 30,000 parts lines held in stock for immediate delivery. ADL supplies an all makes parts line permitting a larger number of operators to be targeted. ADL also offers an online platform (AD24) offering a full range of spare parts, training videos, service bulletins, customer forum, and chat functionality.

Infrastructure Solutions

In early 2019, the Company introduced New Flyer Infrastructure Solutions™ which is a service dedicated to providing safe, reliable, smart, and sustainable charging and mobility solutions that will support mobility projects from start to finish and focus on energy management optimization as well as infrastructure planning and development, providing a cohesive transition of bus fleets to ZEB technology. The Infrastructure Solutions team is based at the Company's VIC in Anniston, Alabama. New Flyer is the first North American bus manufacturer to offer a comprehensive infrastructure service to its customers.

Service Support

The customer service team is responsible for product acceptance, field support, field engineering and warranty management. Management believes the Company has the highest density of service representatives per transit bus or coach in the field, to help ensure a timely and complete response to each customer request throughout the operating life of the transit bus or coach.

New Flyer and MCI both have service centers in North America to provide warranty, technical and integrated supply chain services and commercial repair work for their products and, in the case of MCI, to provide pre-owned coach sales. ADL has two dedicated UK facilities to provide minor and major commercial repair work as well as warranty support for bus and coach operators.

Product Training

Operator and maintenance training is a key area of focus for the Company and can be provided as part of a purchase contract or separately as an aftermarket service. While New Flyer, ADL and ARBOC offer a variety of training programs, MCI has the most comprehensive program delivered through its National Training Center, called "MCI Academy". MCI also offers technical certificate programs.

e-Learning

New Flyer offers internet-based training modules, or e-learning, to its heavy-duty transit customers using a web hosted learning management system that stores and provides courses and maintains the training records of the students. This technology allows students to be trained using consistent course content and delivery methods. In addition, courses are taken on an individual basis and on a schedule that fits the student's needs. Course offerings can include topics ranging from bus maintenance to driver self-defence training. New Flyer is also the exclusive reseller of Transit Academy, a subscription based service sold to transit customers offering maintenance, training and troubleshooting content in a variety of media formats.

MCI's in-person training is supplemented by an industry leading internet-based LMS (Learning Management System). More than 400 training classes are available online with thousands of coach technicians already enrolled in the program. Students can achieve the MCI certified technician status with LMS. To ensure the integrity of MCI's training, a portion of the training is also hands-on training. Management plans to expand the LMS program to include inventory management, parts ordering and other workshop management topics.

ADL customers receive product familiarization upon vehicle acceptance and can access additional training material in the video library on AD24.

New Flyer Connect®

The New Flyer Connect® system is an on-board telematics system licensed by the Company and integrated into New Flyer and MCI vehicles that includes a modem, GPS unit and a driver interface. The system permits real-time monitoring of the driver and vehicle performance on an individual vehicle basis and on a fleet-wide basis through a web-based portal that customers can access. New Flyer Connect® integrates this data and provides monitoring and prognostic performance information to the customer which can be used to improve driver safety, improve driving and fuel efficiency and predict maintenance events.

In January 2019, New Flyer introduced Connect 360™, a real-time, cloud-based business analytics dashboard for the Xcelsior CHARGE™ battery-electric buses. Connect 360™ is an enhanced and added feature, specifically engineered to track battery-electric, ZEB performance using secure cloud-based technology. Connect 360™ analytics can be retrieved 24 hours a day, seven days a week via laptop, desktop, tablet, or smartphone device using the new CONNECT mobile app.

Customers

Heavy-Duty Transit Buses

Management has divided the North American heavy-duty transit bus industry into three customer segments: the Metropolitan segment (represented by 22 of the largest transit agencies), the Urban segment (represented by mid-size transit agencies, comprising approximately 125 agencies) and the Municipal segment (represented by smaller transit agencies, comprising over 600 agencies).

The Company sells buses to all of the 25 largest transit authorities in the United States and Canada. These agencies operate New Flyer, Orion and NABI transit buses. The Company has active business relationships (which include the sale of parts) with approximately 500 transit authorities in Canada and the United States. The Company's leading share of all heavy-duty transit buses currently in service gives it an advantage in bidding for new contracts, as operators are increasingly seeking to standardize fleets to minimize the cost of parts and maintenance.

Management has divided the UK market for single and double deck buses into customer segments: Groups (five major groups representing over 70% of ADL's customers), London (bus companies providing services under contract to Transport for London) and the retail market including major independent operators and smaller companies. ADL leads the market in each of these customer segments, being the number one or number two supplier for each of the five major groups and regularly supplying eight of the nine companies providing bus services to Transport for London. ADL has business relationships for new vehicles with all but one of the major independent companies and leads the retail market for smaller bus companies. In Hong Kong, ADL has close business relationships with both major bus companies.

Cutaway and Medium-Duty Transit Buses

Cutaway and medium-duty buses are sold by ARBOC dealers to end-user public and private market customers. ARBOC's dealer network in 2019 comprised of approximately 14 dealers, each of whom are assigned a territory within North America to sell ARBOC buses. ARBOC dealers are located in over 30 locations across North America, providing a broad reach for sales opportunities and customer support.

ARBOC delivered buses to over 80 end-user customers in 2019, which included sales to customers in the Municipal, Urban and Metropolitan heavy-duty transit bus segments, as well as various institutions, shuttle operators and healthcare providers. ARBOC, however, is not always aware of the identity of the end-user customer as the sale of stock and demonstration buses are made through dealers,

Motor Coaches

Management has divided the motor coach market into six segments: the Transit segment (21% of the installed motor coach fleet), the Fixed-Route/Line-Haul segment (27% of the installed coach fleet), the Tour and Charter segment (37% of the installed coach fleet) Limousine/Livery Segment (7% of the installed coach fleet), Employee Shuttle (4% of the installed fleet) and the Conversion segment (4% of installed coach fleet).[1]

MCI has long-standing relationships with most of the major public and private coach operators in the United States and Canada. MCI's motor coaches have a reputation for reliability and durability that make them the preferred motor coaches across the industry. In addition to the motor coach product, MCI's reputation for technical, field and aftermarket parts help to build customer loyalty. One significant difference between the heavy-duty transit bus and motor coach industries is the importance of the residual value of a coach and a secondary market for its sale. Private operators typically sell or trade in motor coaches after 5-10 years of ownership in an effort to keep their product fresh. The residual value of the coach thus becomes an important factor in the total cost of a new motor coach purchase. MCI accepts coaches in trade for between 50-60% of new coach sales in the private sector. Vehicle financing is also important to the selling process as the vast majority of all new motor coach sales to private operators are financed by the customer.

Forward Visibility of Orders and Backlog

The Company has some forward order visibility in its public markets in North America due to the fleet planning, budgeting and funding application processes its transit customers undertake in order to purchase transit buses and motor coaches. Public and private orders of heavy-duty transit buses and public motor coach orders are often made three months to one year in advance of delivery, due to the customized nature of the vehicles and the procurement processes.

Forward visibility into the private coach industry is rather limited. Management however, is in constant contact with motor coach operators to discuss their fleet replenishment and growth plans. Management also uses trend analysis to predict medium to long term demand and to set production rates. The majority of sales are generally made in the fourth-quarter of the year. Visibility with respect to pre-owned coach sales is more limited, with purchases often being initiated and completed within a very short period of time. MCI

[1] Source: Management estimates.

also manufactures some "stock" units to enable it to sell coaches to private customers who require quick delivery.

Sales of ARBOC buses are to a mix of public and private customers. The sales cycle for cutaway and medium-duty buses is typically shorter than heavy-duty transit buses and motor coaches. Through its dealer network and internal sales team, ARBOC works closely with end-user public transit agencies to understand their fleet replacement needs and forecast demand. As with private coach sales, forward visibility into end-user private cutaway and medium-duty buses is limited. In addition to setting annual sales targets with its dealers, ARBOC also requires dealers to maintain minimum levels of demonstration and stock vehicles in inventory, which are replenished with new vehicles upon dealers' sales to end-users.

Many public customer purchase contracts, and some private customer contracts, include options to purchase additional transit buses or coaches in the future. These purchase options are typically exercisable over a period of three to five years and are often transferable to other transit authorities, provided the assignee of the options meets certain federal criteria for funding.

The assignment of options is however limited by FTA rules such that an option is applicable to a specific transit bus or coach length and fuel type. Minor changes to the transit bus or coach specification under an option may be made by the assignee agency, but "cardinal" changes are not permitted by the FTA.

In the last few years, New Flyer has entered into contracts where the customer is a state or consortium of buyers and the contract is a "standing offer" under which any US transit agency may purchase transit buses. As these types of contracts are not for a specific stated amount of transit buses and represent a "standing offer", the Company does not record any of the buses available under these contracts in its backlog until actual purchase orders are received.

Bus and Motor Coach Sales and Marketing

New Flyer and ADL sell and market their products primarily through their experienced internal sales forces with MCI using both new coach and pre-owned coach sales representatives. These individuals have geographic coverage responsibilities in North America, the UK and other international markets. The Company's senior leadership team is also responsible for developing and maintaining sales strategies and relationships with key contacts at certain of the Company's major customers. Further, the New Flyer, ADL and MCI sales teams regularly discuss their respective customers and their needs to ensure that cross-selling opportunities for the other company's products are acted upon, as appropriate.

Public Agency Bid Stage and Contract Award

There are generally two types of solicitation processes that public agencies use to purchase transit buses or coaches. An invitation for bid ("IFB" or "low bid") requires manufacturers to submit a bid and the contract is awarded to the lowest priced bidder who has met the bid specifications. The second type of solicitation is the request for proposal ("RFP" or "negotiated bid") process in which manufacturers submit proposals that address specific criteria for evaluation such as past history, financial capability, quality, reliability, maintenance, aftermarket parts and service and price. Bids are negotiated on the basis of all the relevant criteria, which allows manufacturers to win contracts on factors other than price alone.

Management believes that public customers have increasingly come to prefer the RFP process because it enables them to factor the lifetime cost of the transit bus or motor coach into their purchase decision, taking into account maintenance costs, aftermarket support and warranties and fleet standardization objectives, rather than merely the initial capital purchase cost. While under the RFP process, proposals are evaluated on many of the factors described above, customers still place a significant emphasis on price.

In preparing its bid, the Company will cost most elements of the product, factoring in labour, component and conversion costs and production slot availability and targeting a minimum dollar contribution to margins. The Company seeks to obtain cost and delivery commitments from suppliers for major components and systems in order to lock in as much of the cost as possible.

Issuance of Purchase Order

Once a bid has been awarded, there is usually a one to three-month period of documentation negotiation prior to a purchase order being issued by the transit customer. In the case of most United States public customers, a purchase order is issued once all required funding is arranged, a "Buy America" audit is complete and applicable insurance and bonding are in place. See "Legal and Regulatory Matters — Rules of Origin (Buy-America) Legislation".

Pre-Production

Once a transit bus or motor coach contract is signed or a commitment expressed, the Company initiates the pre-production process that ideally begins between four to six months prior to production of the bus or coach. This period is often compressed as transit agencies continue to face pressures in obtaining funding on time for the production build of their transit buses or coaches. Over the course of the pre-production period, the Company and the customer review the specifications in the contract to confirm their mutual understanding and expectations. Typically, this process yields changes to the original specifications, but permits customers to independently make changes at their own expense.

Private New Motor Coach Sales

The sale of motor coaches to private customers is a much less complex process than the sale process to public customers. Private customers will not generally request complex customizations to be made to the coach. Private customers typically purchase coaches on MCI's standard terms and conditions. MCI will enter the coach into its schedule for delivery a few months later. In some cases, customers will purchase coaches that have already been manufactured as "stock" or "fast track" units. In a majority of cases, new motor coach sales are financed by the customer and in some cases, MCI will assist in arranging the financing as a broker.

Private Pre-owned Motor Coach Sales

The pre-owned motor coach market operates on a compressed timeline. Coaches are procured exclusively as trade-ins as part of the sale of new coaches. These pre-owned motor coaches may be MCI branded coaches or may be a competitor's brand. The pre-owned coaches are then resold by MCI. Typically, once a customer for the pre-owned motor coach is identified, the sales team works with the customer to decide what type of refurbishment the customer requires to the coach. MCI will complete the refurbishment to the pre-owned coach before it is delivered to the customer. Similar to private new motor coach sales, some of these units are financed. See "Risk Factors – Risks Related to Operations – The Company may have difficulty selling pre-owned coaches and realizing expected values".

Cutaway and Medium-Duty Bus Sales

All ARBOC cutaway and medium-duty buses are sold through dealers. ARBOC's products are configured with a limited number of customer options and customization by customers is minimal. For sales to public transit agencies, the ARBOC dealer, assisted by ARBOC's internal sales team, will respond to solicitations in a similar manner as described for heavy-duty buses. If a solicitation is awarded to an ARBOC dealer, a purchase order is placed by the dealer to ARBOC and is entered into backlog and production scheduling. The public agency contract between the public transit agency and ARBOC dealer may contain optional purchase quantities. Since ARBOC is not a party to the purchase contract, the ARBOC backlog does not reflect any options and only reflects orders which have been placed through a firm purchase order from a dealer.

Sales of cutaway and medium-duty buses to private end-user customers typically occur in lower order quantities than to public transit agencies. If a dealer is not able to satisfy the order with stock on hand, a purchase order is placed with ARBOC and the unit is scheduled for production. If the dealer is able to satisfy the order with their existing inventory, the dealer will sell to the customer from their inventory and then issue a purchase order to ARBOC for replacement inventory to maintain required stock levels.

Aftermarket Sales and Marketing

The sales and marketing of the Aftermarket parts group for the public agency market is primarily driven by customer requests for parts quotation. These requests are either sent directly to NFI Parts and ADL by the customer or placed in the public domain via the internet for NFI Parts and other bidders to access. These requests range from one-time opportunities for small quantities of parts to long term commitments for large volumes of parts. Each public customer's approach to procuring parts is typically driven by their local purchasing policies and guidelines. In addition to responding to customer requests for quotation, the Company employs parts sales managers who visit customers on a regular basis, marketing products and collecting feedback on performance. NFI Parts and ADL also utilizes an e-commerce website to sell aftermarket parts to customers.

Private market customers typically buy parts using annually negotiated pricing or a discount from the listed price. Customers can place parts orders via the online store, by phone via the call center or through email.

