NEW FLYER INDUSTRIES INC.

Annual Information Form

March 24, 2016

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NEW FLYER INDUSTRIES INC.

GENERAL

The information, including any financial information, disclosed in this Annual Information Form is stated as at December 27, 2015 or for the year ended December 27, 2015, 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 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"), NABI Parts, LLC ("NABI Parts") and Motor Coach Industries International, Inc. and its affiliated entities engaged in the motor coach and related parts and service businesses ("collectively, MCI"). References to "New Flyer" generally refer collectively to NFI ULC, NFAI, NABI Parts and TCB. References to "NFI" refer to New Flyer Industries 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.

A "motor coach" or "coach" is a 40-foot or 45-foot over-the-highway bus typically used for intercity transportation and longer distances than a heavy-duty transit bus, and is typically characterized by (i) two axles in the rear (which allows for higher speeds), (ii) high deck floor, (iii) baggage compartment under the floor, (iv) high-backed seats with a coach-style interior (often including a lavatory), and (v) no room for standing passengers.

All of the data presented in this Annual Information Form with respect to market share, the number of heavy-duty transit buses and motor coaches in service and the number of heavy-duty transit buses and motor coaches delivered is measured in, or based on, "equivalent units". One equivalent unit (or "EU") represents one 30-foot, 35-foot or 40-foot heavy-duty transit bus or one motor coach. One articulated transit bus represents two equivalent units. An articulated transit bus is an extra-long bus (55-feet to 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.

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

Definitions of EBITDA and Adjusted EBITDA

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, and unrealized foreign exchange losses or gains on non-current monetary items. References to "Adjusted EBITDA" are to EBITDA after adjusting for: the effects of certain non-recurring and/or non-operations related items that have impacted the business and are not expected to recur, including non-recurring transitional costs relating to business acquisitions, product rationalization costs, impairment loss on equipment and intangible assets, realized investment tax credits ("ITCs"), equity settled stock-based compensation, past service costs, loss on derecognition of long-term debt, fair value adjustment to MCI's inventory and costs associated with assessing strategic and corporate initiatives.

Management believes EBITDA and Adjusted EBITDA are useful measures in evaluating the performance of the Company. However, EBITDA and Adjusted EBITDA are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Readers of this Annual Information Form are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing and financing activities determined in accordance with IFRS as a measure of liquidity and cash flows.

NFI's method of calculating EBITDA and Adjusted EBITDA may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers.

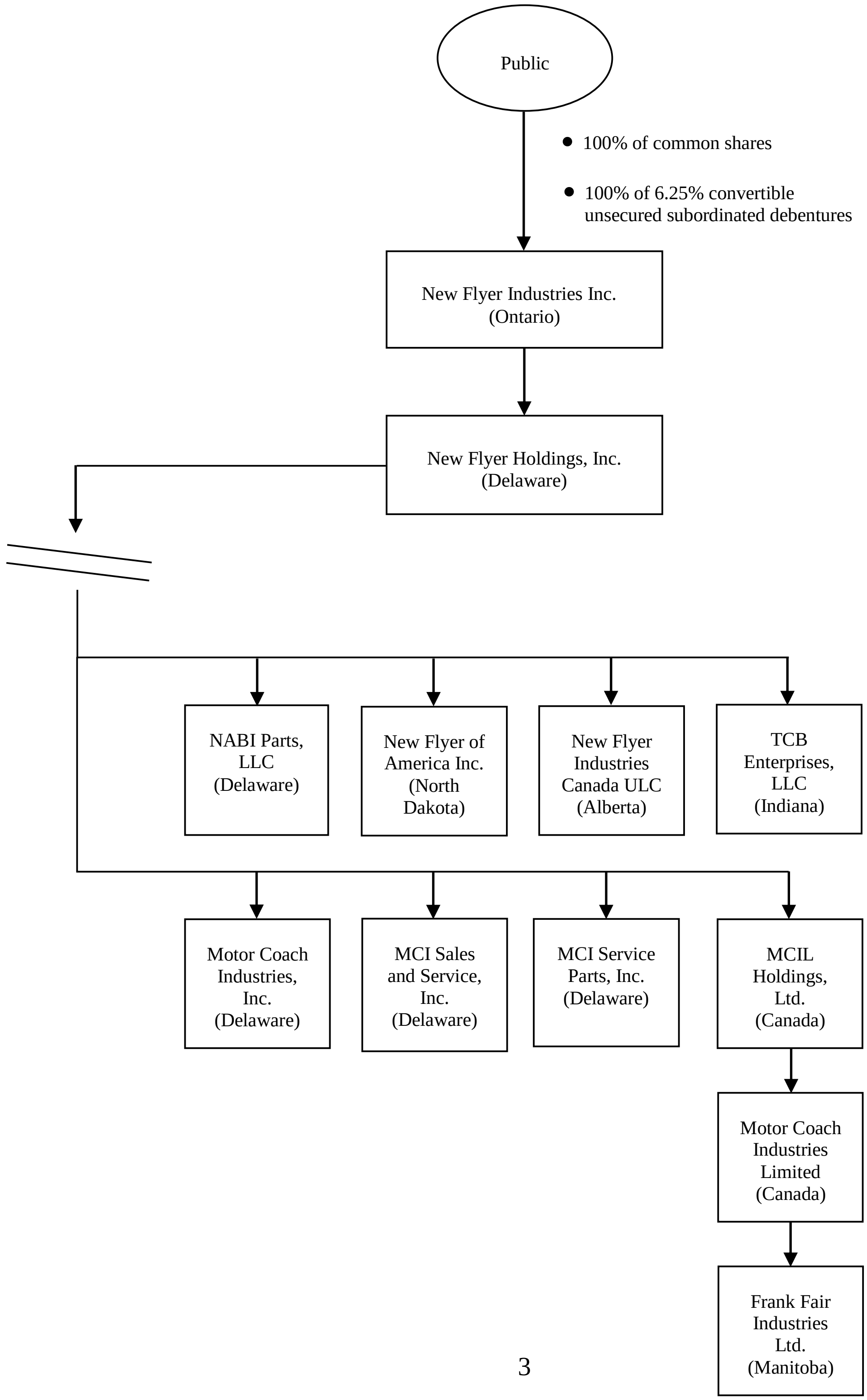
Use of Market and Industry Data

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.

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 and NABI Parts.



GENERAL DEVELOPMENT OF THE BUSINESS

Recent Developments

Fiscal 2013

On January 23, 2013, NFI announced that Marcopolo S.A. ("Marcopolo"), one of the world's largest bus body builders, agreed to make a strategic investment of C$116 million to acquire 11,087,834 newly issued common shares of NFI (the "Shares"), representing a 19.99% stake in NFI. In accordance with the investment agreement entered into by NFI and Marcopolo (the "Investment Agreement"), each Share was to be issued at a price of C$10.50 per Share, or an approximate 20% premium to the 30 day volume-weighted average trading price of the shares on the Toronto Stock Exchange (the "TSX") for the period ending January 23, 2013. 4,925,530 Shares were issued to a wholly-owned Canadian subsidiary of Marcopolo on February 15, 2013 for aggregate consideration of C$52 million and the remainder of the shares (being 6,162,304 Shares) were issued to the same wholly-owned subsidiary of Marcopolo on June 21, 2013 for aggregate consideration of C$65 million. NFI and Marcopolo also signed a Memorandum of Understanding to explore opportunities to cooperate on engineering, technical, purchasing and operational matters. The companies further agreed to assess Marcopolo's technology and products for possible introduction into the Canadian and US markets through the Company as well as the Company's technology and products for potential distribution into global markets.

Under the Investment Agreement, Marcopolo was granted the right to nominate a member to the board of directors (the "Board") for so long as it holds at least 10% of the outstanding Shares (which it exercised in August 2015, resulting in the appointment of Mr. Paulo Cezar da Silva Nunes to the Board) and was granted pre-emptive rights to purchase additional securities in certain circumstances to maintain its proportionate interest in NFI. Marcopolo also agreed to certain disposition and standstill restrictions. The Investment Agreement also provides that if the Company in the future enters into an agreement with a third party providing for the acquisition of all of the Shares or assets of the Company, then Marcopolo will, subject to certain exceptions, agree to vote in favor of and to sell its Shares as part of the transaction unless Marcopolo has made an alternative proposal that the Board believes is superior or that the shareholders have determined to accept. A copy of the Investment Agreement can be found on SEDAR at www.sedar.com.

On March 1, 2013, NFI ULC acquired certain assets from Daimler Buses North America ("DBNA") relating to its Orion aftermarket parts business which supported the nearly 10,000 Orion heavy-duty buses then in operation in Canada and the United States with aftermarket parts. Under the terms of the transaction with DBNA, NFI ULC (i) acquired DBNA's Orion aftermarket parts inventory, accounts receivable and assumed certain obligations under its parts contracts with transit customers, (ii) acquired an exclusive license to use the Orion proprietary parts designs in connection with the Company's aftermarket parts business, and (iii) entered into an agreement under which the Company will be the exclusive supplier of parts to DBNA for its customer warranty obligations under Orion bus purchase contracts and pre-closing parts contracts.

On June 21, 2013, NFI acquired of North American Bus Industries, Inc. ("NABI") from an affiliate of Cerberus Capital Management, L.P. ("Cerberus") for cash consideration of approximately $80 million, virtually all for the satisfaction of affiliate debt. The acquisition excluded discontinued operations in Hungary and substantially all related assets and liabilities. NABI's operations included manufacturing operations in Anniston, AL and a parts distribution center in Delaware, OH. The transaction, including related expenses, was funded using approximately C$65 million in proceeds from the issuance of the second and final tranche of the strategic equity investment in NFI by Marcopolo. An additional $20 million was drawn from the Company's credit facility. Concurrent with the acquisition of NABI, the Company entered into a fourth amended and restated senior credit facility.

In December 2013, the Company commenced production of the New Flyer MiDi® in its St. Cloud, Minnesota facility. The first delivery of a MiDi® to a customer occurred in May 2014.

Fiscal 2014

On March 4, 2014, the Company amended its agreement with A. Girardin Inc. ("Girardin") to include the MiDi® in addition to the Xcelsior® heavy-duty transit bus. The Company and Girardin first entered into a distributor's agreement in April 2011, to distribute the Xcelsior® heavy duty transit bus. Girardin serves as the exclusive distributor of MiDi® and Xcelsior® transit bus models for all public and private customers in Quebec and private operators in Ontario and the Atlantic provinces. Under the terms of the agreement, Girardin will market, sell and provide after sales service for the MiDi® and Xcelsior® transit buses through its established service locations.

At the annual meeting of shareholders held on May 8, 2014, the shareholders passed a resolution continuing, amending and restating the shareholder rights plan originally adopted by the Board on August 29, 2011 (the "Amended and Restated SRP").

The primary objectives of the Amended and Restated SRP are (i) to provide the Board with sufficient time to explore and develop alternatives for maximizing shareholder value if an unsolicited take-over bid is made for NFI, (ii) to provide all shareholders with an equal opportunity to participate in such a bid, and (iii) to ensure, to the extent possible, that all shareholders are treated fairly in connection with any take-over bid. The Amended and Restated SRP was not implemented in response to any specific proposal to acquire control of NFI. Additional details regarding the Amended and Restated SRP are described below under the heading "Description of Capital Structure — Shareholder Rights Plan". A copy of the Amended and Restated SRP is available on SEDAR at www.sedar.com.

In June 2014, the Company announced plans to focus on a single heavy-duty transit and BRT bus platform that features its Xcelsior® model, while phasing out production of the NABI LFW and BRT bus models. On December 28, 2014, NABI Bus, LLC was merged with and into NFAI, with NFAI being the surviving entity. The Company has now substantively completed the rationalization of NABI into New Flyer.

On October 10, 2014, the Company publicly unveiled the addition of a zero-emission battery-electric propulsion system to its commercially available lineup of Xcelsior® transit bus models. The battery-electric propulsion XE40 ("XE40") features a New Flyer integrated energy storage system, a Siemens electric drive system, proven electric subsystems and accessories currently available on the Xcelsior® hybrid variants, depot and en-route conductive charging capability. By replacing conventional mechanical powertrain systems, it is expected the XE40 will require less maintenance throughout its life.