Facilities and Manufacturing Process

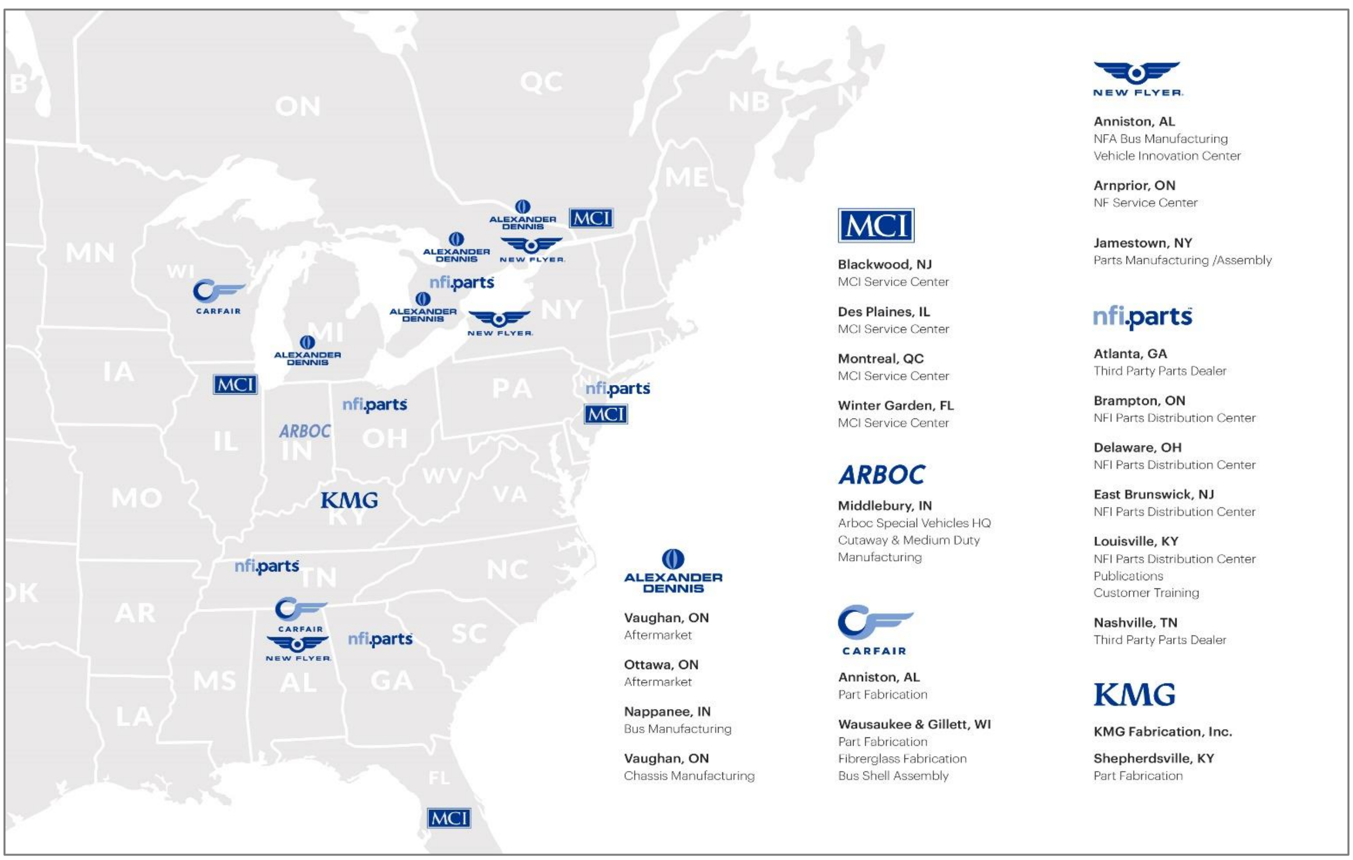
Facilities

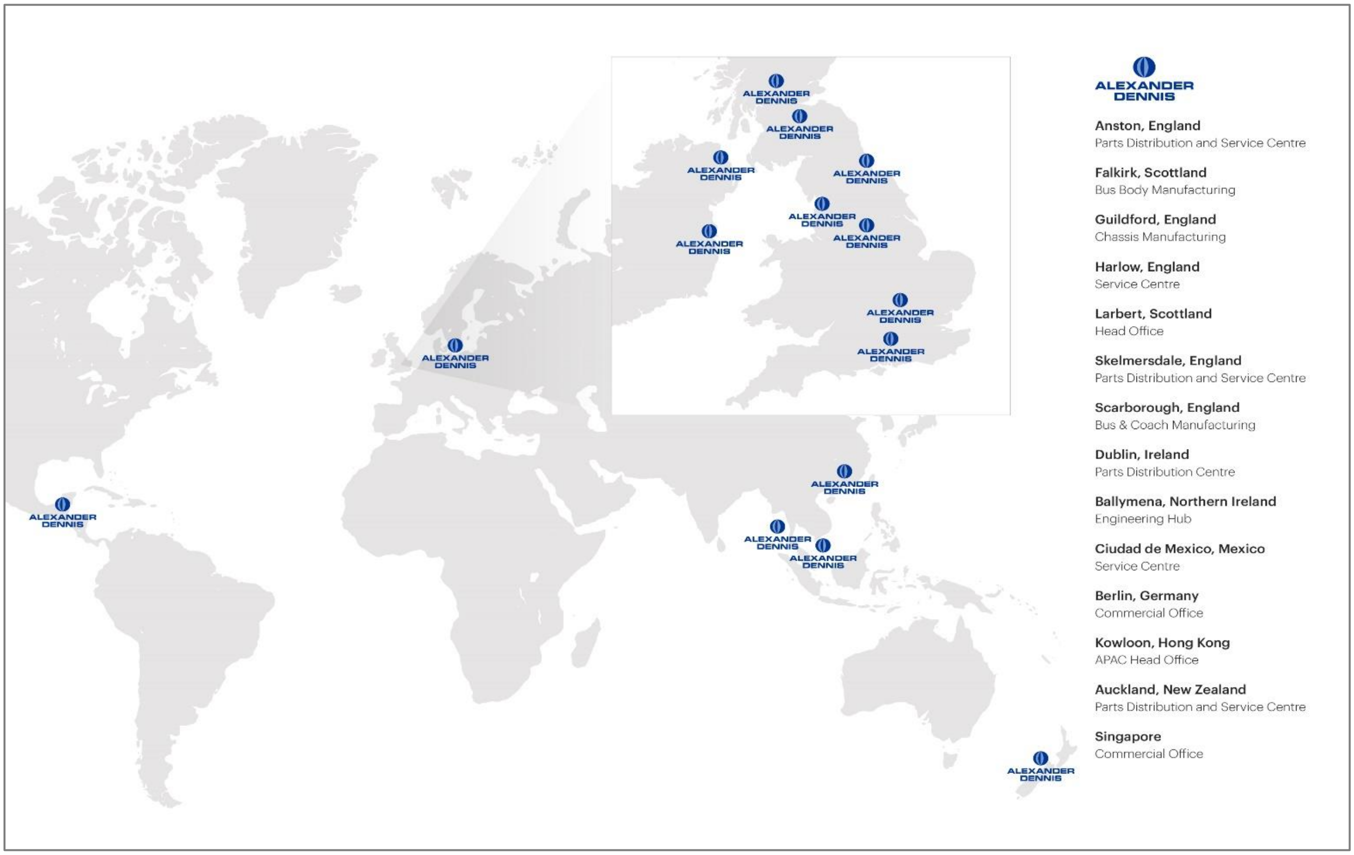
The Company's production facilities are well-equipped and are regularly upgraded in terms of safety systems, paint, lighting and the removal of waste and scrap. The Company is continuing to streamline the ARBOC facilities to bring them to a standard consistent with the New Flyer facilities.

The Company's heavy-duty and medium-duty transit bus and motor coach manufacturing facilities, in North America have been registered to the ISO 9001 (quality) certification. New Flyer's heavy-duty transit bus manufacturing facilities have also been registered to ISO 14001 (environmental) and ISO 45001 (safety) certifications [2]. The Company is the only North American bus or coach manufacturer to achieve all three ISO certifications and has been recognized for outstanding occupational health and safety management.

[2] ISO 9001 (Quality), ISO 14001 (Environmental) and ISO 45001 (Health & Safety) certifications confirm that New Flyer's manufacturing management system has been assessed by accredited bodies, which found the Quality, Environmental, and Health and Safety components of the system to be in conformance with applicable standards.

The following graphics indicate the locations of the Company's major facilities:





Manufacturing Process

The manufacturing planning process begins well in advance of actual fabrication or assembly.

The New Flyer Winnipeg production facility operates one production line with a number of off-line component and small parts assembly stations and a pre-production fabricating group that creates materials for assembly on the production line. In Winnipeg, a transit bus goes through the structure weld, shell assembly and painting phases of production. The partially completed shell is then shipped to New Flyer's Crookston facility for final assembly.

The New Flyer Crookston production facility is a final assembly plant. Running two identical production lines in parallel, the facility completes the transit bus shells delivered from the New Flyer Winnipeg facilities and tests the finished products. In order to facilitate compliance with "Buy America" legislation, New Flyer installs most major components such as the engine, axles, transmission, driver and passenger seating and air conditioning systems at the Crookston facility.

The New Flyer St. Cloud, MN and Anniston, AL production facilities produces a complete transit bus from frame welding to final assembly.

MCI's Winnipeg coach facility produces the J-model coach, from the initial weld of the chassis to completion ready for sale. In addition to the J-model coach, the Winnipeg facility produces the D-model coach shell, starting from weld to the completion of shell assembly and paint. The shell is then shipped to MCI's Pembina facility for final assembly.

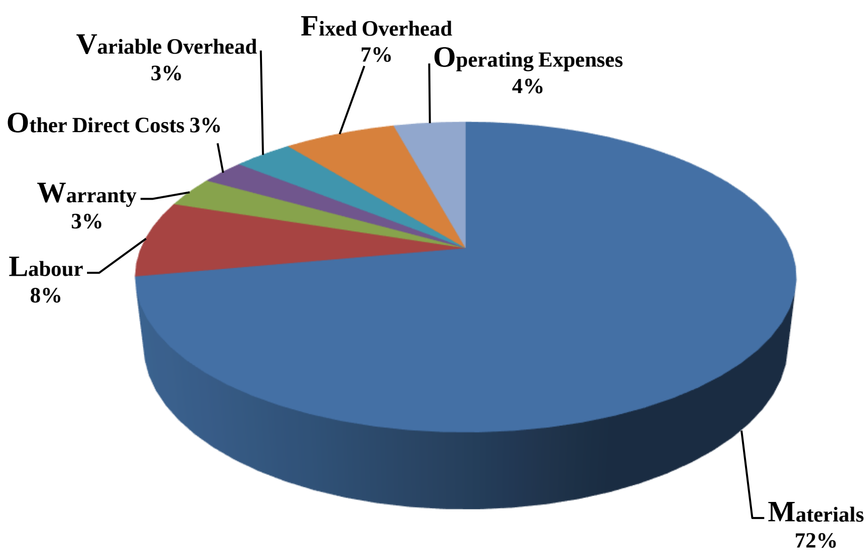
The MCI Pembina production facility is a final assembly plant for the D-model coach. The plant completes the production process of the shell that was started in the Winnipeg coach facility and tests the finished product. In order to comply with the "Buy America" requirements for public customers, MCI installs most major components such as the engine, axles, transmission, driver and passenger seating and air conditioning systems at the Pembina facility.

The ARBOC Middlebury manufacturing facility produces the ARBOC products. All ARBOC cutaway bodies are bolted and bonded (as opposed to welded) onto chassis that are manufactured by third party suppliers. The Spirit of Equess® chassis, however, is a proprietary chassis that is welded by the Company.

ADL has several production facilities throughout North America and the UK. In the UK, ADL has a chassis plant in Guildford, England and two bus body plants, one in Scarborough, England and another in Falkirk, Scotland. It also has a prototype area for NPD in Larbert, Scotland. ADL's North American production includes a chassis manufacturing facility in Toronto, ON and a bus body plant in Nappanee, IN. In addition to its own facilities, ADL also hires a third-party manufacturer for bus manufacturing in China. This global manufacturing footprint was developed by ADL in seeking to capitalize on multiple efficiencies by manufacturing in closer proximity to its major customers.

Due to the assembly nature of the Company's manufacturing process and the high cost of the major components incorporated into transit buses and motor coaches, approximately 93% of the total cost structure of its transit bus and coach manufacturing operations is variable, based on the Company's 2019 financial results. The following chart provides a breakdown of the Company's cost structure for bus and coach manufacturing operations:

Cost Structure: 2019 Bus and Coach Manufacturing Operations



Delivery and Acceptance

Once the vehicles have been manufactured, customers often conduct a final inspection of the vehicle. The public customer generally sends a representative to the Company's facilities to inspect and test the vehicles before taking delivery. Third party drivers then deliver the transit buses or coaches to public customers who are then given a final opportunity to inspect and accept the vehicle.

Public agency contracts often contain holdback or retainage provisions for a defined period following acceptance to ensure that any minor deficiencies are corrected. The Company is also subject to holdback arrangements with some of its customers in lieu of providing warranty bonds. In many cases, the holdback typically is in the amount of the expected warranty provision, less any extended warranties purchased, for the warranty period. The customer will often then charge any warranty claims against the holdback account once such claims are approved by the Company. Any money remaining from the holdback or retainage is returned to the Company.

Product Warranty and Other Contractual Provisions

Transit Buses and Public Motor Coaches

For all United States federally funded contracts, the FTA stipulates certain warranty levels for the transit bus or coach and their structure and major subsystems. In addition to a base bumper-to-bumper warranty (typically for a one to two year period), New Flyer generally provides its customers with a 12-year corrosion warranty on the transit bus structure. MCI generally provides a seven to 12-year structural warranty on the coach (depending on the customer specification). With the introduction of battery-electric transit buses, New Flyer has offered its customers battery warranties ranging from six to 12 years.

ADL provides a base two-year bumper-to-bumper warranty on buses and coaches, as well as a 12-year structural warranty. Battery and hybrid system warranties are provided on a back-to-back basis with the relevant suppliers. Typically, ADL's base hybrid warranty is for three years and an electric-battery warranty for five years.

Transit agencies will often request additional coverage as part of the initial capital purchase to minimize their operational costs. The Company prices extended warranty costs into its bids. Extended warranties for major subsystems such as engines, transmissions, axles and air conditioning are normally purchased for the customer from the component supplier. For certain other extended warranties, including those covering brake systems, lower level components, fleet defect provisions and engine-related components, the Company is responsible for warranty costs during a warranty period of approximately one to five years, depending on the contract. The Company also frequently provides a parts supply guarantee in its transit bus or motor coach purchase contracts, under which the Company guarantees that parts will be available to the customer for a certain period of time, usually 15 years following delivery of the vehicle.

See "Risk Factors — Risks Related to Operations — The Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches".

Private Motor Coaches

For private customers, the typical warranty period is 24 to 30 months, depending on the model, which covers most items, excluding "wear" items. Most private customer coach warranties do not have a maximum mileage threshold, because motor coaches typically accumulate significantly more miles than heavy-duty transit buses and mileage varies depending on the use of the motor coach. There is no structural warranty beyond the base warranty.

See "Risk Factors — Risks Related to Operations — The Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches".

Cutaway and Medium-Duty Buses

The typical warranty period for cutaway and medium-duty buses is the lesser of 36 months or 50,000 miles, which is consistent with the chassis manufacturer's warranty. The administration and servicing of warranty claims is the responsibility of the ARBOC dealer.

See “Risk Factors — Risks Related to Operations — The Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches”.

Liquidated Damages and Suspensions and Termination for Convenience

Public customer transit bus and motor coach manufacturing contracts typically include liquidated damages provisions, which result in fines on a per vehicle per day basis when the transit buses or coaches are not delivered to the customer by the deadline specified in the contract. The Company actively manages these terms with its customers in the event of specification changes that impact production timing. The Company does not expect to incur material liquidated damages penalties in the normal course of its operations and liquidated damages incurred by the Company in fiscal 2019 were not material. See “Risk Factors — Risks Related to Operations — Production delays may result in liquidated damages under the Company’s contracts with its customers”.

In addition, public customer purchase contracts typically include rights of the customer to suspend or terminate the contract for convenience. Although the exercise of these rights have been rarely used, the Company’s customers may, with notice, suspend the contract or terminate their relationship with the Company. See “Risk Factors — Risks Related to the Business Environment — Absence of fixed term customer contracts, exercise of options and customer suspension on termination for convenience”.

Bonding Requirements

Most municipalities, transit authorities, and some international customers, require suppliers to obtain performance bonds from surety companies or letters of credit to protect against non-performance by suppliers. Management believes that the Company’s current surety and letter of credit capacity is sufficient to meet such requirements.

Performance guarantees are generally valid from contract award to completion of the contract. Contract completion is generally defined as customer acceptance of all transit buses or coaches in a given contract and generally excludes warranty obligations. Contracts can stipulate single or multi-year procurements, and performance guarantee requirements are structured accordingly. Where contracts include options to acquire additional transit buses or coaches, performance bonds and letters of credit are issued as the options are exercised.

The surety bonding market does not provide for committed bonding facilities. Surety companies issue bonds on an as-needed basis and take into account current financial performance and the state of the surety market in making their credit decisions. Surety companies provide limits on the maximum coverage they will provide. Management believes the Company currently has sufficient capacity to meet the performance guarantee needs of its business through both its arrangements with its primary surety provider and its letter of credit facility. See “Risk Factors — Risks Related to Operations — The Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds or letters of credit required for new contracts”.

Bonding is not required by customers in the cutaway, medium-duty bus and private motor coach markets.

Materials and Suppliers

Materials represented 72% of the cost structure of the Company’s transit and motor coach manufacturing operations in 2019. The Company has long-standing relationships with a diverse group of established suppliers and generally has a number of sources of supply for most of its raw materials and components. For several major components, however, supply is dependent upon a single supplier either to meet the unique customer specifications within a contract or as a result of the Company selecting and validating a component as a single preferred offering on a particular bus or coach model. In addition, for certain components, such as engines for transit buses, the Company and the other manufacturers in the heavy-duty and medium-duty transit industry are dependent on a single source of supply that is certified to industry requirements and standards. The Company has established strategic relationships with its suppliers and actively monitors and manages the risks associated with supply continuity. Management believes the Company can continue to leverage these relationships through its market leadership position. See “Risk Factors — Risks Related to Operations — Dependence on limited sources or unique sources of supply” and “Risk Factors — Risks Related to the Business of the Company — 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 typically attempts to negotiate fixed price contracts on an annual or multi-year basis with its suppliers. Additionally, the Company will negotiate fixed prices and contractual requirements for the supply of special customer specified materials and parts at the time of the bid. See “Risk Factors — Risks Related to Operations — The Company’s profitability can be adversely affected by increases in raw material and component costs as well as imposition of tariffs and surtaxes on material imparts”.

New Flyer has implemented LEAN processes to plan and deliver material directly to its production lines. At New Flyer most suppliers receive and process orders electronically using an internet web portal. New Flyer also maximizes the use of shop floor Kanban vendor managed inventory and pull systems, as well as planning just-in-time delivery on major components. All in-bound logistics with its suppliers are coordinated and scheduled in order to optimize freight costs and to ensure on time delivery of material requirements. Supplier performance is measured and reported to suppliers each month, and supplier performance awards are distributed on an annual basis.

Capital Expenditures

The Company generally has predictable ongoing maintenance capital expenditure requirements related to its assembly operations. Capital expenditure requirements for new tooling, machinery and equipment may fluctuate from period to period depending on the Company’s requirements for in-house fabrication and manufacturing of parts instead of outsourcing them from third parties. Management will also consider capital expenditures where there is an opportunity to grow or diversify the business. ADL’s business is generally less capital intensive than New Flyer and MCI due to lower levels of insourcing.

In 2019, the Company incurred capital expenditures of approximately $42 million related to investments for new tooling to support expanded product lines, investments in its information technology and for continuing facility transformation to support its Operational Excellence initiatives. The Company financed approximately $4 million of these capital expenditures through leases and funded the balance of the expenditures from operating cash flows.

People and Labour Relations

As at December 29, 2019, the Company had a total of approximately 9,300 employees, of which approximately 6,300 were paid hourly and approximately 3,000 were salaried.

Approximately 47% of the Company’s employees in North America and the UK are represented under collective bargaining agreements with seven different labour organizations. These collective bargaining agreements either have no expiry date or have terms of varying lengths, ranging from three to five years.

Occupational Health and Safety

The Company’s focus on occupational health and safety has resulted in strong and continuous improvements over the past decade. Management believes that the Company’s dedicated commitment to safety and health improvements is not only a competitive advantage for the organization and is essential to the creation of a safe and healthy working environment for the Company’s employees and its operations.

Award Winning Safety Culture

In 2019, MCI's Pembina Manufacturing facility was awarded the North Dakota Safety Council's Workplace Safety Merit Award for the third year in a row. MCI received this honour for its industry- leading safety incident record.

"A Great Place to Work" and Training and Development

"A Great Place to Work" is one of the Company's guiding workplace values, and is an approach that the Company strives to embody in all of its business work environments. In order to fully support the Company's commitment to this strategy, the Company has enhanced its organizational development function and has developed a robust training framework that will enable it to meet the needs of the business and its team members. The NFI Learning Institute is dedicated to retaining the best training and workforce development practices across the Company to further partnerships with local, regional and national organizations supporting workforce development initiatives, as well as working with educational institutions to recognize and give credit for NFI Group certifications. The Company also focuses on leadership and professional development of all of its employees with managerial and specialized responsibilities.

ADL has well-established apprenticeship and graduate development programs and works with Entrepreneurial Scotland in delivering leadership development programs and undergraduate student summer internships. Additionally, there is outreach and engagement with STEM (science, technology, engineering, maths) students at various levels in local schools and national universities through hosting visits, career fairs, and setting business challenges for MBA students – all to develop an interest in ADL and a sustainable pipeline of future employees.

The Company conducts comprehensive employee surveys in order to provide all employees with an opportunity to present feedback on their jobs, work environment and views of the Company. Management believes that this information is essential to improving business performance and is a critical enabler to the "Great Place to Work" strategy. The results are a means to guide action planning and measure improvements to support the Company's overall business performance through initiated organizational action planning and improvement measurement processes to support the "Great Place to Work" strategy.

Pensions

The Company sponsors retirement plans for employees in North America and the UK which include a combination of defined contribution, group registered retirement savings plans ("RRSP") and defined benefit plans with varying contribution formulas.

Competition

The business segments in which the Company is active are highly competitive. Although the Company believes it has a leading position all the segments in which it competes, it is subject to competitive pressures from a wide range of large and small competitors.

Heavy-Duty Transit Buses

Price, engineering to customer specification, product quality, on-time delivery, established track record, strong customer relationships and financial strength are key factors in winning manufacturing contracts in the heavy-duty transit bus industry globally. The Company differentiates itself by having a broad and diverse product offering in North America and the UK, a strong reputation for quality and innovation globally, a history of on-time delivery and by being a leading provider of aftermarket parts and support. It also actively engages in industry advocacy, focusing on battery-electric bus interoperability, bus quality and safety, and adhering to local and national operating regulations. Due to these factors and overall market conditions, management believes that New Flyer and ADL are both well positioned to continue to compete successfully and maintain their leading market positions in North America and the UK.

The Company's competitors in North America include El Dorado (part of REV Group, Inc.), Grande West Transportation Group Inc., Gillig LLC, NOVA Bus Inc., BYD and Proterra. In the UK, ADL's primary competitors are Optare PLC, Ashok Leyland, part of the Hinduja Group, one of the largest global bus manufacturers, and WrightBus. In other international markets ADL competes with MAN and Scania, both members of Traton Group, Volvo, Daimler and other local regional players.