On October 13, 2014, the Company announced that it was developing the first ever North American designed and built zero-emission 60-foot battery-electric/fuel cell bus. This propulsion system is being integrated into the Company's Xcelsior® bus platform and includes a combination of batteries, a fuel cell and hydrogen storage. The Company has partnered with Ballard Power Systems Inc. and Siemens to develop the bus that will be operated by Alameda-Contra Costa Transit District for 20 months of in-revenue-service operations. A key step in the commercialization will be to complete a full Altoona durability and performance test as part of the US Federal Transit Administration Bus Testing Program.

New Flyer was awarded the Central Minnesota Manufacturer of the Year Award for 2014. This annual award recognizes companies that demonstrate manufacturing growth and innovation and a strong track record of active association participation.

Fiscal 2015 and Year-to-date

In April 2015, the California Energy Commission ("CEC") issued the Company a Notice of Proposed Award of $1.7 million for the development of an advanced fuel cell transit bus and in August 2015, the CEC approved a $2.1 million grant to conduct an advanced demonstration project involving a New Flyer Xcelsior® electric transit bus with a Hydrogenics CelerityPlus fuel cell. The purpose of the CEC-approved Alternative and Renewable Fuel and Vehicle Technology Program (ARFVTP) is to encourage demonstration of advanced technologies and help develop commercial vehicles that reduce greenhouse gas emissions, displace petroleum fuel demand, stimulate economic development and enhance market acceptance that will lead to commercial production.

On November 10, 2015, the Company entered into a definitive agreement to acquire MCI from an affiliate of KPS Capital Partners, L.P. for cash consideration of $455 million subject to certain purchase price adjustments. A copy of the MCI purchase agreement can be found on SEDAR at www.sedar.com. MCI is North America's leading motor coach manufacturer and parts and service supplier with three manufacturing facilities and nine service and parts distribution centers. As of December 31, 2014, MCI had the largest installed base of motor coaches in North America with approximately 28,000 units. The acquisition was completed on December 18, 2015 and was funded through a new $825 million senior secured credit facility with a maturity of December 18, 2019, consisting of a $482 million term loan and a $343 million revolver (the "Credit Facility"). See "Description of Capital Structure – Credit Facility".

On December 18, 2015, NFI was added to the S&P/TSX Composite Index and the S&P/TSX Composite Dividend Index. The Composite Index is the headline index in Canada and serves as an indicator of broad market activity in Canadian equity markets. It includes the largest and most liquid companies on the TSX, as measured by market capitalization and trading volume.

DESCRIPTION OF THE BUSINESS

Business of the Company

NFI, together with its subsidiaries, is the leading manufacturer of heavy-duty transit buses and motor coaches in the United States and Canada and a leading provider of aftermarket parts and support. Management estimates that in 2015, the Company had an approximate 45% market share of the combined United States and Canadian heavy-duty transit bus deliveries of equivalent units and MCI had an approximate 42% market share of the combined United States and Canadian deliveries of motor coaches. From its production facilities in Winnipeg, Manitoba; Crookston and St. Cloud, Minnesota; Anniston, Alabama and since December 2015, Pembina, North Dakota, the Company has the broadest and most advanced product offering in the heavy-duty transit bus and motor coach industries.

The Company designs and manufactures a variety of transit buses from 30-feet to 60-feet in length with diverse propulsion systems, including diesel, diesel-electric hybrid systems, CNG systems, zero emission electric trolleys, hydrogen fuel cell systems and all-electric battery systems. The Company also designs and manufactures a variety of motor coaches, primarily in 40-foot and 45-foot lengths, with diesel, diesel-electric hybrid and CNG propulsion systems. In addition to its engineering, manufacturing and field service capabilities, the Company maintains one of the industry's leading aftermarket parts organizations, which is responsible for supporting an extensive range of post-sale activities, including parts distribution, support documentation and training.

For the fiscal year ended December 27, 2015, the Company generated revenue and Adjusted EBITDA of approximately $1.54 billion and $151.4 million, respectively.

The Shares and the 6.25% convertible unsecured subordinated debentures of NFI (the “Debentures”) are listed and posted for trading on the TSX under the symbols “NFI” and “NFI.DB.U”, respectively. The Shares are included in the S&P/TSX Composite Index and the S&P/TSX Composite Dividend Index.

Industry Overview

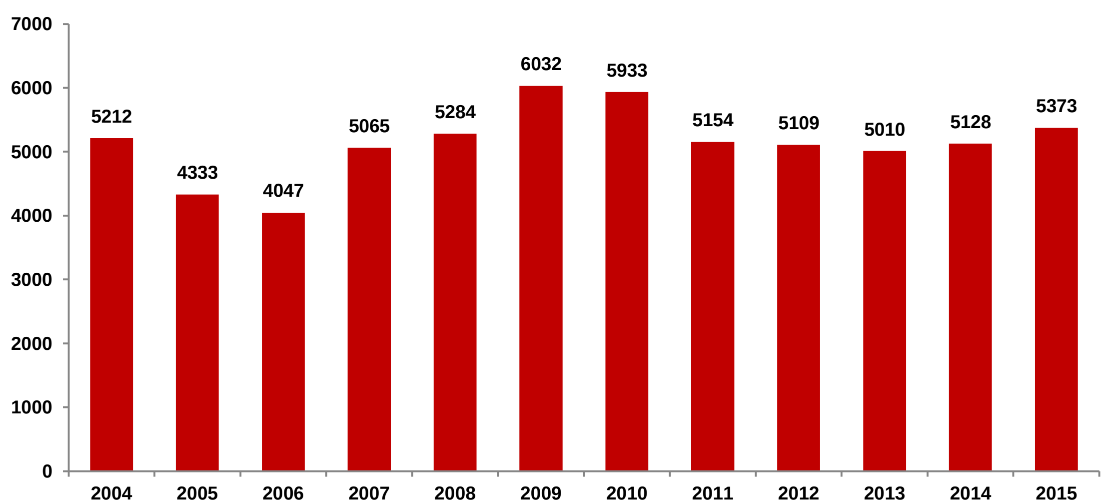
Heavy-Duty Transit Buses

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 and Canada and a leading provider of aftermarket parts and support. 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 with seating capacity for up to 65 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 diesel, including diesel-electric hybrid systems, compressed natural gas (“CNG”) systems, zero emission electric trolleys, select hydrogen fuel cell systems and now all-electric battery systems. Municipal and other local transit authorities are the principal purchasers of heavy-duty transit buses.

There are well-established US federal funding programs for transit fleet replacements in place. However, most federal funding programs require a local contribution component, typically twenty percent of the total amount of the customer’s purchase requirements, and there can be significant pressure on local funding as a result of the effect of general economic conditions on local tax revenues. There continues to be a trend based on environmental concerns for the expansion of public transit services and for the exploitation of new technologies to enhance transit’s “green” potential.

Management’s estimates of total deliveries of equivalent units to customers in the United States and Canada over the period from 2004 to 2015 are shown in the chart 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 5,300 equivalent units in 2015, a slight increase to the estimated total number of equivalent units delivered in 2012, 2013 and 2014.

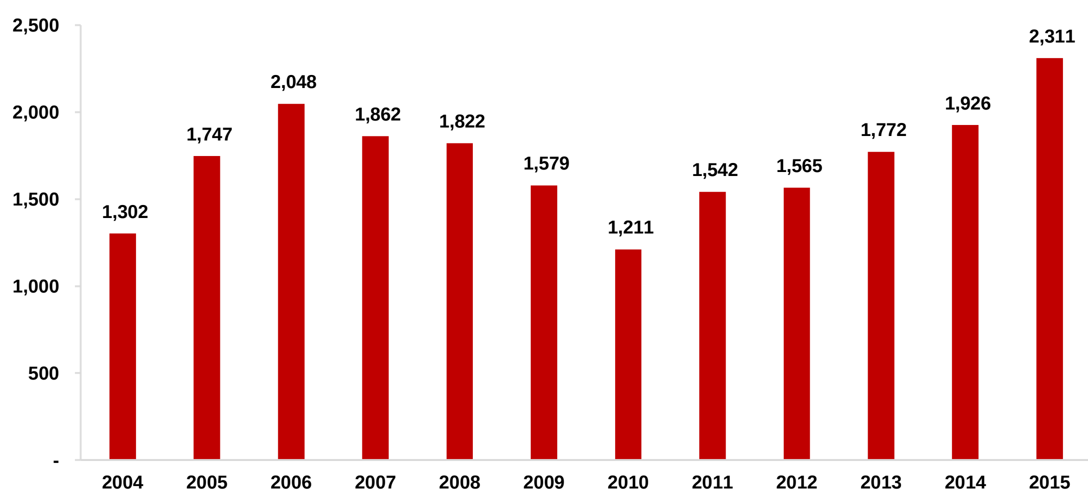
Transit ridership in both Canada and the United States has declined slightly throughout 2015. Although fourth quarter 2015 results are not yet available, the American Public Transportation Association's ridership report indicated that ridership in the third quarter of 2015 decreased by 1.69% in all modes of U.S. transit ridership compared with the previous year, with a decrease in bus ridership of 3.34%. The same report indicates Canadian ridership decreased by 2.13% in all modes of transit ridership during the same period as compared to the previous year. Specific data regarding Canadian bus ridership, however, is not available.

Motor Coaches

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 40 and 45 feet in length and have a seating capacity of approximately 55-60 passengers. Coaches typically operate in tour and charter applications or long haul situations and generally at highway speeds. Most coaches have diesel propulsion systems, but the Company also manufactures coaches with diesel-electric hybrid and CNG propulsion systems. The principal purchasers of motor coaches are private tour and charter operators, inter-city line-haul 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 such operators', capital budgets and funded by their cash flow and capital sources. A significant portion of private fleet operators choose to finance new coach purchases. In some cases MCI assists in arranging third party financing. Pre-owned coaches are purchased in the same manner by private customers, with a lower percentage of coaches being financed.

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 2,300 coaches in 2015, which represents an increase over the estimated 2014 industry volume of approximately 1,900 coaches.

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 bus manufacturer, the company became "New Flyer Industries Limited". Den Oudsten was an innovation leader in the European 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 the United States and Canada.

As part of the Company's growth in the United States market, in 1990 a final assembly plant was established in Grand Forks, North Dakota to complete bus shells manufactured in Winnipeg. In 1996, final assembly was moved from that facility to the current facility in Crookston, Minnesota. In late 1999, in response to "Buy-America" legislation and continuing US market share growth, the Company constructed a state-of-the-art plant with fully integrated production capabilities in St. Cloud, Minnesota.

In 2002, a private investor group acquired a controlling interest in the Company, allowing it to secure new surety bonding facilities and address certain production, operational and working capital challenges. In 2004, New Flyer was acquired by a new private equity ownership group. In 2005, NFI and NFI ULC completed their initial public offering (the "IPO"). On January 23, 2013, Marcopolo agreed to make a strategic investment to acquire newly issued Shares, representing at that time, a 19.99% stake in NFI.

On March 1, 2013, NFI ULC acquired certain assets from DBNA relating to its Orion aftermarket parts business. On June 21, 2013, NFI acquired NABI from an affiliate of Cerberus.

On December 18, 2015, NFI acquired MCI from KPS Capital Partners, L.P. Founded in 1933 in Winnipeg, MCI is a U.S. company with headquarters in Des Plaines, Illinois, and plants in Winnipeg, Manitoba, and Pembina, North Dakota. MCI is North America's leading manufacturer of motor coaches serving charter and tour operators, line-haul and scheduled-service operators and transit agencies in the U.S. and Canada.

Business Strengths

Management believes that 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 and aftermarket parts and service support capabilities.

Management estimates that in 2015, New Flyer had an approximate 45% market share of the combined United States and Canadian heavy-duty transit bus manufacturing industry based on the number of equivalent unit deliveries in 2015. Although the Company's market share may fluctuate year-to-year, management believes that since 2000 the Company has consistently maintained the leading market share of the combined United States and Canadian heavy-duty transit bus market. Management estimates there are approximately 24,000 New Flyer buses (of the approximately 38,000 buses New Flyer has delivered) and approximately 7,600 NABI buses (of the approximately 10,500 buses NABI has delivered) currently in service in the United States and Canada. This represents approximately 41% of the estimated 80,000 active heavy-duty transit buses in the United States and Canada.

Management estimates that in 2015, MCI had an approximate 42% market share of the combined United States and Canadian public and private coach market based on the number of coach deliveries in 2015. 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 the leading market share of the combined United States and Canadian public and private coach market. Management estimates there are approximately 28,000 MCI coaches currently in service in the United States and Canada. This represents approximately 51% of the estimated 55,000 active coach buses in the United States and Canada.