Van Hool, based in Belgium, has announced that it is building a manufacturing facility in Tennessee to manufacture transit buses and motor coaches. Van Hool has not announced when it expects to commence operations from that facility.

Medium-Duty Transit Buses

In addition to competing with heavy-duty transit bus and large cutaway manufacturers, competitors to the Company offering comparable medium-duty buses include Grande West Transportation Group Inc.

Cutaways

The cutaway bus segment has a number of competitors including Forest River Inc. and REV Group Inc.

Motor Coaches

Motor coach customers have diverse needs and criteria that they use to decide on motor coach purchases. Public transit authorities procure coaches in a similar manner as they procure heavy-duty transit buses.

MCI distinguishes itself from its competitors primarily through its products and history of supporting customers and its products on the road. MCI products are known as reliable coaches with well-established residual values. Management believes that the Company's ownership of MCI and its values and processes enhance the attractiveness of MCI's products.

Competitors to MCI include Prevost (owned by Volvo Bus Corporation), Van Hool, Temsa, Irizar, CAIO and BYD.

Legal and Regulatory Matters

In North America, government regulation has had a significant impact upon the transit bus and coach manufacturing industry. These legislative and regulatory requirements continue to affect the structure of the industry, the location of manufacturing facilities, the sourcing of parts and materials and the source of funding for public transit bus and motor coach purchases. Regulation represents a barrier to entry in the industry. A description of each of the major areas of regulation follows.

Funding for New Transit Bus and Motor Coach Purchases

Public transit infrastructure is considered an "essential service" by and is a key priority of governments and public authorities due to the significant population base that is highly dependent on public transportation and the importance of reducing inner city and suburban traffic congestion.

United States

The United States federal government has provided funding for the purchase of new heavy-duty transit buses since 1964. Purchases are now largely funded through the FTA funding allocations derived from gasoline taxes. Under these programs, municipal and local transit authorities in the United States receive up to 80% of the funding for new bus purchases from the federal government for (i) the replacement of buses that have operated for the FTA minimum service life, and (ii) new buses to support fleet growth based on population and ridership trends. In order to receive federal funding for new bus purchases, a minimum 20% contribution commitment from local transit authorities must be in place and the new bus purchase must comply with "Buy-America" legislation. See — "Rules of Origin (Buy-America) Legislation".

Federal funding for public transit in the United States is provided under surface transportation legislation covering highway, rail and marine transport.

On December 4, 2015, President Obama signed into law the Fixing America's Surface Transportation Act ("FAST"). FAST is the first transportation funding legislation to last longer than two years since 2005 and authorizes the funding for U.S. federal surface transportation programs through to September 30, 2020. FAST has reformed and strengthened transportation programs, provided long-term funding certainty and greater flexibility for states and local governments, streamlines project approval processes, and maintained a strong commitment to safety. FAST increased the current annual public transportation funding from $10.7 billion to $12.6 billion by 2020. Under FAST buses are purchased by public agencies using a variety of programs under the Act such as: Bus and Bus Facilities, State of Good Repair, and Urbanized Area formula and others. FAST also included increased funding for "clean technology" and low or zero emission buses as demonstrated by the creation of $55 to $130 million of annual "low or no emission" competitive grants.

FAST also amended several provisions affecting procurement methods for rolling stock. The U.S. federal government carryover period for funding allocations decreased to three years from the current five year limit. Management believes this reduction in carryover may have reduced order sizes and put pressure on unit delivery timelines to public customers. FAST also included a provision that creates a pilot program to allow up to three nonprofit agencies to host co-operative procurement contracts that can be interstate in nature. Management believes this should provide another opportunity for public transportation systems of all sizes to enhance their purchasing options as well as take advantage of cost reductions through larger procurements.

State, county, and municipal taxes comprise the principal source of "local match" funding required for agencies to qualify for the FTA capital grants. In most cases, the FTA provides 80% of the capital cost of transit buses and motor coaches, and the local municipality must provide the remaining 20%. Historically, municipal budgets have been under extreme pressure and limit the ability of many transit agencies to provide the local match funding required. Under FAST, the U.S. federal government continued to fund 80% of the capital cost of a new transit bus or coach, however the funding period carryover is decreased to three years from the current five year limit. The FAST act is set to expire on September 30, 2020.

In February, 2020, U.S. President Trump's Administration issued its fiscal 2021 budget, which proposes a 10-year $810 billion reauthorization of funding for surface transportation programs, which includes transit. This proposed budget provides $755 billion in mandatory spending and an eight percent increase for highway and transit formula programs. When combined with $190 billion in dedicated infrastructure spending, the budget proposes total spending of $1 trillion over 10 years.

U.S. federal budgets must be passed by both legislative bodies. However, management believes the proposals set forth by the Trump Administration are a positive sign for long-term, uninterrupted substantive funding for transit vehicles.[3]

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

[3] A Budget for America's Future, 2020

Company and awaiting customer action, and (ii) management's forecast of expected EUs to be placed out for competition over the next five years. See "Risk Factors — Risks Related to General Economic and Market Factors — The Company's business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company's products and the results of its operations".

APTA reports that the average fleet age of transit buses in the U.S. has remained constant at approximately seven years in 2017[4]. Management believes that other than the Company's Bid Universe (discussed above), and lack of reduction in fleet age, there are no reliable high-level indicators of the health of funding for transit bus purchases.

Based on the Company's existing Bid Universe, management continues to anticipate that in 2020 bus procurement activity throughout the United States and Canada should remain stable based on aging fleets, improved overall economic conditions, expected customer fleet replacement plans, new technology introductions and active or anticipated procurements. See "Risk Factors — General Economic and Market Factors — Funding may not continue to be available to the Company's customers at current levels or at all" and "Risk Factors — Risks Related to General Economic and Market Factors — The Company's business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company's products and the results of its operations".

While procurement of transit buses and coaches by the public sector is typically accomplished through formal multi-year contracts, procurement of transit buses and coaches by the private sector is typically accomplished through transactional sales of small orders of vehicles. As a result, the Company is unable to develop longer range forecasts for private sector transit buses and motor coaches.

Canada

Historically, purchases of new transit buses in Canada have been funded primarily by provincial and municipal governments. Unlike the US, in Canada there is no central source of funding for transit bus or motor coach procurements. Instead, funding of bus purchases comes largely from a patchwork of provincial funding, municipal funding, fare box revenue, various federal programs, and other smaller sources. Across Canada the funding approach varies widely from province to province and even from city to city within a single province.

Recognizing however, the infrastructure deficit in Canadian cities and the role transit can play to fight climate change, reduce congestion and increase quality of life, successive federal governments have funded transit capital projects. Some cost share funding for public transit projects and new bus purchases has been provided by federal programs such as the Canadian Strategic Infrastructure Fund, the Infrastructure Canada Program and the federal Gas Tax Fund. In 2016, the Canadian federal government committed to an initial investment of $3.4 billion over three years, through the new Phase 1 Public Transit Infrastructure Fund, followed by an additional Phase 2 investment of $25.3 billion over the next 11 years. In 2018 the Canadian federal government announced the next phase of the Investing in Canada Infrastructure Plan under which it will invest C$180 billion (including C$95.6 billion of new funding) in Canadian transit, green, social, rural and northern infrastructure over the next 10 years. As part of this program, $20.1 billion will be allocated towards improving the capacity, quality, safety of, and access to, public transit infrastructure through what is being called the Public Transit Stream. While the overall federal contribution to infrastructure projects has increased, the eligibility categories have also become broader. Management believes this federal program has increased purchases of buses by transit agencies in Canada in 2019 and may continue to do so in the future.

[4] APTA, Public Transportation Fact Book, 2019

There continues to be significant lobbying efforts by the industry to provide longer-term Canadian federal funding for public transit, including new transit bus purchases and development of alternative fuel technologies.

The Canadian Urban Transportation Association has previously reported a decrease in average fleet age of heavy-duty transit buses from 10.8 years in 2002 to 8.6 years in 2017. Management believes that other than fleet age statistics, there is no high-level indicator of the health of funding for the industry.

Other Geographic Markets

ADL's customer base (outside of Canada and the United States) varies by territory and by type of customer (which are a mix of private, public and government-supported businesses) and the funding mechanisms vary across all sectors. In the UK, transit bus operators do not receive direct government funding, other than grant funding for cleaner vehicles awarded on a competitive basis (similar to the Low-No program in the U.S.). Hong Kong has private operators which do not receive government funding. In Singapore, vehicles are procured by the transport authority and assigned to contracted operators to operate them (this differs from North America where agencies typically buy, own and run their fleets). This approach is also adopted in Republic of Ireland. In addition, UK customers generally pay upon delivery of a product, while in international markets milestone payments are customary.

Environmental and Emissions Legislation

The Company is subject to numerous environmental and health and safety laws, including statutes, regulations, bylaws and legal requirements contained in approvals or that arise under common law. These laws relate to the generation, use, handling, storage, transportation and disposal of regulated substances, including hazardous substances, dangerous goods and waste, emissions or discharges into soil, water and air, including noise and odours (which could result in remediation obligations), and occupational health and safety matters, including indoor air quality. These legal requirements vary by location and can arise under federal, provincial, state or municipal laws.

The Company believes that it is in substantial compliance with all material environmental and health and safety legal requirements. The Company is not aware of any breach of such requirements or other similar liabilities the resolution of which would have a material adverse effect on the Company and its operations.

The Environmental Protection Agency (the “EPA”) mandates compliance with United States emissions standards for engines and Environment Canada mandates such compliance in Canada. To the knowledge of management, only one engine manufacturer sells engines for use in heavy-duty transit buses and motor coaches in North America.

The California Air Resources Board (“ARB”) requires a dual certification for emission compliance for engines used in a hybrid configuration. This requires separate annual certifications from the engine supplier as well as the hybrid system supplier, but not the transit bus or coach manufacturer, such as New Flyer. These certifications are required to supply transit buses or motor coaches with a diesel-hybrid electric engine configuration to agencies operating in California and in certain states that follow the ARB regulations. Both of the Company’s suppliers of hybrid propulsion systems have received certification from ARB. The EPA does not require this dual certification and therefore, these regulations only affect transit buses purchased by transit agencies in states that follow ARB regulations. See “Risk Factors — Risks Related to Operations — Dependence on supply of engines that comply with emission regulations”.

The European Union defines emissions standards for engines installed into heavy-duty vehicles, the latest standard being “Euro VI”. Current jurisdictions in which ADL operates mandate compliance with “EPA” or “Euro” requirements. Most heavy-duty vehicles manufactured by ADL for supply outside of North America comply with “Euro VI” requirements, although “Euro V” and earlier engine series have been installed into vehicles supplied in small volumes to regions where fuel infrastructure does not meet the diesel quality required for “Euro VI” engines.

Rules of Origin/Final Assembly (Buy America) Legislation

Buy America regulations require that heavy-duty transit buses and motor coaches meet the following fundamental requirements to be eligible for United States FTA funding: (i) final assembly/manufacture must occur within the United States, and (ii) the bus or coach must contain a minimum percentage of United States content, calculated by cost of components. In December 2015, FAST increased the “Buy America” component content requirement for transit rolling stock from the level of 60 percent to 65 percent effective October 1, 2017, which increased to 70 percent on October 1, 2019. Only the percentage of U.S. domestic content was amended under FAST and the rules relating to final assembly remain unchanged. The Company is compliant with the current 70 percent Buy America content requirement. Customers regularly conduct audits to validate such compliance for buses and coaches purchased with federal funds. To date, the Company has never failed a Buy America compliance audit.

See “Risk Factors — Risks Related to the Business Environment — Current requirements under ‘Buy America’ regulations may change and/or become more onerous or suppliers’ ‘Buy America’ content may change”.

Policies Regarding Canadian Content

The Ontario provincial government has implemented a policy requiring that all transit vehicles procured by Ontario municipalities using sources of provincial funding must contain a minimum 25% Canadian content by cost. Transit buses sold by the Company to these Ontario municipalities comply with this policy.

The Toronto Transit Commission (the “TTC”) has implemented a policy requiring that 50% of the assembly labour costs for new public transit buses purchased by the TTC comprise Canadian labour. In addition, the TTC policy requires that a new forty-foot heavy-duty diesel transit bus contain a minimum of 40% Canadian content by cost. Solicitations originating from certain Quebec transit agencies also have a Canadian content requirement. See “Risk Factors — Risks Related to the Business Environment — Requirements under Canadian Content policies may change and become more onerous”.

U.S. Disadvantaged Business Enterprise Program

The goal of the Disadvantaged Business Enterprise (“DBE”) Program, overseen by the United States Department of Transportation, is to provide small businesses owned and controlled by socially and economically disadvantaged individuals a fair opportunity to compete for federally-funded transportation contracts. In accordance with the DBE program requirements, the FTA, which funds rolling stock procurements for transit agencies, requires its grantees to establish goals for the participation of DBEs in their transit vehicle procurements and also requires transit vehicle manufacturers (which includes both transit bus and motor coach manufacturers) that bid on federally-assisted vehicle procurements to submit annual goals to support qualified DBEs (as defined in the DBE program regulations) and to certify that they have complied with the requirements of the DBE program. The FTA reviews and approves transit vehicle manufacturers’ DBE goals on an annual basis and maintains a certified list of transit vehicle manufacturers that are eligible to bid on federally-assisted vehicle procurements. See “Risk Factors — Risks Related to the Business Environment — Failure of the Company to comply with the DBE program requirements or the failure to have its DBE goals approved by the FTA”.

Motor Vehicle Safety Standards

All heavy-duty transit buses and motor coaches sold in the United States and Canada must comply with federal, state and provincial motor vehicle safety standards. In both the United States and Canada, vehicles that meet or exceed all federally mandated safety standards are certified under the federal regulations.

Rigorous testing and the use of approved materials and equipment are among the requirements for achieving federal certification. The Company's entire product offering has been certified under applicable federal standards in both the United States and Canada and the Company certifies each new transit bus and motor coach model before its market launch. The Company also agrees to comply with state and provincial motor vehicle safety regulations in its customer contracts. Management believes that the Company is in material compliance with all current federal, state and provincial motor vehicle safety regulations.

All heavy-duty passenger service vehicles sold in the European Union must comply with the European Whole Vehicle Type Approval ("ECWVTA") framework. Vehicles that meet or exceed mandated United Nations ("UN") ECE Regulations and EU Regulations are issued with approval certificates by a national body responsible for ongoing conformity assessment, allowing sale in unlimited series across Europe, or in limited series to a specific EU Member State under a national scheme which gives allowances to suit national infrastructures. ADL's products sold in the UK and Ireland are approved to the national scheme, whereas those sold into mainland Europe are fully ECWVTA compliant so far as customer specification and local certification requirements permit. Management believes that ADL is in material compliance with all applicable European safety regulations.

All heavy-duty passenger service vehicles sold in Hong Kong, Singapore and New Zealand must comply with National Construction and Use requirements, with reference to UN ECE Regulations. All ADL's products for these markets have been certified to these requirements before being introduced in the regions, and are inspected by national bodies as part of product introduction and on an ongoing basis. Management believes that ADL is in material compliance with all applicable national safety standards for these regions.

Motor Vehicle Road Use Standards

Transit bus and coach operators are subject to federal, state and/or provincial motor vehicle road use regulations. Although it is the responsibility of the transit bus or coach operator to comply with such regulations, the Company is typically required to comply with applicable federal, provincial and state regulatory requirements under its customer contracts. The Company must also comply with regulatory requirements whenever it drives its transit buses or coaches over the roadways from its facilities to its customers. Management believes that the Company's buses and coaches are in material compliance with such motor vehicle regulations. However, there are some heavy-duty transit buses in the industry, including certain types of transit buses manufactured by New Flyer that do not currently comply with regulations governing maximum axle weight or length in certain jurisdictions. Transit bus operators often obtain waivers from the province or state in which they operate for vehicles that do not comply with the applicable requirements. However, such waivers are discretionary and as such, there is no assurance that transit operators will continue to be able to obtain them in the future. Management believes that this is an industry-wide problem related, in part, to industry trends including evolving environmental, disabled-access and other regulations which have resulted in the production of heavier or longer transit buses throughout the industry. Management believes that many of the provincial and U.S. federal and state axle weight or length regulations have not yet caught up with the other aspects of the overall regulatory regime applicable to transit buses and that such regulations need to be re-examined in light of developments in the industry. Management intends to address provincial and U.S. federal and state axle weight or length restrictions with its customers on a contract-by-contract basis, and expects that the industry and transit operators will lobby the government for changes to these regulations. See "Risk Factors — Risks Related to Operations — The Company may incur costs in connection with regulations relating to axle weight restrictions and vehicle lengths".

Outside of North America, ADL ensures that vehicles transported between its facilities and its customers are in material compliance with applicable motor vehicle regulations and applicable certificates of conformity or equivalent. Where vehicles are transported through regions or via non-road delivery services, transport logistics specialists are engaged to ensure compliance with all applicable legislations.

Vehicles moved between facilities for test and not yet validated against regulations are subject to risk assessment, and where applicable, vehicles are transported by means other than driving.

United States Bus and Motor Coach Testing

All applicants for United States federal funding must certify to the FTA that any heavy-duty transit bus or motor coach acquired with such funding has been tested in accordance with an endurance test conducted at Altoona, to simulate 500,000 miles or 12 years of operation. The following tests are conducted at Altoona: safety, structural integrity and durability, reliability, performance, maintainability, noise and fuel economy. The Company's entire heavy-duty transit bus and motor coach product offering for the North American market has been tested at Altoona, and additional testing occurs regularly with the introduction of new products, or in the case of substantial changes to existing products. Medium-duty and cutaway buses undergo endurance testing to lower thresholds than heavy-duty transit buses and motor coaches.

Recent US federal legislation included major changes to the transit bus and motor coach testing requirements performed at Altoona. The current tests are an accelerated whole-bus aging test run on the track, including recording fuel mileage and any minor or major structural and component failures as well as noting the vehicle weight and other physical features. The current test publishes results in a report for every new bus or coach model or major modification. It does not say a bus or coach "passed" or "failed" the test at Altoona because it currently is not a pass/fail test. The new law changes will require a pass/fail method and mandates the FTA to develop, with industry input, a revised testing protocol. There is no time established when a new protocol is to be implemented.

The U.S. National Highway Transportation Safety Administration has indicated it will introduce roll-over testing requirements for motor coaches, but has not provided a date for the introduction of the new requirements. Management is monitoring developments.

Certain major cities in Canada and the United States require a 500,000 mile/12-year shaker table test. This static test simulates revenue service life under challenging conditions to test durability.

Private bus and motor coach customers typically do not require any testing of coaches and leave structural design decisions to the bus and motor coach manufacturers and to applicable governmental regulations.

Disability Access Legislation

The Americans with Disabilities Act (the "ADA") prescribes certain minimum accessibility standards for vehicles that are purchased with United States federal funding. All of the Company's transit buses and motor coaches have been designed and/or tested to be compliant with the ADA. Although there is currently no equivalent federal legislation in Canada, most transit buses and motor coaches in Canada are also manufactured to provide access to persons with disabilities.