Broadest Product Portfolio and Innovation Leader

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 and articulated 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 heavy-duty transit bus and motor coach contract in the United States and Canada.

The D-model coach has been MCI's standard motor coach offered to public customers and comprises the largest installed base of motor coaches with public transit agencies in the industry. In 2001 MCI introduced the J-model coach with advanced styling primarily for the private market customers. In addition to advances in styling, the J-model incorporates features such as drum brakes and a fixed tag axle. The J-model had a styling refresh in 2012 to maintain a market leading appearance.

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".

In May 2012, New Flyer entered into a joint operation with Alexander Dennis Limited as part of its strategy to pursue growth and diversification. Alexander Dennis is the United Kingdom's largest manufacturer of single-deck and double-deck transit buses and coaches. The two companies collaborated to introduce the New Flyer MiDi®, a mid-sized low-floor transit bus that management anticipates will address the demand in North American, public and private markets for vehicles having a seven to 12 year operating life. Under the arrangements of the joint operation, New Flyer is responsible for sales, marketing, manufacturing and aftermarket support with Alexander Dennis performing design, engineering, test and prototype development activities. The MiDi® is offered to both public transit and private operators with a clean diesel propulsion system.

In June 2012, MCI entered into a distribution rights agreement with EvoBus GmbH, a subsidiary of Daimler AG, to become the exclusive distributor for the sale and service of certain Setra® branded coaches in Canada and the United States. Two Setra models are offered for sale in the United States and Canada: the S417 and the S407. Featuring upscale styling and the highest degree of customization, management believes the S417 is one of the industry's leading luxury coaches. The Setra S407 offers a value-priced product to address line haul and economy segment needs. Both Setra models are fully supported by the MCI parts and service operations.

High Quality and Diversified Customer Base

Established, Long-Term Relationships with Diverse Customer Base. Twenty-four out of the 25 largest transit authorities in the United States and Canada (based on the number of transit buses in service in 2015), operate either New Flyer, Orion or NABI buses, or a combination thereof. New Flyer has active business relationships (which includes the sale of parts) with approximately 400 transit authorities in Canada and the United States. In 2015, MCI delivered coaches to 20 of the top 25 motor coach operators in the industry.

No Reliance on Any One Customer. The Company does not generally depend on the same few customers for yearly recurring sales.

Aftermarket Parts and Support Capability

Aftermarket parts and support is an important element in the purchase criteria of transit authorities and coach operators. The Company's leading share of all heavy-duty transit buses and motor coaches currently in service provides recurring demand for and a significant opportunity to grow its aftermarket parts business. The Company provides parts and support for products manufactured by New Flyer, NABI, Orion (after the purchase of the Orion aftermarket parts business in 2013), MCI, Setra as well as other manufacturers. The cost of aftermarket support (including warranty and training requirements) is typically included in the customer's bus or coach purchase contract, while parts are sold separately when required after the initial bus or coach purchase. Management believes that the Company provides the most comprehensive aftermarket service and support of all manufacturers in the industry. Aftermarket operations represented approximately 21% of the Company's 2015 revenue and 41% of the Company's 2015 Adjusted EBITDA.

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, railcar, automotive, military vehicles and aerospace.

New Flyer's leadership team participates in NFI's performance unit plan, restricted share unit plan and share option plan, and all of the Company's senior management and sales teams participate in some form of incentive plan. See "Directors, Officers and Management — Long Term Incentive Plans".

Employee Focused

In 2015, for the eleventh consecutive year, New Flyer was selected by Mediacorp Canada Inc. as one of Manitoba's Top 25 Employers. This special designation recognizes Manitoba employers who lead their respective industries by offering exceptional places to work. New Flyer's programs and initiatives are key components in making New Flyer a "Great Place to Work". The evaluation process was based on eight key areas: physical workplace; work atmosphere and social activities; health, financial and family benefits; vacation and time off; employee communications; performance management; training and skills development; and community involvement.

Corporate Mission Statement and Strategy

The Company's mission statement is – "To deliver the best bus and coach value and support for life."

The Company's business strategy is as follows:

- to offer the best heavy-duty transit buses, motor coaches and services in Canada and the United States and to lead the market in innovation.

- to operate as a world-class manufacturer using LEAN manufacturing principles and deploying a Quality Roadmap.

- to have an appropriate capital structure to diversify and grow the business.

Operational Excellence

One of the primary operational focuses of New Flyer is on developing and implementing strategies and tactics to support "Operational Excellence", one of New Flyer's core operating principles. New Flyer's vision of "Operational Excellence" is to provide and maintain for all employees a safe, clean and efficient working environment to become the most efficient transit 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 has resulted in a transformation of New Flyer's facilities, improved employee safety and morale, a reduction in the cost of manufacturing, improved quality and improved overall customer satisfaction. The "Quality at Source" (or QAS) program at MCI has the same objectives and principles as New Flyer's "Operational Excellence" program regarding safety, quality, and manufacturing improvements.

In 2015, New Flyer's Winnipeg manufacturing facility was selected as the only Canadian finalist for the 2015 IndustryWeek Best Plant Award. The Best Plant 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 derives its revenue and cash flows from the following two segments:

- *Bus and Coach Manufacturing Operations* — design, manufacture and sales of heavy-duty transit buses and motor coaches of various body lengths with diverse propulsion systems. This includes the sale of pre-owned coaches. Bus manufacturing operations and in 2015, bus and coach manufacturing operations, represented approximately 82%, 78% and 79% of the Company's total 2013, 2014 and 2015 revenue, respectively. Adjusted EBITDA for Aftermarket operations was $63.6 million, $57.4 million and $90.0 million for 2013, 2014 and 2015, respectively.

- *Aftermarket Operations* — support of all post-sale activities, including parts distribution, field services, support documentation, telematics and remote diagnostics and training. Aftermarket also includes commercial repair work on buses and coaches at service centers. Aftermarket operations represented approximately 18%, 22% and 21% of the Company's total 2013, 2014 and 2015 revenue, respectively. Adjusted EBITDA for bus manufacturing operations was $31.0 million, $50.0 million and $61.5 million for 2013, 2014 and 2015, respectively.