Outside of North America, UN ECE Regulations define vehicle interior layout and safety requirements and ADL products comply with applicable requirements. In regions that do not apply UN ECE regulations, ADL products comply with the National Construction and Use requirements (or equivalent) for accessibility.

Litigation

The Company is subject to litigation from time to time in the ordinary course of its business. The Company is not aware of any pending or threatened litigation that would have a material adverse effect on the Company and its operations. See "Risk Factors — Risks Related to Operations — 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".

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

The authorized share capital of NFI consists of an unlimited number of Shares. As at December 29, 2019, 62,493,880 Shares were issued and outstanding.

Holders of Shares are entitled to receive dividends as and when declared by the board of directors of NFI (the "Board") and are entitled to one vote per Share on all matters to be voted on at all meetings of shareholders. Upon the voluntary or involuntary liquidation, dissolution or winding-up of NFI, the holders of Shares are entitled to share ratably in the remaining assets available for distribution, after payment of liabilities.

Shareholder Rights Plan

The shareholder rights plan of NFI (the "Amended and Restated SRP"), approved by the shareholders of NFI at the annual meeting of shareholders held on May 11, 2017, confirms the issuance of one right in respect of each Share outstanding at the close of business on August 29, 2011 and one right in respect of each Share issued thereafter. The rights will separate from the Shares to which they are attached and will become exercisable upon the occurrence of certain events in accordance with the terms of the Amended and Restated SRP. Generally, if a person, or a group acting jointly or in concert, acquires (other than pursuant to an exemption available under the Amended and Restated SRP) beneficial ownership of 20% or more of the Shares (except, among other exceptions, pursuant to a permitted bid under the Amended and Restated SRP), the rights will separate from the Shares and permit holders of rights (other than the acquiring person) to purchase Shares at a substantial discount to market price. At any time prior to the rights becoming exercisable, the Board may waive the operation of the Amended and Restated SRP with respect to certain events before they occur. The Amended and Restated SRP is designed to provide the Board additional time to assess an unsolicited take-over bid for NFI and, where appropriate, to give the Board additional time to pursue alternatives for maximizing shareholder value. The Amended and Restated SRP also encourages fair treatment of all shareholders by providing shareholders with an equal opportunity to participate in a take-over bid. A copy of the Amended and Restated SRP is available on SEDAR at www.sedar.com.

Book-Entry Settlement and Clearance

CDS acts as securities depository for the Shares. The Shares are represented by one or more global certificates (each, a "Global Certificate"). The Global Certificates for the Shares are issued as fully-registered in book-entry only form in the name of CDS or its nominee, CDS & Co.

If an investor intends to purchase or sell Shares, an investor must do so through direct and indirect CDS participants. All interests in the Shares are subject to the operations and procedures of CDS. NFI is responsible for and makes payments on the Shares to CDS. CDS is responsible for the disbursement of those payments to its participants, and the participants are responsible for disbursements of those payments to beneficial owners.

Dividend Policy

On May 9, 2018, the Board approved a 15.4% increase in the annual dividend rate from C$1.30 to C$1.50 per Share, effective for the payment of the second quarterly dividend on July 16, 2018. On March 13, 2019, the Board approved a 13.3% increase in the annual dividend rate from C$1.50 to C$1.70 per share, effective for the payment of dividends declared after that date. The Board believes this dividend policy is consistent with the Company's long-term financial performance and the need to retain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue strategic growth and diversification opportunities.

The dividends on the Shares will be paid, if and to the extent dividends are declared by the Board and permitted by applicable law. Dividend payments are not mandatory or guaranteed. The Board may, in its discretion, modify or repeal NFI's current dividend policy at any time and without prior notice. No assurances can be made that NFI will pay dividends at the level contemplated by its current dividend policy in the future, or at all. See "Risk Factors – Risks Related to Capital Structure and Tax – Payment of Dividends is Not Guaranteed".

NFI will pay dividends on the Shares (if declared) on or before the 15th day of the month following the end of each quarter (or the next business day, if such day is not a business day) to holders of record at the close of business on the last business day of each quarter.

Dividends on the Shares

The following tables illustrate the quarterly dividends paid on the Shares for the period from January 1, 2017 to December 31, 2019. All dollar amounts in the table below are in Canadian currency.

2017 Record Dates	Dividend per Share ($)	2018 Record Dates	Dividend per Share ($)	2019 Record Dates	Dividend per Share ($)
March 31, 2017	0.2375	March 29, 2018	0.325	March 29, 2019	0.425
June 30, 2017	0.325	June 29, 2018	0.375	June 28, 2019	0.425
September 29, 2017	0.325	September 28, 2018	0.375	September 30, 2019	0.425
December 29, 2017	0.325	December 31, 2018	0.375	December 31, 2019	0.425
Total Dividends	**1.21**	**Total Dividends**	**1.45**	**Total Dividends**	**1.70**

Credit Facility

On October 25, 2018, NFI and certain of its subsidiaries (collectively, the "Borrower") entered into a revolving credit facility (the "Credit Facility") with a syndicate of financial institutions with a maturity date of October 25, 2023. In May 2019, NFI entered into a $300 million revolving credit facility (the "Acquisition Revolver") to fund the acquisition of ADL. The terms of the Acquisition Revolver were principally the same as those of the syndicated Credit Facility. On August 2, 2019, the total borrowing limit under the Credit Facility was increased to $1.25 billion (including a $100 million letter of credit facility), the maturity date was extended to August 2, 2024 and NFI terminated the Acquisition Revolver and repaid all its indebtedness under the Acquisition Revolver. The Credit Facility provides an accordion feature which allows the Borrower to obtain additional funding of up to $250 million. A copy of the Credit Facility can be found on SEDAR at www.sedar.com.

The Credit Facility is guaranteed by certain subsidiaries of NFI and is unsecured. NFI receives its cash distributions from the borrowers (other than NFI) and the guarantors of the Credit Facility, and as a result (among other requirements), the amounts owing under the Credit Facility and any interest thereon will be payable in priority to any cash distributions to holders of Shares.

Loans under the Credit Facility bear interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates.

There are certain financial covenants under the Credit Facility that must be maintained. Specifically, NFI must maintain an interest coverage ratio greater than 3.0 to 1 and a total leverage ratio of less than 3.75 to 1 (which increases to 4.25 for one year following a material acquisition).

DIRECTORS AND OFFICERS

Directors and Officers

NFI's articles of incorporation provide for a minimum of three and a maximum of 20 directors. NFI's Board consists of nine individuals and is comprised as follows:

- The Honourable Brian Tobin, Paul Soubry, John Marinucci and Krystyna Hoeg, each of whom is a Canadian resident. The Honourable Brian Tobin serves as the chairman of the Board; and
- Larry Edwards, Adam Gray, Phyllis Cochran and Katherine Winter, each of whom is a U.S. resident; and
- Paulo Cezar da Silva Nunes, who is a Brazilian resident.

The following table sets out the name, municipality of residence, position(s) with the Company and principal occupation of the directors of NFI.

Name and Municipality of Residence	Position(s)	Director Since	Principal Occupation If not with the Company
The Honourable Brian Tobin …………. Ottawa, Ontario	Director (Chairperson of the Board)	2005	Vice-Chair, BMO Financial Group (2018 – present) Vice-Chair, BMO Capital Markets (2013 – 2018)
John Marinucci ………………..……… Oakville, Ontario	Director	2005	Corporate Director
Larry Edwards ………………………... Tulsa, Oklahoma, USA	Director (Chairperson of the human resources, compensation and corporate governance committee)	2008	Corporate Director
Paul Soubry …...………………………. Winnipeg, Manitoba	Director	2009	President and Chief Executive Officer of the Company
Adam Gray ……………………………. Greenwich, Connecticut, USA	Director	2012	Managing Partner, Coliseum Capital Management, LLC
Phyllis Cochran …………………..…… Bluffton, South Carolina, USA	Director (Chairperson of the audit committee)	2015	Corporate Director
Krystyna Hoeg …………….....………….. Toronto, Ontario	Director	2015	Corporate Director
Paulo Cezar da Silva Nunes………..…… Porto Alegre, Brazil	Director	2015	Corporate Director
Katherine Winter………..……………… Palatine, Illinois, USA	Director	2019	Vice President and General Manager, Automated Driving Solutions Division, Intel Corporation (2016 – present) Vice President, Software and Services, Automated Driving, Delphi Corporation (2011 – 2016)

Each of the directors has had the principal occupation referred to opposite his or her name during the past five years, except for Mr. Tobin and Ms. Winter.

The term of office for each of the directors of NFI expires at the time of the next annual meeting of shareholders of NFI. Directors will be elected at each annual meeting of shareholders of NFI.

A director may be removed by a resolution passed by a majority of the shareholders or may resign. The vacancy created by the removal of a director must be filled at the shareholder meeting at which he or she was removed. A vacancy not so filled at a shareholder meeting, or created by the resignation of a director, may be filled by a quorum of the remaining directors. A quorum for meetings of directors is a majority of the directors, provided that a majority of directors present (or one director, where a quorum is two directors) must be residents of Canada. If there is no quorum of directors, a special shareholder meeting must be called to fill vacancies.

The directors supervise the activities and manage the affairs of NFI.

Audit Committee

NFI's audit committee is comprised of a minimum of three directors. The audit committee is comprised of four members, being Phyllis Cochran (Chair), Larry Edwards, Adam Gray and Krystyna Hoeg. All of the members of the audit committee are independent within the meaning of National Instrument 52-110 *Audit Committees* ("NI 52-110").

The audit committee is responsible for the oversight and supervision of the accounting and financial reporting practices and procedures of NFI, the adequacy of internal accounting controls and procedures, the quality and integrity of financial statements of NFI and the oversight of NFI's enterprise risk management framework. In addition, the audit committee is responsible for directing the auditors' examination of specific areas and for recommending to the Board the selection of independent auditors of NFI. The committee annually reviews the Chief Financial Officer's goals and objectives for the upcoming year and conducts regular reviews of the Chief Financial Officer's performance.

Human Resources, Compensation and Corporate Governance Committee

NFI has a human resources, compensation and corporate governance committee comprised of four directors. The members of the committee are Larry Edwards (Chair), The Honourable Brian Tobin, Paulo Nunes and Katherine Winter. All of the members of the human resources, compensation and corporate governance committee are independent within the meaning of NI 52-110. The committee reviews and makes recommendations to the directors concerning the appointment of officers of NFI and its subsidiaries and the hiring, compensation, benefits and termination of officers of NFI and its subsidiaries. The committee annually reviews the Chief Executive Officer's goals and objectives for the upcoming year and conducts quarterly reviews of the Chief Executive Officer's performance. The committee also makes recommendations concerning the remuneration of directors of NFI and its subsidiaries. The committee administers and makes recommendations regarding the operation of any employee bonus or incentive plans, including the performance and restricted share unit plan and the stock option plan, and administers the deferred share unit plan and restricted share unit plan for non-management directors. The committee is also responsible for developing NFI's approach to corporate governance issues, advising NFI's Board on filling vacancies on the Board and the boards of NFI's subsidiaries and periodically reviewing the composition and effectiveness of each board and the contribution of individual directors, considering questions of management succession and considering and approving proposals by the directors of NFI to engage outside advisors on their behalf. The committee also reviews and recommends to the Board the Company's health, safety and environmental guidelines and practices and monitors the Company's performance against those practices and guidelines, as well as reviews the Company's approach to corporate social responsibility issues.

Executive Officers

Paul Soubry is the President and Chief Executive Officer, Glenn Asham is the Chief Financial Officer, Pipasu Soni is the Executive Vice President, Finance (and will succeed Mr. Asham as CFO when Mr. Asham retires at the end of March 2020) and Colin Pewarchuk is Executive Vice President, General Counsel and Corporate Secretary of NFI.

Each of the executive officers has had the principal occupation referred to above during the past five years, except for Mr. Soni who prior to his appointment in December 2019 served as an officer of United States Steel Corporation since 2016 in a variety of financial leadership roles including Vice President, Performance Management and Analytics, Vice President, Finance, and Interim CFO. From 2010 to 2016 Mr. Soni served in various capacities with Pentair plc, including Vice President, Corporate Finance.

As at December 29, 2019 the directors and executive officers of NFI as a group beneficially owned, directly or indirectly, or exercised control or direction over, approximately 3,122,233 Shares, representing approximately five percent of all issued and outstanding Shares. The executive officers of NFI's subsidiaries, together with the directors and executive officers of NFI, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, approximately 3,811,864 Shares, representing approximately six percent of all issued and outstanding Shares as at December 29, 2019.

Cease Trade Orders, Bankruptcies, Penalties and Sanctions

Mr. Gray was a director of APP Winddown, LLC (formerly known as American Apparel, LLC) ("AA") from February 1, 2016, when AA exited bankruptcy through a plan of conversion with its former creditors, until his resignation from the board on March 31, 2017. AA was an apparel manufacturer and retailer. On November 14, 2016, AA (along with certain related entities) filed a second voluntary petition for relief under chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court in Wilmington, Delaware and subsequently agreed to sell its intellectual property and other assets to Gildan Activewear. Since then, AA has been in wind down and the majority of its estate has been distributed to creditors.

Mr. Marinucci was a director of Advance Engineered Products Ltd. ("AEPL) from March 1, 2014 to his resignation from the board on April 9, 2015. AEPL is a manufacturer of tank trucks, trailers and vacuum truck equipment. On April 10, 2015, AEPL filed for protection from its creditors under the Companies' Creditors Arrangement Act (Canada) ("CCAA") with the Court of Queen's Bench of Saskatchewan, Judicial Centre of Saskatoon and Ernst & Young Inc. ("EY") was appointed by the court as monitor of AEPL. In October 2015, substantially all of AEPL's assets were sold to an affiliate of Ironbridge Equity Partners and the court ordered that the stay period for proceedings be extended to April 2016 to enable the company to resolve certain outstanding matters and complete the administration of CCAA proceedings. On February 16, 2016 EY assigned AEPL into bankruptcy. On April 26, 2016 the court discharged EY as monitor. All of AEPL's assets have either been realized or sold by the monitor.

Mr. Edwards was a director of Red Fork Energy Limited ("RFE") from May 2013 to April 2015. In December 2014, KordaMentha Pty Ltd. was appointed as receivers and managers over the assets of RFE under the terms of the security provided to Guggenheim Corporate Funding LLC. As a consequence of this appointment, the directors of RFE appointed Ferrier Hodgson as joint and several voluntary administrators and the powers of RFE's directors were suspended. In March 2015, Ferrier Hodgson concluded that RFE was not insolvent for a material time leading to their appointment and that the directors had a reasonable expectation they would be able to refinance the Guggenheim facility. In April 2015, the creditors of RFE resolved that the company execute a deed of company arrangement for purposes of reconstruction and recapitalization of RFE (to be renamed Brookside Energy Limited). In July 2015, the deed was effectuated and control of Brookside Energy Limited reverted to a new board of directors.

Except as described above, to the knowledge of NFI, no director or executive officer of NFI or a shareholder holding a sufficient number of securities of NFI to affect materially the control of NFI is, or within the ten years prior to the date hereof has been, a director or executive officer of any company (including NFI) that, while that person was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the knowledge of NFI, no director or executive officer of NFI or a shareholder holding a sufficient number of securities of NFI to affect materially the control of NFI has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

Insurance Coverage and Indemnification

Insurance policies have been obtained for directors and officers of NFI and for the directors and officers of its subsidiaries. Under the policies, each entity has reimbursement coverage to the extent that it has indemnified directors and officers. The policies include securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against NFI and its subsidiaries. The total limit of liability will be shared among NFI and its subsidiaries and their respective directors and officers so that the limit of liability will not be exclusive to any one of the entities or their respective directors and officers.

The by-laws of NFI provide for the indemnification of its directors and officers from and against liability and costs in respect of any action or suit brought against them in connection with the execution of their duties of office, subject to certain limitations.

AUDIT COMMITTEE AND AUDITOR’S FEES

NFI has an audit committee consisting of four directors: Phyllis Cochran (Chair), Larry Edwards, Adam Gray and Krystyna Hoeg, each of whom is independent of NFI and “financially literate” within the meaning of NI 52-110. The audit committee is responsible for the oversight and supervision of the accounting and financial reporting practices and procedures of NFI, monitoring the adequacy of internal accounting controls and procedures, reviewing the quality and integrity of financial statements of NFI and the oversight of NFI’s enterprise risk management framework. The independent auditors of NFI report directly to the audit committee. In addition, the audit committee is responsible for reviewing and approving the auditors’ audit plan and for recommending to the Board the selection of independent auditors of NFI. The charter of the audit committee is attached hereto as Appendix “A”.

Relevant Education and Experience of Audit Committee Members

The following is a brief summary of the education and experience of each member of the audit committee that is relevant to the performance of his or her responsibilities as a member of the audit committee, including any education and experience that has provided the member with an understanding of the accounting principles used by NFI to prepare its annual and interim financial statements:

Name of Audit Committee Member	Relevant Education and Experience
Phyllis Cochran (Chair)..	Ms. Cochran is a CPA and has worked as an auditor in an international accounting firm. Ms. Cochran worked as the Controller and Vice President, and prior to that, the Assistant Controller of Navistar Financial Corporation. She was also the President, Parts Group of Navistar International Corporation. Ms. Cochran also served on the audit committee of the board of directors of The Mosaic Company for seven years.
Larry Edwards ….…………………………………………………	Mr. Edwards holds a MBA and was the President and CEO of a NYSE-listed public company.
Adam Gray …….………………………………………………….	Mr. Gray has an undergraduate business school education with a major in finance. He has worked in several investment banks, has served as Investment Manager for several investment funds and has served on other audit committees.

Name of Audit Committee Member	Relevant Education and Experience
Krystyna Hoeg ………………………………………………	Ms. Hoeg is a CPA and has worked in senior financial positions, including Vice President, Finance, for a number of organizations. Ms. Hoeg was also the President and CEO of Corby Distilleries Limited. Ms. Hoeg has served on, and has chaired, a number of audit committees of both private and publicly-traded corporations.

Non-Audit Services

The audit committee has adopted specific policies and procedures for the engagement of external auditors for all services, including non-audit services. In particular, the audit committee is required to pre-approve the appointment of the auditor for any permitted non-audit service to be provided to NFI or any of its subsidiaries. Before the appointment of the auditor for any non-audit service, the audit committee will consider the compatibility of the service with the auditor's independence.

The audit committee may delegate to one or more members the authority to pre-approve the appointment of the auditor for any non-audit service to the extent permitted by applicable law. The pre-approval of non-audit services by any member to whom authority has been delegated must be reported to the full audit committee at its first scheduled meeting following such pre-approval.

External Auditor Service Fees

The following table summarizes the Audit, Audit Related, Tax Related and Other Fees (excluding expenses and taxes) of NFI's external auditor for the last two fiscal years:

	Fiscal 2019	Fiscal 2018
Audit Fees	C$1,749,982	C$1,532,475
Audit-Related Fees (1)	C$219,000	C$195,000
Taxation Fees	C$375,619	C$65,032
All Other Fees	C$0	C$0

(1) Fees related to auditor's quarterly financial statement reviews.

Audit Committee Oversight

At no time since the commencement of NFI's most recently completed fiscal year has a recommendation of the audit committee to nominate or compensate an external auditor not been adopted by the Board.

Risk Management

Risk management practices are a part of the Company's regular business operations to help enhance decision-making and resource allocation. The Company's risk management process focuses on the identification of risks associated with the Company's business and its operational and strategic objectives, and the assessment and mitigation of those risks. The alignment of risk mitigation efforts has been enhanced across the Company while taking into account both internal and external risk factors. The Company continues to evaluate its risk tolerances for specific strategies and objectives. In order to support management's commitment to enhancing risk management practices and enhanced accountability, the Company continues to deploy risk assessment training to employees involved in the risk management processes. The Company has embedded risk management practices within the annual budget and annual operating planning process and determination of management objectives. The Company's risk management program is managed by an executive level risk committee in conjunction with the Company's Director of the Audit and Risk Management Services ("ARMS") department. The Company has also retained KPMG to assist the ARMS department from time to time, as requested by management or the Audit Committee, in performing audits of various functions or processes within the Company's operating departments in order to assess whether their processes and procedures take into account significant risks and whether such risks have been adequately mitigated. See "Risk Factors — Risks Related to Operations — The Company's risk management policies and procedures may not be fully effective in achieving their intended purposes".

RISK FACTORS

An investment in the Shares involves a number of risks. The risks described below are not the only risks facing the Company. Additional risks and uncertainties not currently known or that are currently considered to be immaterial may also materially and adversely affect the Company. If any of these risks actually occur, the business, financial condition, liquidity and operating results of the Company could be materially and adversely affected, in which case the amount of cash available for dividends and the trading prices of the Shares may materially decline.

The Company's ability to manufacture and supply products and its sales revenue, results of operations, cashflow and liquidity may be adversely impacted by the ongoing COVID-19 (coronavirus) outbreak.

As a result of the global outbreak of COVID-19 (also referred to as the "coronavirus") and its declaration by the World Health Organization to be a "pandemic", certain actions are being taken by governments and businesses in the United States, Canada, the UK, China and around the world to control the outbreak, including restrictions on public activities, travel and commercial operations. The Company has been managing certain supply delays. However, as the outbreak and the global response to it continue, the Company's operations may be materially adversely affected by additional supply delays, shortages of labour and components, and/or partial or complete closure of one or more of its facilities (including to protect the health and safety of the Company's employees), all which may continue for an extended time. Any inability to manufacture and deliver products to customers could result in a range of potential adverse consequences, including penalties or business interruption claims by customers, loss of business and reputational damage. Also, the outbreak may adversely affect operations of customers as a result of shutdowns or disruptions to their operations and decrease in demand for the Company's products from customers due to reduced travel on buses or motor coaches. The outbreak may also impact the financial viability of suppliers and customers, and could cause them to exit certain business lines, or change the terms on which they are willing to provide or purchase products. Impacts of the outbreak may significantly reduce the Company's cashflow, liquidity and its ability to maintain compliance with covenants in the Credit Facility. In addition, the outbreak could adversely affect the economies of many countries in general, resulting in an economic downturn that could adversely affect demand for the Company's products. Given the ongoing and dynamic nature of the coronavirus outbreak, it is very difficult to predict the severity of the impact on the Company's business. The extent of such impact will depend on future developments, which are highly uncertain, including new information which may emerge concerning the spread and severity of the coronavirus and actions taken to address its impact, among others. The repercussions of this health crisis could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Risks Related to General Economic and Market Factors

Funding may not continue to be available to the Company's customers at current levels or at all

The Company's principal customers in North America are municipal and other local transit authorities that rely on funding from various levels of government to purchase heavy-duty transit buses, medium-duty transit buses and motor coaches. There can be no assurance that this funding will continue to be available at current levels, on the same terms or at all. Eighty percent of the total eligible funding for purchases of new transit buses and coaches by municipal and other local transit authorities in the United States is provided by the federal government through allocations to the FTA.

On December 4, 2015, FAST was enacted. FAST is the first transportation funding legislation to last longer than two years since 2005 and authorizes the funding for U.S. federal surface transportation programs through to September 30, 2020. FAST increased the current annual public transportation funding from \$10.7 billion to \$12.6 billion by 2020. In February 2020, U.S. President Trump's Administration issued its fiscal 2021 budget proposal. In this proposal, the administration requested approximately \$1 trillion in transportation funding over a period of 10 years and included an eight percent increase for highway and transit formula programs.

The Company also has exposure to the private market as the majority of ADL's products, MCI's motor coaches, and to a lesser extent, ARBOC's cutaways, are predominantly sold to private customers. The private market is likely to be more adversely affected during periods of recession or slower economic growth, industry due to the buying cycle being much shorter than the public market cycle. Private customers also have different buying habits on bus replacement than the public market.

Any decline in or changes in the terms of governmental and local funding for purchases of new heavy-duty transit buses, medium-duty buses, coaches and cutaways and/or purchases of aftermarket parts or services and any decrease in access to financing for private bus and coach customers could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The Company's business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company's products and the results of its operations

In addition, management's estimates have not been independently verified (e.g. Bid Universe) and are based on certain assumptions that may not prove to be accurate. As a result, these estimates could differ materially from actual demand and future sales may lag behind improvements in general economic conditions.

A decrease in employment levels, consumer confidence or other adverse economic events, or the failure of actual demand for the Company's products to meet management's estimates, could negatively affect the demand for the Company's products. Any decline in overall customer demand in markets in which the Company operates could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Currency fluctuations could adversely affect the Company's financial results or competitive position

The Company reports its results in United States dollars. The Company generates cash flows and earns income in Canadian dollars, U.S. dollars, pounds sterling, and to a lesser extent, currencies of other countries in which it does business internationally. The currency mix of cash flows and earnings depends on the geographic source of orders for buses, motor coaches and parts, as well as production and other costs and other factors which vary from period to period. As a result, the Company is exposed to fluctuations in the exchange rates between these currencies and the U.S. dollar and such fluctuations will have an effect on the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differs over time depending on whether the Company is generating a net cash inflow or outflow of those different currencies.

The Company implements an active hedging strategy to minimize the effects of these fluctuations during this period. However, there can be no assurance that the Company will be able to successfully implement this hedging strategy and actual revenues, expenses and resulting cash flows may vary from management's estimates and such variance may be material. The Company reviews its currency hedging policy on an ongoing basis.

In addition, the Company competes with United States manufacturers and may be less competitive in the event foreign currencies strengthen relative to the United States dollar. To the extent the Company has borrowings that are denominated in Canadian dollars or in pounds sterling, its results of operations are also negatively affected by a strengthening in the Canadian dollar or pounds sterling, or both compared to the United States dollar.

Interest rates could change substantially, materially impacting the Company's revenue and profitability

The Company's borrowings under the Credit Facility are at variable rates of interest and expose the Company to interest rate risk. The Company's attempts to mitigate this risk through interest rate hedges or swaps could become materially more expensive if interest rates increase or become more volatile. If the cost of hedging interest rates increases, the Company's debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net income and cash available for servicing its other indebtedness would decrease. On February 13, 2019, the Company blended the unrealized gain from the existing swap into a $600 million notional interest rate swap designed to hedge floating rate exposure on the Company's Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023.

A significant portion of the private sales of new and pre-owned motor coaches is financed. An increase in interest rates would increase the cost of financing and the effective total purchase price of coaches and buses to the customer. This effective increase in the cost of the coach or bus may decrease the size of the private motor coach and bus market and as a result, may reduce the volume of motor coaches and buses sold by the Company.

An active, liquid trading market for the Shares may cease to exist, which may limit the ability of shareholders to trade Shares

Although the Shares are listed on the TSX under the symbol "NFI", an active trading market for Shares may not be sustained. A public trading market having the desirable characteristics of depth, liquidity and orderliness depends upon the existence of willing buyers and sellers at any given time, such existence being dependent upon the individual decisions of buyers and sellers over which neither the Company, its management, its Board nor any market maker has control. The failure of an active and liquid trading market to continue would likely have a material adverse effect on the value of the Shares. An inactive market may also impair the ability to raise capital to continue to fund operations by issuing Shares and may impair the Company's ability to acquire other companies or technologies by using Shares as consideration for such acquisition.

The market price for the Shares may be volatile

The market price of the Shares may change in response to fluctuations in the Company's operating results in future periods and may also change in response to other factors, many of which are beyond the control of management, the Board or the Company. As a result, the price of the Shares may experience significant volatility and may not necessarily reflect the value of management's expected performance. Other factors that could affect the price of the Shares, include, but are not limited to, the following:

- market conditions in the broader stock market;
- actual or anticipated fluctuations in the Company's quarterly or annual financial and operating results;
- introduction of new products or services by the Company or its competitors;
- issuance of new or changed securities analysts' reports or recommendations;
- sales, or anticipated sales, of large blocks of Shares;
- additions or departures of key personnel;
- legal, regulatory or political developments;
- litigation and governmental investigations;

- market and industry perception of the Company's success, or lack thereof, in pursuing management's growth strategy;
- changing economic conditions; and
- exchange rate fluctuations.

In addition, future sales or the availability for sale of substantial amounts of Shares in the public market could adversely affect the prevailing market price of the Shares and could impair NFI's ability to raise capital through future sales of its securities.

The perceived creditworthiness of NFI may affect the market price or value and the liquidity of the Shares.

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

Management believes the trading market for the Shares has been and will continue to be influenced by the research and reports that industry or securities analysts publish about the Company or its business. Management and the Board do not have any control over these analysts. If one or more of these analysts cease coverage of the Company or fail to publish regular reports regarding the Company, the Company could lose visibility in the financial markets and demand for the Shares could decrease, which could cause the Share price and trading volume of the Shares to decline. Moreover, if one or more of the analysts who cover the Company downgrade the Shares or issue "sell" recommendations, or if the Company's results of operations do not meet their expectations, the Share price could decline.

Risks Related to the Business Environment

Competition in the industry and entrance of new competitors

There is significant competition in the public transit bus industry in Canada and the United States. Although the Company is the current market leader, its principal competitors may gain market share. New competitors may also emerge in the industry. There can be no assurance that the Company will maintain its current leading position. There is also strong competition in the aftermarket parts and service markets where the Company sells parts and services to transit agencies. New Flyer is one of very few publicly-traded companies selling transit buses in the United States and Canada and is subject to certain legal disclosure requirements. These disclosure requirements may put the Company at a competitive disadvantage. In addition, funding pressures on public agencies for capital purchases and operating funds have increased the importance of price in the evaluation criteria for replacement buses and aftermarket parts and services and have resulted in aggressive pricing among competitors in the heavy-duty transit bus industry.

There is a high-level of competition in both the medium-duty bus and cutaway bus sectors and the Company also faces indirect competition from heavy-duty transit competitors.

There is also significant competition in the private motor coach industry. Manufacturers from China and South America have recently shown interest in the North American market.

There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that such competition will not have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Failure of the ratification of the Unites States-Mexico-Canada Agreement (USMCA) could be materially adverse to NFI

New Flyer carries on its manufacturing and aftermarket support operations in a highly integrated manner on both sides of the Canada/U.S. border. The Company has manufacturing plants, parts distribution centers and service centers in both countries and relies on suppliers in both Canada and the United States. Government trade policy has a significant effect on the Company's operations and the automotive industry as a whole. In late 2018, the United States, Canada and Mexico signed a new trade agreement to replace the existing North American Free Trade Agreement (NAFTA). While management does not anticipate any material impact to the Company's business from the new United States–Mexico–Canada Agreement (USMCA), the agreement has not yet been ratified by Canada. Failure of Canada to ratify the USMCA could lead to uncertainty with respect to trade matters, which could potentially have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Current requirements under "Buy America" regulations may change and/or become more onerous or suppliers' "Buy America" content may change

Manufacturers of new transit buses and motor coaches must comply with "Buy America" requirements in order for new transit bus and coach purchases to qualify for United States federal funding. "Buy America" regulations currently require that transit buses and motor coaches purchased with federal funds contain a minimum of 65% United States content by component cost and that "final assembly" take place in the United States. In December 2015, FAST increased the "Buy America" component content requirement for transit rolling stock from the level of 60% to 65% effective October 1, 2017 and to 70% effective October 1, 2019. There can be no assurance that the "Buy America" regulations will not change and/or become more onerous or that the Company will continue to meet the "Buy America" requirements.

In addition, should "Buy America" requirements become less stringent, foreign competitors without significant U.S. operations may be able to penetrate the United States market and gain market share. Also, suppliers may change the source of the components or subcomponents comprising their products thereby potentially reducing the "Buy America" content of their products. Any changes in U.S. Buy America legislation or the reduction of "Buy America" content of suppliers' products may have a material adverse effect on the Company's business, financial condition, liquidity and operating results. See "Description of the Business — Legal and Regulatory Matters — Rules of Origin (Buy America) Legislation".

Failure of the Company to comply with the DBE program requirements or the failure to have its DBE goals approved by the FTA

In accordance with the DBE program requirements, the FTA requires vehicle manufacturers (which includes both transit bus and motor coach manufacturers) that bid on federally-assisted vehicle procurements to submit annual goals to support qualified DBEs (as defined in the DBE program regulations) and to certify that they have complied with the requirements of the DBE program. The FTA reviews and approves transit vehicle manufacturers' DBE goals for the upcoming year and maintains a certified list of transit vehicle manufacturers that are eligible to bid on federally-assisted vehicle procurements. The Company's failure to comply with the DBE program requirements or the failure to have its DBE goals approved by the FTA would result in the Company being ineligible to bid on federally assisted transit vehicle procurements. The inability to bid on U.S. federally assisted procurements would have a material adverse effect on the Company's business, financial condition, liquidity and operating results. See "Description of the Business – Legal and Regulatory Matters – U.S. Disadvantaged Business Enterprise Program".

Absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience

As is general industry practice, the Company does not typically enter into long term supply agreements with its customers. Transit authorities typically undertake significant procurement of new transit buses and coaches once every few years. Customers may, without notice or penalty, suspend or terminate their relationship with the Company at any time. Even if customers should decide to continue their relationship with the Company, there can be no guarantee that they will purchase the same volume of products as in the past or that they will pay the same price for those products as they have in the past. Moreover, many public customer contracts include options to purchase transit buses and motor coaches in the future and a large portion of the Company's order book is represented by options as opposed to firm orders. Although the Company actively seeks to grow its North America option backlog as options represent a significant source of potential orders for the Company, there can be no assurance that customers will continue to exercise such options at the same rate or at all in the future. In addition, customer contracts in the heavy-duty transit bus and public sector coach industries generally give transit authorities the right to suspend the contract or terminate the contract for convenience (or without any reason). As such, customers may, without notice and for no reason, suspend or terminate their relationship with the Company during the term of the contract. Any loss of customers, or decrease in the volume purchased or price paid by them for products, could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Local content bidding preferences in the United States may create a competitive disadvantage

Certain locally-funded transit agencies in the United States have implemented procurement rules which increase the valuation scores of bids submitted by bidders based on the amount of local state content by cost that the vehicle contains. Any changes in legislation or procurement rules that mandate giving preference to bidders based on the amount of local content their vehicles contain may put the Company at a competitive disadvantage if it is unable to include a sufficient number of components that are sourced locally. The proliferation of these types of procurement rules may also increase the costs of the Company conducting business. To the extent that this prevents the Company from winning a material number of solicitations, or materially increases the cost of doing business, these procurement rules may have a material adverse effect on the Company's business, financial condition, liquidity and operating results. See "Description of the Business – Legal and Regulatory Matters – Local Content Bidding Preference in the United States".

Uncertainty resulting from the exit of the UK from the European Union

The UK withdrew from the European Union on January 31, 2020. As a result, there is uncertainty how the UK will address trade, freedom of movement of European Union citizens and any other key arrangements with the European Union. Introduction of measures which impede free trade or materially increase duties or tariffs on raw materials, component parts or finished goods or which could otherwise have a material adverse effect on economic growth or business activity in the UK, the European Union or surrounding countries could cause cost increases, business interruptions, lead to economic downturns and could have a material adverse effect on the Company's business financial condition, liquidity and operating results.

Requirements under Canadian content policies may change and/or become more onerous

Manufacturers selling new buses to municipalities in Ontario, Canada that use provincial funding to purchase the buses, to the TTC or to certain transit agencies in Quebec, Canada, must comply with certain policies that require the buses to contain a minimum percentage of Canadian content by cost and/or to be manufactured using a minimum percentage of Canadian labour costs. There can be no assurance that these "Canadian content" requirements will not change and/or become more onerous or that other provinces or municipalities will adopt or enact similar or more onerous policies or legislation that have similar effect. Many major and/or high-cost components such as engines, axles, transmissions, heating and air conditioning units and seats are not manufactured in Canada and are not considered "Canadian content" under these policies. In the event that the "Canadian content" requirement increases or additional components or subcomponents cannot be sourced in Canada or the Canadian labour content requirement increases to such a level where the Company is not able to manufacture the bus primarily or solely in Canada, the Company may not be able to comply with these policy requirements and will not be able to sell buses to customers to which these policies apply. This may have a material adverse effect on the Company's business, financial condition, liquidity and operating results. See "Description of the Business – Legal and Regulatory Matters – Policies Regarding Canadian Content".

Risks Related to Operations

Operational Risk

The Company is exposed to many types of operational risks that affect all companies. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and/or systems or from external events. Operational risk is present in all of the Company's business activities, and incorporates exposure relating to 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. Such risks also include the risk of misconduct, theft or fraud by employees or others, unauthorized transactions by employees, operational or human error or not having sufficient levels or quality of staffing resources to successfully achieve the Company's strategic or operational objectives. The occurrence of an event caused by an operational risk that is material could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

International operations subject the Company to additional risks and costs and may cause profitability to decline.

As of December 29, 2019, the Company's revenues from operations outside of North America represented 13% of total revenue. As a result, the business is exposed to risks inherent in foreign operations. These risks, which can vary substantially by market, include the following:

- the effects of legal and regulatory changes (including tax reforms) and the burdens and costs of compliance with a variety of foreign laws;
- governmental laws, regulations and policies adopted to manage national economic conditions, such as increases in taxes, austerity measures that impact government or consumer spending, monetary policies that may impact inflation rates and currency fluctuations;
- trade regulations and procedures and actions affecting production, pricing and marketing of products, including policies adopted by countries that may champion or otherwise favour domestic companies and technologies over foreign competitors;
- import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase the cost of doing business in certain jurisdictions, prevent the shipping of products to particular countries or markets, affect the ability to obtain favorable terms for components, increase operating costs or lead to penalties or restrictions;
- the risks of operating in developing or emerging markets in which there are significant uncertainties regarding the interpretation, application and enforceability of laws and regulations and the enforceability of contract rights and intellectual property rights;
- risks arising from the significant and rapid fluctuations in currency exchange markets and the decisions and positions that the Company takes to hedge such volatility; and
- changing labour costs and conditions and difficulties in staffing international operations and managing a geographically dispersed workforce as well as labour issues in developing or emerging markets (ex. relating to forced labour, labour unrest and child labour).