Bus and Coach Manufacturing Operations

The Company has the broadest and most advanced product offering in the combined United States and Canadian heavy-duty transit bus and motor coach industries. The Company's sales, reputation, product range, engineering capabilities and product quality position it as the leading manufacturer in the bus and coach industries and in specialty heavy-duty 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 bus and motor coach models, 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, electric trolley, hydrogen fuel cell hybrid and battery-electric
New Flyer MiDi® mid-size transit bus	30', 35'	Clean diesel
MCI D-model coach	40', 45'	Clean diesel, CNG, diesel-electric hybrid
MCI J-model coach	45'	Clean diesel
Setra S407, S417	45'	Clean diesel

Public transit agencies require transit buses 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 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 seamlessly incorporated into the production process.

Motor coaches tend to be more standardized than heavy-duty transit buses and may be customized for certain customers, but to a lesser extent than heavy-duty transit buses. Private customers have fewer options and, for the most part, customizations typically entail exterior livery, interior seats, trim and interior colors.

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.

Product innovations introduced into the heavy-duty transit bus and motor coach market in the United States and Canada by the Company include:

Heavy-Duty Transit Buses

Low-Floor Bus — Introduced by New Flyer in 1988, low-floor buses have become the industry standard in the United States and Canada. Low-floor buses permit passengers to board and exit the bus more quickly and allow for improved accessibility, particularly for children and disabled and elderly individuals.

Programmable Logic Control ("PLC") — Introduced by New Flyer in 1992, a PLC system is an on-board local network system that controls many of the electrical functions of a heavy-duty transit bus. Since 1993, all of the Company's heavy-duty transit buses have been manufactured with a PLC system.

Articulated Body — An articulated bus is an extra-long bus (55-feet to 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. New Flyer introduced the articulated 60-foot low floor bus in 1996 and since then has been the leading manufacturer of articulated low floor buses in the United States and Canada.

Hybrid Propulsion Systems — New Flyer pioneered the integration of hybrid propulsion systems in heavy-duty transit buses, replacing conventional diesel powerplants with diesel engines coupled with generators. In conjunction with the engine/generator, a roof-mounted battery pack provides the additional power required when a bus is accelerating or climbing grades. Hybrid propulsion systems are now well-accepted in the industry and assist in reducing greenhouse gases and improve fuel efficiency.

Alternative Fuels — New Flyer was the first manufacturer in Canada and the United States to promote natural gas propulsion systems in high floor and low floor body types. Since the products were introduced, approximately 6,000 natural gas buses have been delivered to customers by New Flyer. In 2012 New Flyer launched a CNG articulated bus based on the Xcelsior® model.

Xcelsior® — In 2008, New Flyer introduced Xcelsior®, the customer-centric evolution of the standard low-floor transit bus. Its many product improvements make Xcelsior® a "best-in-class" vehicle. The Xcelsior® improvements include upgraded styling, a redesigned bumper and LED headlamps, reduced interior noise levels and a single-reduction axle, all wheel disc brakes and improved access to components to address maintenance concerns. Accessibility has also been greatly improved with a wider door and entry area, a lower front step and an improved ramp angle.

MiDi® — New Flyer has entered into a joint operation with Alexander Dennis Limited to introduce a versatile 30' and 35' mid-size bus. New Flyer manufactures the MiDi® at its St. Cloud, Minnesota facility.

Electric Trolleys — An electric trolley is a bus powered by electricity from overhead wires. New Flyer manufactures both 40-foot and 60-foot (articulated low floor) heavy duty electric trolley buses, with all the standard features of its diesel counterpart, creating an environmentally-friendly zero-emission solution for urban transit operators.

Hydrogen Fuel Cell Buses — New Flyer first began development of hydrogen fuel cell buses in 1993, when it, along with its technology partners, introduced the world's first fuel cell bus. Twenty 40-foot hydrogen fuel cell buses were delivered to BC Transit in 2010 and were showcased at the 2010 Winter Olympics in Whistler, BC. New Flyer continues to participate in research and development activities in conjunction with our sustainable technology objectives. Recently, New Flyer announced the development of both 40-foot and 60-foot battery-electric/hydrogen fuel cell powered buses.

Battery-Electric Bus — New Flyer has completed the tests at Altoona for its 40-foot battery-electric bus and it is now in production. The Company delivered its first production bus to a customer in June 2014.

Motor Coaches

45' Inter-City Motor Coach — Introduced by MCI in 1992, 45' coaches have become the industry standard in the United States and Canada and allow for an additional 10 passengers and luggage, further reducing greenhouse gas emissions per passenger mile.

Wheelchair Equipped Motor Coach — Introduced by MCI in 1989, wheelchair equipped coaches have become an industry standard in the United States and Canada. Wheelchair equipped coaches allow for improved accessibility for mobility impaired individuals.

Hybrid Propulsion Systems — MCI pioneered the integration of diesel-electric parallel hybrid propulsion systems in inter-city coaches, replacing conventional diesel power plants with diesel engines coupled with an electric motor/generator. In conjunction with the engine/motor/generator, an underfloor battery pack, charged by the generator or regenerative braking system, provides the power to move the coach. Hybrid propulsion systems are now well-accepted in the industry and assist in reducing greenhouse gases and improve fuel efficiency.

Alternative Fuels — MCI was the first manufacturer in Canada and the United States to offer compressed natural gas propulsion systems in inter-city coaches.

*Multiplexed Electrical Control System ("MUX") —*MCI was the first coach manufacturer in the United States and Canada to introduce a MUX electrical system. MUX is an on-board local network system that controls many of the electrical functions of a coach. Since 2000, all of MCI's coaches have been manufactured with a MUX system.

Three-Point Passenger Seat Belts — MCI was the first manufacturer to offer three-point passenger seat belts on coaches in the United States and Canada. This feature is now an industry standard and is expected to become a requirement for all new motor coaches operated in the United States in the fall of 2016.

Spiral Entrance Stairway — Introduced by MCI in 1997, this entryway feature improves the time for passenger ingress and egress.

Aftermarket Parts and Support Services

Aftermarket parts and support have become increasingly important to heavy-duty transit bus and coach operators in their purchase decisions. The increasing complexity of the technologies of heavy-duty 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 heavy-duty 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 provides parts and support for products manufactured by New Flyer, NABI, Orion (after the purchase of the Orion aftermarket parts business in 2013), MCI, Setra, as well as other manufacturers. Management believes that the Company provides the most comprehensive aftermarket parts support of all manufacturers in the industry.