Dependence on limited sources or unique sources of supply

The Company only enters into long-term agreements with certain of its suppliers, and typically purchases supplies on an order-by-order basis depending on the material requirements to build customers' buses and coaches. Certain raw materials and components used in the bus and coach manufacturing industries are obtained from a limited group of suppliers. In some cases, there is only a single source of supply of components to the industry, such as engines. In other cases, for example, the supply of transmissions, batteries for battery-electric buses, axles, heating and air conditioning units, doors, brakes or structural steel tubing, the Company's raw materials and components are not readily available from alternative sources of supply, may be available in limited supply, a particular component may be specified by a customer, the Company's products have been engineered or designed with a component unique to one supplier or a supplier may have limited or no supply of such raw materials or components or sells such raw materials or components to the Company on less than favourable commercial terms. The Company's reliance on a sole supplier, limited groups of suppliers or raw materials and components that may be available in limited supply and purchasing components from suppliers that have been specifically named by customers involves several risks, including increased risk of inability to obtain adequate supplies (due to accidents, strikes, shortage of raw materials or other events affecting a supplier, including a supplier having financial or operational issues or discontinuing to supply a product or a component), costs arising from poor quality of the materials or components supplied, increased risk of being forced to suspend production of certain of its products, and reduced control over pricing and timely delivery. Although the availability, timeliness, quality and pricing of deliveries from the Company's suppliers have historically been acceptable and although management believes that additional sources of supply for most components and materials should be available on an acceptable basis, there are no assurances that this dependence on a sole supplier or a limited group of suppliers or on certain raw materials and components that may be available in limited supply will not have a materially adverse effect on the Company's business, financial condition, liquidity and operating results.

Dependence on supply of engines that comply with emission regulations

The United States EPA and other countries' emissions regulations mandate stringent emission standards in respect of engines. To the knowledge of management, only one engine manufacturer sells engines that comply with these emissions requirements for use in buses and motor coaches in North America. There can be no assurance that engine suppliers will continue to be able to meet current or future emissions requirements. If the Company was unable to procure such engines, that will have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

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

ARBOC's products depend on the supply of manufactured vehicle chassis and other critical components such as engines, transmissions and axles from OEMs, including Cummins, Allison Transmission, Chrysler, Ford, Freightliner and General Motors, among others. ARBOC converts the vehicle chassis purchased from OEMs into cutaway buses that it then sells to its dealers and end customers. ARBOC is therefore reliant on a consistent supply of chassis from OEMs in order to maintain its sales. In the event these OEMs experience production delays or otherwise determine to lower or restrict the supply of chassis to ARBOC, ARBOC may receive a lower allocation of chassis than anticipated. ARBOC could incur significant costs or disruptions to its business, which may have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The Company's profitability can be adversely affected by increases in raw material and component costs

Raw materials and components represent a significant majority of the Company's production cost structure. The Company's operating results may be affected by the cost of carbon and stainless steel, aluminum, copper, resins and oil-based products that are the primary raw material and component inputs for its products. Although certain raw material and component prices may be fixed on a quarterly basis, or for longer periods if possible, if raw material or component prices increase significantly, there may be a resulting increase in the Company's supply costs and it may not be able to pass on these higher costs to its customers.

Increases in the prices paid for raw materials and components that are not recoverable by the Company, particularly in situations where prices under multi-year bus purchase contracts have been quoted to customers as firm and fixed, could materially adversely affect the Company's profit margins and impair the Company's ability to compete. These matters could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches

The Company is subject to product warranty claims in the ordinary course of its business. The Company provides what management believes are reasonable warranties in respect of its products and attempts to adequately price ongoing warranty costs into its purchase contracts. If the Company produces products with defects or deficiencies, develops new products with deficiencies or receives defective materials or components, it may incur material unforeseen costs in excess of what it has provided for in its contracts or reserved in its financial statements. In addition, the Company may not be able to enforce warranties and extended warranties received or purchased from its suppliers if such suppliers refuse to honour such warranties or go out of business. Also, a customer may choose to pursue remedies directly under its contract with the Company over enforcing such supplier warranties. In such a case, the Company may not be able to recover its losses from the supplier.

The Company is also potentially subject to recalls of its products from customers to cure manufacturing defects or in the event of a failure to comply with customers' order specifications or applicable regulatory standards. The Company is also potentially subject to recalls made by the suppliers of components or parts which the Company purchased and incorporated into transit buses and coaches. The Company may also have to remedy or retrofit transit buses and coaches in the event that an order is not built to a customer's specifications or where a design error has been made. Significant warranty claims, retrofit and remediation costs or product recalls could have a material adverse effect on the Company's business, financial condition, liquidity and operating results. Moreover, the adverse publicity that may result from a product warranty claim, product remediation or retrofit or product recall or perceived or actual defect with the Company's products could have a material adverse effect on the Company's ability to successfully market and sell its products. See "Description of the Business — Product Warranty and Other Contractual Provisions".

Production delays may result in liquidated damages under the Company's contracts with its customers

Transit bus and motor coach purchase contracts in the public sector transit bus and public sector coach industries typically include liquidated damages provisions that result in monetary penalties on a per vehicle per day basis when vehicles are not delivered to the customer by the deadline specified in the contract. Although the Company actively manages such deadlines, the Company may incur monetary penalties as a result of production delays or interruptions or otherwise, and such monetary penalties may have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Catastrophic events may lead to production curtailments or shutdowns

The Company's facilities are subject to the risk of catastrophic loss due to unanticipated events such as floods, fires, pandemics, explosions or violent weather conditions. Unexpected interruptions in the Company's production capabilities would adversely affect its productivity and results of operations. Some customer contracts do not have force majeure provisions and if there are unexpected interruptions or long-term disruptions to the production and delivery of transit buses or coaches due to catastrophic losses or unanticipated events, liquidated damages payable to customers may be significant. Moreover, any interruption in production capability may require the Company to make significant capital expenditures to remedy the problem, which would reduce the amount of cash available for its operations. The Company's insurance may not cover its losses. In addition, longer-term business disruption could harm the Company's reputation and result in a loss of customers. The occurrence of any of these events could materially adversely affect the Company's business, financial condition, liquidity and operating results.

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 is subject to the risk of work stoppages and other potential labour relations issues because a significant portion of its production workforce is unionized. Approximately 47% of the Company's total employees in North America and the UK are represented by unions under collective bargaining agreements. The Company may be unable to successfully negotiate new collective bargaining agreements for these employees. Any labour disruption could, depending on the operations affected and the length of the disruption, have a material adverse effect on the Company's business, financial condition, liquidity and operating results. Labour relations problems and work stoppages could also occur at other companies upon which the Company is dependent for raw materials, components or services. The Company is also subject to the risk that sufficient skilled and unskilled labour may not exist in and around its locations. Such occurrences could result in a significant loss of production and revenue and have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

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's business is generally subject to a number of risks and hazards, including pollution and other environmental risks and changes in the regulatory environment. Although the Company maintains general liability insurance and property and business interruption insurance, because of the nature of its industry hazards, it is possible that liabilities for occurrences such as pollution and other environmental risks, property and equipment damage or injury or loss of life arising from a major or unforeseen occurrence may not be covered by the Company's insurance policies or could exceed insurance coverages or policy limits. Any significant losses which are not adequately covered by insurance could materially adversely affect the Company's business, financial condition, liquidity and operating results.

The Company may be adversely affected by rising insurance costs

The Company's cost of maintaining liability, personal injury, property damage, workers' compensation and other types of insurance is significant. The Company could experience materially higher insurance premiums as a result of adverse claims experience or because of general increases in premiums by insurance carriers for reasons unrelated to its own claims experience. Generally, the Company's insurance policies must be renewed annually. The Company's ability to continue to obtain insurance at affordable premiums and reasonable deductibles or self-insured retentions also depends upon its ability to continue to operate with an acceptable safety record and claims history. A significant increase in the number or value of claims against the Company, the assertion of one or more claims in excess of its policy limits or the inability to obtain adequate insurance coverage for reasonable premiums, with reasonable deductibles or self-insured retentions or at acceptable levels, or at all, could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

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

Many municipalities and local transit authorities require suppliers to obtain performance bonds from surety companies or letters of credit to ensure that suppliers will perform under purchase agreements. The surety bonding market does not provide for committed bonding facilities. Surety companies provide limits on the maximum facility they will provide. Surety companies issue bonds on an as-needed basis and take into account current financial performance and the state of the surety market in making their credit decisions. In order to ensure continued performance guarantee availability, the Company has entered into a letter of credit sub-facility as part of its Credit Facility in order to have letters of credit issued to either backstop surety bonds or to directly secure obligations with municipalities and local transit authorities.

There can be no assurance that the Company's customers will not require additional performance security in the future or that either letters of credit or performance bonds will continue to be available to the Company as security for performance of its contracts or, if available, on favourable terms (including cost) to the Company. If the amount of performance security the Company is required to provide significantly increases or if adequate performance security is not available or if the terms or costs of such security are too onerous, the Company may lose existing contracts and may not be able to bid on many new contracts, which could result in a material adverse effect on the Company's business, financial condition, liquidity and operating results. See "Description of the Business — Bonding Requirements".

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

In the ordinary course of business, the Company is subject to various claims and litigation. Any such claims, whether with or without merit, could be time consuming and expensive to defend and could divert management's attention and resources. In addition, the Company faces an inherent risk of exposure to product liability claims if the use of its products result, or are alleged to result, in personal injury and/or property damage. If the Company manufactures a defective product or if component failures or component fires result in damages that are not covered by warranty provisions, it may experience material product liability losses in the future. In addition, the Company may incur significant costs to defend product liability claims. The Company could also incur damages and significant costs in correcting any defects, lose sales and suffer damage to its reputation. The Company's product liability insurance coverage may not be adequate for any liabilities it could incur and may not continue to be available on terms acceptable to it. The Company may elect not to obtain insurance if it believes that the cost of available insurance is excessive relative to the risks presented. If any significant accident, judgment, claim or other event is not fully insured or indemnified against, it could have a material adverse effect on the Company's business, financial condition, liquidity and operating results. Moreover, the adverse publicity that may result from a product liability claim or perceived or actual defect with the Company's products could have a material adverse effect on the Company's ability to successfully market and sell its products.

The Company may have difficulty selling pre-owned coaches and realizing expected resale values

Pre-owned motor coaches are procured as trade-ins as part of the sale of new coaches and then resold by MCI. The resale values of any coaches returned to the Company may be lower than the Company's estimates, which are based on a limited secondary market for such coaches. If the Company incorrectly estimates the resale values of those pre-owned motor coaches, is not able to resell them on a timely basis or at all, or resells them at a price that is lower than projected, the Company's business, financial condition, liquidity and operating results could be adversely affected. See "Description of the Business — Transit Bus and Motor Coach Manufacturing Operations — Private Pre-Owned Motor Coach Sales".

The Company may incur costs in connection with regulations relating to axle weight restrictions and vehicle lengths

The Company is required, in its customer contracts, to comply with applicable regulatory requirements. Certain models and types of the Company's transit buses and motor coaches do not currently comply with regulations governing maximum axle weight or maximum length in certain jurisdictions. The Company may incur material costs as a result of product warranty or contractual claims as a result of existing transit buses or coaches or new transit buses or coaches that are manufactured and that do not comply with local axle weight or length standards. The Company may incur material costs in the future if it is required to redesign new transit buses or coaches to comply with axle weight or length standards.

There can also be no assurance that government weight regulations or restrictions will not change and/or become more onerous such that the Company's vehicles would not comply with such more onerous regulations. If the Company is unable to design vehicles that comply with such new weight requirements it will not be able to sell transit buses and/or coaches to customers whose vehicles are governed by such laws, which depending on the volume of transit buses and/or coaches typically sold by the Company in that area, may have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The Company may be subject to claims and liabilities under environmental, health and safety laws

The Company operates in a highly regulated environment. Its facilities and operations are subject to extensive and constantly evolving federal, provincial, state and local environmental and health and safety laws, including laws governing emissions or discharges into soil, water and air, including noise and odours, which could result in remediation obligations, the generation, use, handling, storage, transportation and disposal of regulated substances, and health and safety matters.

The Company is required to have and make certain governmental permits, approvals and registrations related to environmental and health and safety matters. Permits or approvals may be subject to denial, revocation or modification depending on the particular circumstances. Failure to obtain or comply with the conditions of such permits or approvals may adversely affect operations and may also subject the Company to penalties. In addition, the Company may be required to obtain additional permits or approvals, which may result in material costs, including capital expenditures. There can be no assurance that the Company will be able to meet all applicable regulatory requirements without incurring significant additional costs.

The Company may incur substantial costs to comply with environmental and health and safety law requirements. The Company may also incur substantial costs for liabilities arising from past releases of, or exposure to regulated substances. In addition, the Company may discover currently unknown environmental problems or conditions. There can be no assurance that the Company's continued compliance with environmental and health and safety laws, the discovery of currently unknown environmental problems or conditions, changes in environmental and health and safety laws or increased enforcement of same, or other unanticipated events, will not give rise to requirements or claims that may involve material expenditures by or liabilities for the Company.

Complying with environmental and health and safety laws has added and will continue to add to the Company's operating costs. While the Company believes that it is in compliance in all material respects with such laws, there can be no assurance that it will not be materially impacted by costs, liabilities or claims with respect to its operations under existing laws or those that may be adopted in the future, or increased enforcement of same. It may become increasingly difficult for the Company and other manufacturers of buses and motor coaches to recover such costs and, accordingly, lower margins may result.

Dependence on management information systems and cyber security risks

The Company depends on its management information systems in each stage of the manufacture and sale of its products, including entering the customer's order, setting the production schedule, planning material and supply requirements, controlling manufacturing activities and providing aftermarket parts and support. In addition, its management information systems form the basis of its financial reporting. If irreparable damage were to be caused to the Company's information systems and databases (including to its archives and back-up systems), information contained in its management information systems were lost or could not be accessed in a timely manner or such management information systems were not implemented properly or effectively or were not upgraded as required from time to time, there could be a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Although the Company has instituted certain protective measures, unauthorized third parties may be able to penetrate the Company's network security and compromise, misappropriate, destroy or exfiltrate its confidential information, create system disruptions or cause machinery or plant shutdowns. This may include deployment of viruses, trojans, worms, ransomware and other malware or successful social engineering attempts against the Company's employees that would exploit any security vulnerabilities in the Company's management information systems. The costs to eliminate or alleviate cyber or other security problems, including bugs, viruses, trojans, worms, ransomware and other malware and other security vulnerabilities, could be significant, and management's efforts to address these problems may not be successful and could result in interruptions, loss of proprietary data, and negative impact on the Company's manufacturing, distribution or other critical functions.

Various proprietary, sensitive and confidential data relating to the Company's business and that of its customers and suppliers is stored on the Company's networks. Breaches of the Company's security measures or the accidental loss, destruction, inadvertent disclosure or unapproved dissemination of proprietary, sensitive or confidential data could expose the Company to risk of loss or misuse of this information, result in litigation and potential liability, damage the Company's brand and reputation or otherwise harm its business.

The occurrence of any such events could result in material costs for remedial measures and could materially and adversely affect the Company's relationships with customers and suppliers, its ability to operate and result in significant liabilities.

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's continued success depends, in part, on its ability to identify, attract, motivate, train and retain qualified personnel in key functions and geographic areas, including the members of our executive and senior management teams. In particular, the Company is dependent on its ability to identify, attract, motivate, train and retain qualified engineers and skilled labour (for example, welders, painters and electricians) with the requisite education, background and industry experience to assist in the development, enhancement, introduction and manufacture of the Company's products and technology solutions.

Failure to identify, attract, motivate, train and retain qualified personnel, whether as a result of an insufficient number of qualified local residents or the allocation of inadequate resources to training, integration and retention, could impair the ability of the Company to execute its business strategy and could have a material adverse effect on the Company's business, financial condition, liquidity and operating results. The loss of the services of one or more key employees could have a material adverse effect on the Company's business, financial condition, liquidity and operating results, including the ability to manage the business effectively and to successfully execute its strategies. In the event certain of these employees decide to resign unexpectedly, the Company could incur disruptions to the completion of certain initiatives and the Company could incur significant costs in hiring, training, developing and retaining their replacements or successors.

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 is subject to various anti-corruption laws that prohibit improper payments or offers of payments to governments and their officials for the purpose of obtaining or retaining business. The Company's activities create the risk of unauthorized payments or offers of payments by its employees or agents that could be in violation of various anti-corruption laws, including the Canadian Corruption of Foreign Public Officials Act, the United States Foreign Corrupt Practices Act and The UK Bribery Act 2010. The Company has implemented policies to discourage these practices by its employees and agents.

However, the Company's existing policies and procedures and any future improvements may prove to be less than effective and the Company's employees or its agents may engage in conduct for which the Company might be held responsible. If employees and agents violate the Company's policies or the Company fails to maintain adequate record-keeping and internal accounting practices to accurately record its transactions, the Company may be subject to regulatory sanctions. Violations of the applicable anti-corruption laws may result in severe criminal or civil sanctions and penalties and other liabilities which could have a material adverse effect on the Company's reputation, business, financial condition, liquidity and operating results.

The Company's risk management policies and procedures may not be fully effective in achieving their intended purposes

The Company's policies, procedures, controls and oversight to monitor and manage enterprise risks may not be fully effective in achieving their intended purpose and may leave the Company exposed to identified or unidentified risks. Past or future misconduct by the Company's employees, suppliers or agents could result in the Company's violation of laws, regulatory sanctions and/or serious reputational harm or financial harm. While management monitors the Company's policies, procedures and controls, it cannot provide assurance that the Company's policies, procedures and controls will be sufficient to prevent all forms of misconduct. Management and the Board review the Company's compensation policies and practices as part of its risk management program, but it is possible that the compensation policies could incentivize management and other employees to subject the Company to inappropriate risk or to engage in misconduct. If such inappropriate risks or misconduct occurs, it is possible that it could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

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. 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 Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and concluded that the Company's ICFR is 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.

Disclosure controls and procedures

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 the Company's disclosure controls and procedures as at December 29, 2019 were effective.

Risks Related to Strategy

Ability to successfully execute strategic plans and maintain profitability

The Company's future operating results will depend on a number of factors, including its ability to successfully execute its strategic plans. The Company's past results may not be indicative of its future prospects and there is no assurance that the Company will sustain or grow profitability in future periods.