Delivering the best bus value and support for life and maximizing the life cycle support opportunities are also key elements of the aftermarket parts and support team's strategy. This includes providing services in the areas of maintenance material supply chain, special labor services for selected maintenance and repair programs, bus and coach maintenance management support, and the ongoing development of new products and kits in support of the bus maintenance process. New Flyer also provides vendor-managed parts inventory services and support for engine mid-life overhaul programs in the heavy-duty transit bus industry.

As a result of the purchase of MCI, the Company now operates six service centers that perform commercial work on MCI coaches, as well as competitors' coaches. These centers also support the sale of motor coaches throughout the United States and Canada by providing locations for new coach acceptance and warranty work. In addition, these service centers hold the pre-owned coach inventory and perform work on these pre-owned coaches to ready them for resale into the market.

Given the Company's position in the industry, and the current general drive for cost reduction in the areas of bus and coach maintenance, it is well-positioned to maximize the opportunities to provide life cycle support services to the bus and coach industries.

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. It distributes a wide assortment of service parts for a variety of models of heavy-duty transit buses and coaches, including products built by other manufacturers. Competitors in the aftermarket parts business include competing transit bus and coach manufacturers, bus and coach parts distributors and parts divisions of related industries (e.g., heavy-duty trucks). The Company provides the following competitive advantages over its competition: widest original equipment product assortment, most distribution centers in North America, tremendous industry knowledge and the ability to cross reference products to create solutions for customers. The Company distributes its own line of service parts under the New Flyer "Kinetik" brand for the heavy-duty transit bus industry and the MCI "Coach Guard" brand for the motor coach industry. The cost of aftermarket support is typically included in the customer's bus 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 Canada and the United States. 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.

The Company's aftermarket parts and service segment has grown significantly over the last few years. This growth has been driven by the acquisition of the Orion and NABI aftermarket parts businesses in 2013 and the MCI aftermarket parts business in 2015. Additionally growth has been spurred by an increase in heavy-duty transit bus mid-life overhaul contracts with customers and from organic growth. These factors have led to a significant increase in market share. Management estimates the aggregate industry sales in the heavy-duty transit bus aftermarket parts sector was approximately $900 million in 2015 and that New Flyer's market share in 2015 was approximately 33%, an increase from its estimated market share of 28% in 2013. Management estimates the total available market for motor coach parts was approximately $305 million in 2015 and that MCI's market share during the period was 40%.

Publications

The publications team produces a wide range of parts, maintenance and operational documentation, tailored to the needs of each of the Company's customers. Focusing on content accuracy and user-friendliness, a variety of documents are published in hard copy or electronic format. New Flyer's "Transit Information Viewer", a DVD containing all information unique to each bus purchased by a customer, was introduced in the mid-1990s and is a product feature that has set the standard for customer specifications in the industry. New Flyer's production of customer-specific maintenance information remains the standard within the industry.

The MCI publications team produces parts, maintenance, schematic and operator's documentation, both basic and, if required, tailored to the specific needs of each of MCI's customers. MCI's recently launched Active Publications provides coach specific documents and manuals in PDF format available online through MCI's website. MCI's Active Publications also permits the online purchase of older manuals published prior to the online implementation.

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 bus or coach in the field, to help ensure a timely and complete response to each customer request throughout the operating life of the bus or coach.

New Flyer has service centres in Arnprior, Ontario; Ontario, CA and Renton, WA to provide warranty, technical and integrated supply chain services and commercial repair work for heavy-duty transit buses. The MCI network has service centres in Montreal, QC; Blackwood, NJ; Winter Garden, FL; Dallas, TX; Los Alamitos, CA, and Des Plaines, IL. These service centres perform commercial repair work for customer coaches as well as support warranty, new and pre-owned coach sales.

Product Training

Operator and maintenance training is provided to New Flyer's customers as part of a transit bus purchase contract or separately as an aftermarket service. The New Flyer Institute, the name given to New Flyer's training and education function provides training to customers and employees.

In certain circumstances training will also be subcontracted to third party service providers and managed by the Company. Training aids and tools are specifically developed and provided as required, and refresher courses are provided as part of the overall bus life cycle support strategy.

MCI's industry leading National Training Center is located in the Louisville Distribution Center. A wide spectrum of customized training courses are available to students, including advanced certificate programs. Students can be trained in all facets of the motor coach business, including MCI technician certification programs, advanced system specialized training in degree programs or business and administrative training in MCI warranty systems, parts look-up orientation and inventory management skill development.

e-Learning

New Flyer offers internet-based training modules, or e-learning, to its 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 300 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.

New Flyer Connect®

The New Flyer Connect® system is an on-board telematic system licensed by the Company 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 bus basis and on a fleet-wide basis. New Flyer Connect® integrates this data and provides monitoring and prognostic performance information to the customer. This information in turn can be used to improve driver safety, improve driving and fuel efficiency and predict maintenance events. The New Flyer Connect® reporting system is web-based, with each on-board system uploading data in real time from the bus to a hosted web-based software platform. The software which houses the data, generates notifications based on exceptions and generates reports that can be accessed through any internet portal.

Xtended Life® Products

The New Flyer aftermarket parts group introduced a new line of products branded Xtended Life® in 2013. This product line consists of products that exceed the normal longevity of the parts they replace on a transit bus. Often selling at a higher price than generic products, the expected benefits to transit customers include the products' longer life, intended to lower actual operating cost per kilometre/mile. The first product introduced under the Xtended Life® product line is brake maintenance kits.

Customers

Heavy-Duty Transit Buses

The Company's principal customers in the heavy-duty transit industry are municipal and other local transit authorities in the United States and Canada that provide mass transit to local communities. Twenty-four out of the 25 largest transit authorities in the United States and Canada (based on the number of buses in service in 2015), operate New Flyer, Orion and NABI buses. The Company has active business relationships (which include the sale of parts) with approximately 400 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.

Motor Coaches

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 due to the fleet planning, budgeting and funding application processes its transit customers undertake in order to purchase heavy-duty transit buses and motor coaches. New transit buses and motor coaches are often ordered three months to one year in advance of delivery, and because the funds for base order bus purchases under procurements are generally approved and allocated at the time the base order is made, cancellations are rare.