In addition, the successful execution of the Company's strategic plans may require additional employees, additional operating and financial systems and additional financial resources. There is no assurance that the Company will be able to hire and train qualified employees (or do so on a timely basis), that the Company will be able to expand operations and systems to the extent, and in the time required, or that the Company will be able to fund such strategic plans, either internally through operations, through the use of available credit or through the capital markets. There is no assurance that the Company will be able to effectively execute and manage its strategic plans and any future growth, and any failure to do so could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Development of competitive or disruptive products, services or technology

The Company may not be able to prevent a competitor from copying its products or technologies. If a competitor copies the Company's products or develops an equivalent or superior product or technology, there could be a material adverse effect on the Company's business, financial condition, liquidity and operating results. If a competitor develops a superior product or technology, there can be no assurance that the Company would be able to manufacture a similar or competitive new product or technology and/or effectively compete with manufacturers developing such products or technologies. The development and competitive landscape of the transportation industry is increasingly subject to changes resulting from disruptive technologies such as autonomous or driverless vehicles, advances in propulsion systems and battery technology and the development of new materials. There can be no assurance that the Company will be able to successfully integrate such technologies into its products and services or compete with other companies with superior innovation and technology capabilities. The introduction of disruptive and competing alternatives to public transit services, such as Uber, Via or Lyft ride-sharing services, may adversely affect the demand for public transit services and consequently the demand for certain of the Company's products. Failure to effectively innovate or compete with companies who have successfully developed or harnessed such technologies or to address disruptive or competing products or services may have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Development and testing of new products or model variants

The Company may not be able to successfully design, develop or test new products or improvements to existing products (for example Xcelsior®, the J-model or D-model coaches, the Spirit of Equess®, the

Enviro, or Xtended Life® products) in order to effectively compete with competitors. There may be no demand by customers to purchase newly developed or improved products, there may be risks and unbudgeted costs associated with launching a new product into the market place and the Company may not be able to recoup research and development costs, all of which may be material. In addition, there may be material and unforeseen warranty costs related to new products that management did not foresee or adequately price into the bus purchase contracts for such products. Further, there may be no testing facilities available to test the Company's new products to certain governmental or customer requirements, standards or specifications.

Acquisition risk

The Company intends to continue to identify, develop and acquire suitable acquisition targets in pursuit of its strategic plans and to diversify and grow. While management intends to be careful in selecting businesses to acquire, acquisitions inherently involve a number of risks, including, but not limited to, the possibility that the Company pays more than the acquired assets are worth; the additional expense associated with completing an acquisition; the difficulty of assimilating the operations and personnel of the acquired business; the challenge of implementing uniform standards, controls procedures and policies throughout the acquired business; the inability to integrate, train, retain and motivate key personnel of the acquired business; the potential disruption to the Company's ongoing business and the distraction of management from the Company's day-to-day operations; the inability to incorporate acquired businesses successfully into the Company's existing operations; and the potential impairment of relationships with the Company's employees, suppliers and customers. If any one or more of such risks materialize, they could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

In addition, the Company may not be able to maintain the levels of operating efficiency that the acquired company had achieved or might have achieved had it not been acquired by the Company. Successful integration of the acquired company's operations would depend upon the Company's ability to manage those operations and to eliminate redundant and excess costs. As a result of difficulties associated with combining operations, the Company may not be able to achieve the cost savings and other benefits that it would hope to achieve with the acquisition. Any difficulties in this process could disrupt the Company's ongoing business, distract its management, result in the loss of key personnel or customers, increase its expenses and otherwise materially adversely affect the Company's business, financial condition, liquidity and operating results.

Further, inherent in any acquisition there is risk of liabilities and contingencies that the Company may not discover in its due diligence prior to the consummation of a particular acquisition, and the Company may not be indemnified for some or all of these liabilities and contingencies. The discovery of any material liabilities or contingencies in any acquisition could also have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

All of the risks described above are applicable to the Company's acquisitions of MCI in 2015, the acquisition of Carlson, the assets of Sintex-Wausaukee and ARBOC in 2017 and the acquisition of ADL in 2019.

Reliance on third-party manufacturers

The Company's reliance on third-party manufacturers exposes it to a number of risks. These risks include a manufacturer not performing on its contractual obligations, encountering difficulties in manufacturing its products in required volumes and quality levels to meet the Company's needs or failing to establish and follow good manufacturing practices and to document its adherence to such practices. There is also a risk that long lead times for critical components may affect production lead times. If any of the Company's third-party manufacturers needs to be replaced, the Company will have to identify and select acceptable alternative manufacturers from among a limited number of potential manufacturers, which could be time consuming and costly. In addition, an alternate source may not be available to the Company or may not be in the position to satisfy the Company's production requirements at commercially reasonable prices and quality. Therefore, any significant interruption in contract manufacturing may result in the Company being unable to deliver the affected products to meet its customer orders and deprive the Company of product revenues, which could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Third-Party Distribution/Dealer Agreements

The Company has entered into agreements with third-party distributors and dealers to market and sell its buses and to provide after sales service in respect of those buses in certain geographic areas and/or with respect to certain types of customers (e.g., private operators). The Company may, in the future, enter into similar agreements. The Company is subject to the risks normally associated with such distribution and dealer arrangements. The Company is dependent on its distributors and dealers to supplement its direct marketing and sales efforts. The Company does not control the activities of its distributors and dealers with respect to the marketing, sale and service of the Company's products, and they may make decisions that may be contrary to the Company's interests. Some of these agreements may be non-exclusive and permit the distributors and dealers to offer competitors' products. If any significant distributor or dealer terminated their relationship with the Company for any reason, decided to focus on marketing competitors' products over the Company's products or decided not to market the Company's products at all, the Company's ability to bring its products to market may be impacted. If the Company is unable to manage the risks related to the use of third-party distributors or dealers, maintain the relationships with them or offer the appropriate incentives to focus them on the sale of the Company's products, the Company's sales and revenues may be materially adversely affected.

Risks Related to Financing

Availability to the Company of future financing

Management expects that the Company's principal sources of funds will be cash generated from its operating activities and borrowing capacity remaining under the Credit Facility and/or from future securities offerings. Management believes that these funds will provide the Company with sufficient liquidity and capital resources to meet its current and future financial obligations, as well as to provide funds for its financing requirements, capital expenditures and other needs for the foreseeable future. Despite management's expectations, however, the Company may require additional equity or debt financing to meet its financing requirements. This financing may not be available when required or may not be available on commercially favorable terms or on terms that are otherwise satisfactory to the Company. The Credit Facility matures in October 2023. While the Company expects to be able to refinance the Credit Facility prior to its maturity, if the Company is unable to successfully refinance its Credit Facility, the Company may not have sufficient liquidity and capital resources to meet its financial obligations.

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 Company's ability to pay principal and interest on its Credit Facility and other debt obligations will depend on its future financial performance. The Company's ability to generate cash will depend on many factors, some of which may be beyond its control, including general economic, financial and regulatory conditions. Other factors may also cause a lower amount of cash to be generated such as an increase in work in process as a result of production or supply issues and delays by customers in accepting buses or coaches delivered to them for inspection and acceptance. If the Company cannot generate enough cash flow in the future to service its debt, it may need to refinance all or a portion of its debt, obtain additional financing (on terms that may be less favourable than existing financing terms) or sell assets. The Company might not be able to implement any of these strategies on satisfactory terms or on a timely basis, if at all. If the Company is unable to meet its debt service obligations or comply with its covenants, a default under its debt agreements would result.

The Company's substantial consolidated indebtedness could negatively impact the business.

The Company has a substantial amount of indebtedness under the Credit Facility and other agreements with third parties. As at December 29, 2019, the Company had total third party indebtedness of approximately $1.2 billion. In addition, the Credit Facility permits future further indebtedness provided that certain covenants are satisfied.

The degree to which the Company is leveraged on a consolidated basis could have important consequences to the holders of Shares, including:

- the Company's ability in the future to obtain trade credit from vendors, performance bonds from surety companies or additional financing for working capital, capital expenditures, acquisitions or other purposes may be limited;
- a significant portion of the Company's cash flow (on a consolidated basis) is likely to be dedicated to the payment of the principal of and interest on the Company's indebtedness, including the Credit Facility, thereby reducing funds available for future operations, capital expenditures and/or dividends on the Shares;
- the Company may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures;
- the Company may be limited in its ability to plan for or react to changes in its business or the industry in which it operates; and
- the Company may be at a competitive disadvantage to its competitors that have less indebtedness.

The Company's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness under the Credit Facility and other agreements at maturity.

The restrictive covenants in the Credit Facility could impact the Company's business and affect its ability to pursue its business strategies

The Credit Facility features restrictive covenants that limit the Company's ability, among other things, to:

- incur additional indebtedness;
- pay dividends and make distributions in respect of equity interests or to make certain other restricted payments or investments;
- consolidate, merge or dissolve;
- sell or otherwise dispose of the Company's assets;
- enter into transactions with the Company's affiliates;
- create liens;
- enter into new lines of businesses;
- make certain investments and acquisitions; and
- participate in certain syndicates or partnerships.

In addition, the Credit Facility also requires the Company to comply with positive covenants, including maintaining compliance with specified financial ratios. The Company's ability to comply with these covenants and ratios may be affected by events beyond its control.

Risks Related to Capital Structure and Tax

Payment of dividends is not guaranteed

NFI and its subsidiaries may alter their dividend policies and dividends from these companies, if any, will depend on, among other things, the results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the board of directors of each of NFI and its subsidiaries may deem relevant. The directors of these entities, in their discretion, may decrease the level of dividends provided for in their existing dividend policies or discontinue dividends entirely. The Credit Facility contains significant restrictions on NFI's ability to make dividend payments. The payment of dividends is also subject to certain limitations under applicable laws.

A significant amount of the Company's cash is distributed, which may restrict potential growth

Historically, a significant amount of the Company's cash generated from operations has been distributed to investors in the form of dividends on the Shares and a large portion of the Company's cash flow is expected to continue to be distributed to investors in the form of dividends on the Shares. Accordingly, to the extent such distributions are made, the Company's ability to make additional capital and operating expenditures and finance acquisitions would be limited which could restrict the Company's growth.

NFI is dependent on its subsidiaries for all cash available for distributions

NFI is dependent on the operations and assets of its subsidiaries. Cash distributions to the holders of Shares will be dependent on the ability of NFI's subsidiaries to make dividend payments on their shares. The actual amount of cash available for distribution to holders of the Shares will depend upon numerous factors relating to the business of the Company, including profitability, changes in revenue, fluctuations in working capital, capital expenditure levels, applicable laws, compliance with contracts and contractual restrictions contained in the instruments governing any indebtedness. Any reduction in the amount of cash available for distribution, or actually distributed, by NFI's subsidiaries will reduce the amount of cash available to NFI to pay dividends on the Shares. Cash dividends by NFI on the Shares are not guaranteed and will fluctuate with the performance of the business of NFI's subsidiaries.

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

Future sales, or the possibility of future sales, of a substantial number of Shares in the public market could adversely affect the prevailing market price of the Shares and could impair NFI's ability to raise capital through future sales of those securities. Additionally, the issuance of additional Shares may dilute an investor's investment in NFI and reduce distributable cash per Share.

NFI may issue Shares or other securities from time to time in order to raise capital or as consideration for future acquisitions and investments. If an acquisition or investment is significant, the number of Shares or the number or aggregate principal amount, as the case may be, of other securities that may be issued may in turn be significant. In addition, NFI may also grant registration rights covering those Shares or other securities in connection with any acquisitions or investments.

If the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected

The Company has a substantial amount of goodwill and other finite and indefinite-lived intangible assets on its balance sheet as a result of equity transactions and acquisitions that have occurred during previous financial periods. If management determines goodwill and other intangible assets are impaired, the Company will be required to write down all or a portion of these assets. Any significant write-downs would have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The method to compute the amount of impairment incorporates quantitative data and qualitative criteria, including new information and highly subjective judgments that could dramatically change the determination of the valuation of goodwill and an intangible asset in a very short period of time. These determinations are sensitive to minor changes in underlying assumptions as management's assumptions change with more information becoming available. Any resulting impairment loss could have a material adverse effect on the Company's business, financial condition, liquidity and operating results for a particular quarterly or annual period.

Income Tax Risk

The Company is subject to income tax laws in various jurisdictions. The Company's operations are complex and related income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change.

The Company utilizes tax planning strategies involving multiple jurisdictions to obtain tax efficiencies. The Company continually assesses the uncertainty associated with these strategies and holds an appropriate level of provisions for uncertain income tax positions. Accordingly, the provision for income taxes represents management's interpretation of the relevant income tax laws and its estimate of current and deferred income tax implications of the transactions and events during the period. Deferred income tax assets and liabilities are recorded based on expected future income tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Company has substantial deferred income tax assets. The recognition of deferred income tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset. cx

The audit and review activities of the Canada Revenue Agency, the U.S. Internal Revenue Service (the "IRS"), Her Majesty's Revenue and Customs in the UK and other jurisdictions' tax authorities affect the ultimate determination of the amounts of income taxes payable or receivable, deferred income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that income taxes will be payable as anticipated and/or the amount and timing of receipt or use of the income tax related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived income tax issues and have increased the resources they put to these efforts.

Investment Eligibility and Canadian Federal Income Tax Risks

There can be no assurance that the Shares will continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (collectively, "Registered Plans") under the Income Tax Act (Canada). The Income Tax Act (Canada) imposes penalties for the acquisition or holding of non-qualified investments in Registered Plans.

The rate of Canadian withholding on dividends paid or credited or deemed to be paid or credited to Transit Holdings from NFI ULC is 25%, which is not subject to reduction under the Canada-United States Income Tax Convention (1980). The 25% withholding tax rate applicable to dividends paid by NFI ULC to Transit Holdings could reduce the amount of cash otherwise available for the payment of dividends by NFI on its Shares. Management however does not currently plan to declare or pay dividends from NFI ULC to Transit Holdings.

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

U.S. Treasury Regulations under Section 385 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), impose limitations on intercompany debt incurred by the NF Group. These regulations treat related party debt as equity for U.S. federal income tax purposes in certain circumstances – including, for example, in certain circumstances in which a debtor corporation makes a distribution exceeding certain current and accumulated earnings and profits. The Code Section 385 regulations generally apply only to related party debt issued by U.S. corporations after April 4, 2016. However, the regulations may also recharacterize as equity certain related party debt refinanced or otherwise deemed reissued after April 4, 2016, subject to complex exceptions. These rules may also apply to Financing Transactions (as defined below) treated as issued after April 4, 2016. If any debt issued by the NF Group were so recharacterized, then the otherwise deductible interest paid on such debt could be recharacterized as a non-deductible distribution subject to U.S. federal withholding tax. Such withholding tax, as well as the loss of the deduction by the U.S. subsidiary, would increase the NF Group's U.S. federal income tax liability and adversely affect the Company's financial position, cash flow and liquidity.

Certain financing transactions could be characterized as "hybrid transactions" for U.S. tax purposes, which could increase the NF Group's tax liability

Section 267A of the U.S. Internal Revenue Code, enacted as part of the Tax Cuts and Jobs Act in 2017, disallows the deduction of certain interest payments made by U.S. persons pursuant to "hybrid transactions". The NF Group has certain related party financing transactions with U.S. subsidiaries as borrowers (the "Financing Transactions") that could be subject to this rule if they are treated as hybrid transactions. Under its broad grant of authority to combat perceived abuse, the U.S. Treasury Department issued proposed Treasury Regulations under Section 267A on December 20, 2018 addressing the scope and application of this provision. Based on the proposed Treasury Regulations, Management expects that, for the taxable year ending December 30, 2018, the Financing Transactions should not be treated as hybrid transactions under Section 267A and, in such case, interest payments made by the U.S. borrowers pursuant to such transactions would be deductible for U.S. federal income tax purposes, subject to limits of general application. Notwithstanding management's belief as to the characterization of the Financing Transactions, there is a risk that the IRS may disagree with this characterization and/or the U.S. Treasury may issue future Treasury Regulations, possibly with retroactive effect, under which the Financing Transactions are treated as hybrid transactions. In such case, interest payments made pursuant to the Financing Transactions in 2019 would not be deductible.

With respect to taxable years after 2019, the impact of the Section 267A proposed regulations on the Financing Transactions is unclear. Management continues to examine the impact of the proposed regulations and anticipates that the Treasury Department may issue final Treasury Regulations under Section 267A in 2020. The loss of the deduction by the U.S. subsidiaries in connection with the Financing Transactions could increase the NF Group's U.S. federal income tax liability and adversely affect the Company's financial position, cash flow and liquidity.

MARKET FOR SECURITIES

Common Shares

The Shares are listed and posted for trading on the TSX under the trading symbol "NFI". The total monthly volume of trading and the closing price ranges of the Shares on the TSX in each month of 2019 are set forth in the following table [(1)]:

	CLOSING HIGH (C$)	CLOSING LOW (C$)	TOTAL VOLUME
January 2019	36.23	28.94	11,052,296
February 2019	36.53	33.19	4,603,296
March 2019	35.41	30.74	8,519,005
April 2019	33.89	31.83	4,848,020
May 2019	34.62	31.65	5,391,853
June 2019	38.90	34.50	4,204,003
July 2019	37.82	29.10	6,522,422
August 2019	29.20	25.24	7,184,003
September 2019	31.45	31.45	6,689,016
October 2019	28.97	26.13	6,401,943
November 2019	29.74	26.10	7,766,644
December 2019	27.53	25.70	5,328,438

(1) Source: Historical data from the TSX.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Deloitte LLP at its office in Winnipeg, Manitoba, Canada.

The transfer agent and registrar for the Shares is Computershare Investor Services Inc. at its principal office in Toronto, Ontario, Canada.

MATERIAL CONTRACTS

In addition to contracts entered into in the ordinary course of business, the following material contracts have been entered into by NFI within the most recently completed financial year, or before the most recently completed financial year but are still in effect. The long-term incentive plans listed below are current versions that have awards outstanding (either under the current or a prior version).

- the Amended and Restated SRP dated May 11, 2017 and referred to under “General Development of the Business – Recent Developments – Fiscal 2017” and “Description of Capital Structure – Shareholder Rights Plan”;

- the Amended and Restated Deferred Share Unit Plan for Non-Employee Directors adopted November 7, 2011 and amended and restated effective June 30, 2014, December 8, 2015, December 18, 2015 and March 14, 2019;

- the Amended and Restated Restricted Share Unit Plan for Non-Employee Directors effective May 8, 2014 and amended and restated effective December 8, 2015, December 18, 2017 and March 14, 2019;

- the Amended and Restated Share Option Plan amended and effective March 21, 2013 and amended and restated effective December 31, 2018;

- the Amended Performance and Restricted Share Unit Plan effective December 16, 2013 and amended and restated effective December 18, 2018;

- the investment agreement dated January 23, 2013 between Marcopolo S.A. and NFI;

- the investor representation agreement dated March 21, 2012 between Coliseum Capital Management, LLC and NFI;

- the Credit Facility, as may be amended, referred to under "General Development of the Business – Recent Developments – Fiscal 2018" and "Description of Capital Structure – Credit Facility"; and

- the agreement for the sale and purchase of certain of the issued share capital of Alexander Dennis Limited dated May 28, 2019 among NFI International Limited and the sellers named thereto.

Each of the above material contracts is available for review on SEDAR at www.sedar.com.

LEGAL PROCEEDINGS

In the ordinary course of business, the Company may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. The Company is not involved in any legal proceedings that management expects will have a material effect on the Company. To management's knowledge, no legal proceedings of a material nature involving the Company are pending or threatened by any individuals, entities or governmental authorities.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the directors of NFI, as of the date of this Annual Information Form, no director nor officer and no person or company beneficially owning, directly or indirectly, or exercising control or direction over, Shares carrying more than 10% of the voting rights attached to the Shares, nor any associates or affiliates of the foregoing, had any material interest in any transactions involving NFI.

INTERESTS OF EXPERTS

Deloitte LLP, NFI's auditors, has been named as having prepared a certified statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 - *Continuous Disclosure Obligations* by NFI during, or relating to NFI's fiscal year ended December 29, 2019. To the knowledge of NFI, Deloitte LLP holds no beneficial interest, directly or indirectly, in any securities or other property of NFI or any of its affiliates.

ADDITIONAL INFORMATION

Additional information is provided in NFI's financial statements and management's discussion and analysis of NFI's financial condition and results of operations for its most recently completed fiscal year. Copies of such documents and any additional information related to NFI may be found on SEDAR at www.sedar.com. In the alternative, copies may be obtained from NFI, upon written request.

Additional information, including directors' and officers' remuneration and indebtedness, the principal holders of NFI's securities and securities authorized for issuance under equity compensation plans is contained in NFI's Management Information Circular filed with Canadian securities regulatory authorities in connection with the annual meeting of shareholders of NFI held in 2019.

APPENDIX “A”

NFI GROUP INC.
(the “Issuer”)

AUDIT COMMITTEE CHARTER

1. RESPONSIBILITY

The Audit Committee (the “Committee”) is responsible for assisting the Board of Directors of the Issuer (the “Board”) in fulfilling its oversight responsibilities in relation to:

(i) the integrity of the Issuer’s financial statements;

(ii) the Issuer’s compliance with legal and regulatory requirements related to financial reporting;

(iii) the qualifications, independence and performance of the Issuer’s auditor;

(iv) the design and implementation of internal controls and disclosure controls;

(v) the review and identification of the principal risks facing the Issuer and development of appropriate procedures to monitor and mitigate such risks;

(vi) the development, implementation and administration of the Issuer’s Whistleblower Policy; and

(vii) any additional matters delegated to the Committee by the Board.

2. MEMBERS

The members of the Committee will be selected by the Board on the recommendation of the Issuer’s Human Resources, Compensation and Corporate Governance Committee (the “HR Committee”). The Committee will initially be comprised of three directors of the Issuer and its size may be increased if so determined by the Board.

Each member of the Committee will be both “independent” and “financially literate” within the meaning of applicable securities laws, including without limitation, National Instrument 52-110 - *Audit Committees*.

3. DUTIES

The Committee is responsible for performing the duties set out below as well as any other duties at any time required by law to be performed by the Committee or otherwise delegated to the Committee by the Board.

(a) Appointment and Review of the Auditor

The auditor is ultimately accountable to the Committee and reports directly to the Committee. Accordingly, the Committee will evaluate and be responsible for the Issuer’s relationship with the auditor. Specifically, the Committee will:

(i) select, evaluate and recommend an auditor to the Board for appointment or reappointment, as the case may be, by the shareholders of the Issuer and make recommendations with respect to the auditor's compensation;

(ii) review and approve the auditor's engagement letter;

(iii) review, after seeking and taking into account the opinions of senior management, the experience, qualifications, performance and independence (including considering whether the auditor's provision of any permitted non-audit services is compatible with maintaining its independence) of the auditor, its engagement and lead partners, with a view to recommending its appointment or reappointment;

(iv) resolve any disagreements between senior management and the auditor regarding financial reporting;

(v) at least annually, obtain and review a report by the auditor describing:

– the auditor's internal quality-control procedures, including the safeguarding of confidential information;

– any material issues raised by (i) the most recent internal quality control review, or peer review, of the auditor, which relates to services provided to the Issuer or its subsidiaries by the auditor, or (ii) the review of the auditor by any independent oversight body, such as the Canadian Public Accountability Board, or governmental or professional authorities within the preceding year respecting one or more independent audits carried out by the auditor, and, in the case of each of (i) and (ii), the steps taken to deal with any issues raised in any such review;

(vi) meet with senior management not less than quarterly without the auditor present for the purpose of discussing, among other things, the performance of the auditor and any issues that may have arisen during the quarter; and

(vii) where appropriate, recommend to the Board that the auditor be terminated.

(b) Confirmation of the Auditor's Independence

At least annually, and in any event before the auditor issues its report on the annual financial statements, the Committee will:

(i) review a formal written statement from the auditor describing all of its relationships with the Issuer;

(ii) discuss with the auditor any relationships or services that may affect its objectivity and independence (including considering whether the auditor's provision of any permitted non-audit services is compatible with maintaining its independence);

(iii) obtain written confirmation from the auditor that it is objective within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs and is an independent public accountant within the meaning of the Independence Standards of the Canadian Institute of Chartered Accountants; and

(iv) confirm that the auditor has complied with applicable rules, if any, with respect to the rotation of certain members of the audit engagement team.

(c) Pre-Approval of Non-Audit Services

The Committee will pre-approve the appointment of the auditor for any non-audit service to be provided to the Issuer or to any subsidiary of the Issuer; provided that it will not approve any service that is prohibited under the rules of the Canadian Public Accountability Board or the Independence Standards of the Canadian Institute of Chartered Accountants. Before the appointment of the auditor for any non-audit service, the Committee will consider the compatibility of the service with the auditor's independence. The Committee may pre-approve the appointment of the auditor for any non-audit services by adopting specific policies and procedures, from time to time, for the engagement of the auditor for non-audit services. Such policies and procedures will be detailed as to the particular service, and the Committee must be informed of each service, and the procedures may not include delegation of the Committee's responsibilities to management. In addition, the Committee may delegate to one or more members the authority to pre-approve the appointment of the auditor for any non-audit service to the extent permitted by applicable law provided that any pre-approvals granted pursuant to such delegation shall be reported to the full Committee at its next scheduled meeting.

(d) Communications with the Auditor

The Committee has the authority to communicate directly with the auditor and will meet privately with the auditor periodically to discuss any items of concern to the Committee or the auditor, such as:

(i) the scope, planning and staffing of the audit;

(ii) the auditor's materiality threshold for the audit;

(iii) the assessment by the auditor of significant audit risk;

(iv) any material written communications between the auditor and senior management, such as any management letter or schedule of unadjusted differences;

(v) whether or not the auditor is satisfied with the quality and effectiveness of financial recording procedures and systems;

(vi) the extent to which the auditor is satisfied with the nature and scope of its examination;

(vii) whether or not the auditor has received the full co-operation of senior management and other employees of the Issuer;

(viii) the auditor's opinion of the competence and performance of the Chief Financial Officer and other key financial personnel;

(ix) the items required to be communicated to the Committee under the Canadian authoritative guidance;

(x) critical accounting policies and practices to be used by the Issuer and its subsidiaries;

(xi) key audit matters;

(xii) alternative treatments of financial information within international financial reporting standards ("IFRS") that have been discussed with senior management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor;

(xiii) any difficulties encountered in the course of the audit work, including any unresolved issues, any restrictions imposed on the scope of activities or access to requested information, any significant disagreements with senior management and their response; and

(xiv) any illegal act that may have occurred.

(e) Review of the Audit Plan

The Committee will discuss with the auditor the nature of an audit and the responsibility assumed by the auditor when conducting an audit under generally accepted auditing standards. The Committee will review a summary of the auditor's audit plan for each audit and approve the audit plan with such amendments as it may agree with the auditor.

(f) Review of Audit Fees

The Committee will review and make recommendations to the board regarding the auditor's fee and the terms of the auditor's engagement. In determining the auditor's fee, the Committee will consider, among other things, the number and nature of reports to be issued by the auditor, the quality of the internal controls of the Issuer, the size, complexity and financial condition of the Issuer and the extent of support to be provided to the auditor by the Issuer.

(g) Review of Financial Statements and MD&A

The Committee will review and discuss with senior management and the auditor the annual audited financial statements, together with the auditor's report thereon, the interim financial statements, and Management's Discussion and Analysis relating to the annual and interim financial statements before recommending them for approval by the Board. The Committee will also engage the auditor to review the interim financial statements prior to the Committee's review of such financial statements.

In conducting its review of the financial statements and related management's discussion and analysis, the Committee will:

(i) consider the quality of, and not just the acceptability of, the accounting principles, the reasonableness of senior management's judgments and estimates that have a significant effect upon the financial statements, and the clarity of the disclosures in the financial statements;

(ii) discuss any analyses prepared by senior management or the auditor that set out significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative IFRS treatment;

(iii) discuss the effect of off-balance sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Issuer's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;

(iv) consider any proposed changes in accounting practices or policies and their impact on financial statements of the Issuer;

(v) discuss with senior management, the auditor and, if necessary, legal counsel, a report from senior management describing any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of the Issuer, and the manner in which these matters have been disclosed in the financial statements;

(vi) discuss with senior management and the auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Issuer's financial statements or accounting policies;

(vii) discuss with the auditor any special audit steps taken in light of material weaknesses in internal control;

(viii) review the results of the audit, including any reservations or qualifications in the auditor's opinion;

(ix) discuss with senior management all significant variances between comparative reporting periods;

(x) discuss with the auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of their procedures and access to requested information, accounting adjustments proposed by the auditor which were "passed" (as immaterial or otherwise), and significant disagreements with senior management and the method of resolution;

(xi) discuss with the auditor any material issues on which the audit team consulted the auditor's national office; and

(xii) consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements.

(h) Review of Other Financial Information

The Committee will review:

(i) all earnings press releases and other press releases disclosing financial information, as well as financial information and written earnings guidance provided to analysts and rating agencies. The Committee will also review the use of "pro forma", "adjusted" or other non-IFRS information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;

(ii) all other financial statements of the Issuer that require approval by the Board before they are released to the public, including, without limitation, financial statements for use in prospectuses or other offering or public disclosure documents and financial statements required by regulatory authorities;

(iii) the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Issuer's financial statements; and

(iv) disclosures made to the Committee by the Chief Executive Officer and Chief Financial Officer during their certification process for applicable securities law filings about any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the ability to record, process, summarize and report financial information, and any fraud involving senior management or other employees who have a significant role in internal control over financial reporting.

(i) Oversight of Internal Controls and Disclosure Controls

The Committee will review periodically with senior management the adequacy of the internal controls and procedures that have been adopted by the Issuer and its subsidiaries to safeguard assets from loss and unauthorized use and to verify the accuracy of the financial records. The Committee will review any special audit steps adopted in light of material control deficiencies or identified weaknesses.

The Committee will review with senior management the controls and procedures that have been adopted by the Issuer to confirm that material information about the Issuer and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed.

(j) Internal Audit Function

The Committee will review the mandate, budget, planned activities, staffing and organizational structure of the internal audit function and the Audit and Risk Management Services ("ARMS") department, which may be outsourced to a firm other than the auditor, to confirm that the internal audit function is independent of management and has sufficient resources to carry out its mandate. The Committee will discuss this mandate with the auditor.

The Committee will review the appointment and replacement of the senior manager-employee of the ARMS department ("ARMS Manager") and will review the significant reports to senior management prepared by the ARMS Manager and senior management's responses thereto.

With respect to the internal audit function, the ARMS Manager and any external advisor to which internal audit work has been outsourced shall report to both the Committee and senior management. As frequently as it deems necessary to fulfill its responsibilities, but not less often than annually, the Committee will meet privately with the ARMS Manager and any external advisor to which internal audit work has been outsourced to discuss any areas of concern the Committee, the ARMS Manager or the external advisor may have.

(k) Legal Compliance

The Committee will review any legal matters that could have a significant effect on the Issuer's financial statements. It will also review with legal counsel material inquiries received from regulators and governmental agencies and advise the Board accordingly.

(l) Enterprise Risk Management

The Issuer has developed an enterprise risk management framework by which management is able to focus on the identification of risks, the assessment of those risks and the mitigation of risks associated with the achievement of the Issuer's strategic objectives. The Issuer's risk management program is managed through an executive level risk committee in conjunction with the ARMS department.

The Committee will oversee the Issuer's risk management function and the enterprise risk management framework and, on a quarterly basis, will review a report from senior management describing the major financial, legal, operational and reputational risk exposures of the Issuer and the steps senior management has taken to monitor and control such exposures, including the Issuer's policies with respect to risk assessment and management. The Committee will review environmental, insurance and other liability issues, risk management and information technology issues and review policies and procedures in respect thereof and report to the Board on such matters. The Committee will also review and approve management's information technology strategic plan, business continuity plans and major technology capital investments consistent with the Issuer's capital budget recommended by the Committee and approved by the Board.

The Committee will oversee the Issuer's Subsidiary and Business Unit Governance Policy.

(m) Taxation Matters

The Committee will review with senior management the status of taxation matters of the Issuer and its subsidiaries. The Committee will also review a report from senior management confirming that the Issuer and its subsidiaries have withheld or collected and remitted all amounts required to be withheld or collected and remitted by them in respect of any taxes, levies, assessments, reassessments and other charges payable to any governmental authority.

(n) Employees of the Auditor

The Committee will establish, review and approve policies for the hiring by the Issuer of any partners and employees and former partners and former employees of the present or former auditor.

(o) Evaluation of Financial and Accounting Personnel

The Committee will have direct responsibility to:

(i) develop a position description for the Chief Financial Officer and ARMS Manager, setting out the authority and responsibilities of the Chief Financial Officer and ARMS Manager, respectively, and present the same to the HR Committee and Board for approval;

(ii) review and approve the goals and objectives that are relevant to the Chief Financial Officer's compensation and present the same to the HR Committee;

(iii) evaluate the performance of the Chief Financial Officer and ARMS Manager, in meeting their respective goals and objectives;

(iv) make specific recommendations to the HR Committee and Board with respect to the compensation of the Chief Financial Officer and the ARMS Manager based on the evaluation referred to above;

(v) review and assess, with the input of senior management and, if required by the Committee, the external auditor, the performance of the Issuer's financial, accounting and ARMS department personnel; and

(vi) recommend to the HR Committee and Board remedial action where necessary.

(p) Signing Authority and Approval of Expenses

The Committee will determine the signing authority of officers and directors in connection with the expenditure and release of funds. The Committee will also review the Chief Executive Officer and Chief Financial Officer's expense statements. Director expense statements will be reviewed by the Chief Executive Officer. Where the Chief Executive Officer thinks it advisable, he or she may request that the Committee review director expense statements.

4. COMPLAINTS PROCEDURE

The Committee will establish a Whistleblower Policy for the receipt, retention and follow-up of complaints received by the Issuer regarding accounting, internal controls, disclosure controls or auditing matters and any violation of the Issuer's Code of Business Conduct and Ethics and a procedure for the confidential, anonymous submission of concerns by employees of the Issuer regarding such matters.

5. REPORTING

The Committee will regularly report to the Board on:

(i) the auditor's independence, engagement and fees;

(ii) the performance of the auditor and the Committee's recommendations regarding its reappointment or termination;

(iii) the adequacy of the Issuer's internal controls and disclosure controls;

(iv) the Issuer's risk management procedures and the reports prepared by the ARMS department;

(v) its recommendations regarding the annual and interim financial statements of the Issuer, including any issues with respect to the quality or integrity of the financial statements;

(vi) its review of the annual and interim management's discussion and analysis;

(vii) any complaints made under and the effectiveness of the Issuer's Whistleblower Policy;

(viii) the Issuer's compliance with legal and regulatory requirements related to financial reporting; and

(ix) all other significant matters it has addressed or reviewed and with respect to such other matters that are within its responsibilities, together with any associated recommendations.

6. AUDIT COMMITTEE MEETINGS

(a) Scheduling

The Committee will meet as often as it determines is necessary to fulfill its responsibilities, which in any event will be not less than quarterly. A meeting of the Committee may be called by the auditor, the chairperson of the Committee (the "Committee Chair"), the chairperson of the Board, the Chief Executive Officer, the Chief Financial Officer or any Committee member.

Meetings will be held at a location determined by the Committee Chair and notice shall be given in accordance with the provisions of the Issuer's by-laws.

(b) Notice to Auditor

The auditor is entitled to receive notice of every meeting of the Committee and, at the expense of the Issuer, to attend and be heard thereat and, if so requested by a member of the Committee, shall attend any meeting of the Committee held during the term of office of the auditor.

(c) Agenda

The Committee Chair will establish the agenda for each meeting. Any member may propose the inclusion of items on the agenda, request the presence of or a report by any member of senior management, or at any meeting raise subjects that are not on the agenda for the meeting.

(d) Distribution of Information

The Committee Chair will distribute, or cause the officers of the Issuer to distribute, an agenda and meeting materials in advance of each meeting to allow members sufficient time to review and consider the matters to be discussed.

(e) Attendance and Participation

Each member is expected to attend all meetings. A member who is unable to attend a meeting in person may participate by telephone or teleconference.

(f) Quorum

Two members will constitute a quorum for any meeting of the Committee.

(g) Voting and Approval

At meetings of the Committee, each member will be entitled to one vote and questions will be decided by a majority of votes. In case of an equality of votes, the Committee Chair will not have a second or casting vote in addition to his or her original vote.

(h) Procedures

Procedures for Committee meetings will be determined by the Committee Chair unless otherwise determined by the by-laws of the Issuer or a resolution of the Committee or the Board.

(i) Transaction of Business

The powers of the Committee may be exercised at a meeting where a quorum is present in person or by telephone or other electronic means, or by resolution in writing signed by all members entitled to vote on that resolution at a meeting of the Committee.

(j) Absence of the Committee Chair

In the absence of the Committee Chair at a meeting of the Committee, the members in attendance must select one of them to act as chairperson of that meeting.

(k) Secretary

The Committee may appoint one of its members or any other person to act as secretary.

(l) Minutes of Meetings

A person designated by the Committee Chair at each meeting will keep minutes of the proceedings of the Committee and the Committee Chair will cause an officer of the Issuer to circulate copies of the minutes to each member on a timely basis.

7. COMMITTEE CHAIR

Each year, the Board will appoint one member who is qualified for such purpose to be the Committee Chair. If, in any year, the Board does not appoint a Committee Chair, the incumbent Committee Chair will continue in office until a successor is appointed.

8. REMOVAL AND VACANCIES

Any member may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to meet the qualifications set out above. The Board will fill vacancies on the Committee by appointment from among qualified members of the Board. If a vacancy exists on the Committee, the remaining members will exercise all of its powers so long as a quorum remains in office.

9. ASSESSMENT

At least annually, the HR Committee will review the effectiveness of the Committee in fulfilling its responsibilities and duties as set out in this Charter and in a manner consistent with the mandate adopted by the Board.

10. REVIEW AND DISCLOSURE

The Committee will review this Charter at least annually and submit it to the HR Committee together with any proposed amendments. The HR Committee will review the Charter and submit it to the Board for approval with such further proposed amendments as it deems necessary and appropriate.

This Charter will be posted on the Issuer's Web site and the annual report of the Issuer will state that this Charter is available on the Web site or is available in print to any securityholder who requests a copy.

11. ACCESS TO OUTSIDE ADVISORS AND RECORDS

The Committee may, subject to advising the chairperson of the Board, retain independent counsel and any outside advisor at the expense of the Issuer at any time and has the authority to determine any such advisors' fees and other retention terms.

The Committee, and any outside advisors retained by it, will have access to all records and information relating to the Issuer and its subsidiaries and all their respective officers, employees and agents which it deems relevant to the performance of its duties.