Forward visibility into the private coach industry is rather limited. Management typically uses trend analysis to predict medium to long term demand and to set production rates. Visibility with respect to pre-owned coach sales is even more limited, with purchases often being initiated and completed within a very short period of time. MCI also manufactures "stock" units to enable it to sell coaches to private customers who require quick delivery.

Many public customer purchase contracts also 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. In the United States, the options are approved for federal funding at the time that the original contract is signed, and when options are exercised or assigned by one transit agency to another transit agency to exercise there is no need to re-apply for federal funding. In addition, the approved federal funding is generally transferable together with the options to other United States transit authorities, provided that the transferee of the options meets certain federal criteria for funding. Transit authorities are increasingly adding options to their contracts (referred to as "piggybacking") in order to provide flexibility, shorten the buying cycle and reduce administrative costs.

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

In 2013, the FTA issued a guidance letter to the industry regarding joint procurements and the assignment of options. Although the FTA encourages its grantees (such as transit agencies) to issue joint procurements, it is now limiting the amount of goods and services an agency can specify under a procurement to that amount required to meet its expected needs. The FTA has reminded grantees that they are prohibited from improperly expanding a procurement to include excess goods simply for the purpose of assigning options to other agencies at a later date. Since the FTA issued its guidance, there has been a greater number of procurements issued by agencies, but with a lower number of total options specified under each procurement. Management believes the total number of EUs or coaches to be ordered will likely not change as a result of the FTA's guidance letter, however, the overall size of the industry's option backlog will likely decrease.

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 Coach Sales and Marketing

New Flyer sells and markets its products primarily through its experienced internal sales force with MCI using both new coach and pre-owned coach sales representatives. These individuals have geographic coverage responsibilities in the United States and Canada. 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.

The Company has also entered into distribution or dealer agreements with certain parties to sell and support the Xcelsior® and MiDi® to private and certain public customers to whom the Company traditionally does not directly sell transit buses. In addition, MCI has a distribution agreement with EvoBus GmbH, a subsidiary of Daimler, for the Setra brand motor coach.

Sales resources are directed on the basis of a customer priority rating determined by a variety of criteria including solicitation type (see below), size, multi-year procurement opportunities, aftermarket opportunities and complexity relative to volume.

Public Agency Bid Stage and Contract Award

There are generally two types of solicitation processes that public agencies use to purchase 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 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 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 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 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, which are permitted at the customer's expense. The contracts also typically permit customers to independently make changes at their own expense. Changes are logged and approved by the customer prior to commencement of production. Any changes, along with the technical summary (which is a running log of the original specifications), will follow the bus or coach order through the production line to ensure strict adherence to the final specifications. The sale process culminates with a final inspection and acceptance by the customer. 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 buses or coaches to public customers who are then given a final opportunity to inspect and accept the vehicle. Payment terms are typically either net 30 days from final acceptance or, in a very few situations, progress payments based upon completion of key milestones.

Some public agency contracts have holdbacks 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. From time to time, public customers hold back more than they are entitled to under contract. In such cases, the holdback typically is in the amount of the expected warranty provision, less any extended warranties purchased, for the warranty period. The customer can then charge any warranty claims against the holdback account once such claims are approved by the Company. Any money remaining from the holdback is returned to the Company.

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 customizations to be made to the coach. Private customers will issue a purchase order or similar document and 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" 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 from 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. 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.

Aftermarket Sales and Marketing

The sales and marketing of the Aftermarket parts group for the heavy-duty transit bus market is primarily driven by customer requests for parts quotation. These requests are either sent directly to New Flyer by the customer or placed in the public domain via the internet for New Flyer 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.

Facilities and Manufacturing Process

Facilities

The Company's production facilities are well-equipped. Since 2009, the Company's heavy-duty transit bus facilities have been significantly upgraded in terms of safety systems, paint, lighting and the removal of waste and scrap.

All of the Company's heavy-duty transit bus and motor coach manufacturing facilities have been registered to the ISO 9001 (quality) certification. New Flyer's heavy-duty transit bus manufacturing facilities in Winnipeg, MB, and St. Cloud and Crookston, MN have also been registered to ISO 14001 (environmental) and OHSAS 18001 (safety) certifications[1]. The Company has been recognized for outstanding occupational health and safety management.

The following table provides details of the Company's major facilities:

Bus Manufacturing

Winnipeg, Manitoba Manufacturing Facility (Owned) Administration, sub-assembly, structure weld, shell assembly and paint support services Development Facility (Leased) New product development	**St. Cloud, Minnesota** Manufacturing Facility (Leased) Structure weld, shell assembly, paint, final assembly and customer inspection / acceptance
Anniston, Alabama Manufacturing Facility (Owned) Administration, final assembly, paint, parts fabrications and customer inspection/acceptance Structure Weld and Assembly Facility (Leased) Structure weld and shell assembly	**Crookston, Minnesota** Manufacturing Facility (Leased) Final assembly

Coach Manufacturing

Winnipeg, Manitoba Manufacturing Facility (Owned) Administration, parts fabrication, structure weld, paint, shell assembly, final assembly, new product development and customer inspection/acceptance	**Pembina, North Dakota** Manufacturing Facility (Owned) Final assembly, customer inspection/acceptance

[1] ISO 9001 (Quality), ISO 14001 (Environmental) and OHSAS 18001 (Health & Safety) certifications confirm that New Flyer's manufacturing management system has been assessed by accredited bodies, which found the Quality, Environmental, and Health & Safety components of the system to be in conformance with applicable standards.

Parts Distribution Centers

Winnipeg, Manitoba

Parts Distribution Center (Leased)

Aftermarket parts

Hebron, Kentucky

Parts Distribution Center (Leased)

Parts distribution center

Delaware, Ohio

Parts Distribution Center (Leased)

Parts distribution center

Fresno, California

Parts Distribution Center (Leased)

Parts distribution center

Brampton, Ontario

Parts Distribution Center (Leased)

Parts distribution center

Louisville, Kentucky

Parts Distribution Facility (Leased)

Parts distribution center

Service Centers

Ontario, California

Service Center (Leased)

Final assembly, customer acceptance, warranty support and parts distribution

Renton, Washington

Service Center (Leased)

Final assembly, customer acceptance and warranty support

Arnprior, Ontario

Service Center (Leased)

Warranty support, commercial service work and parts distribution

Blackwood, New Jersey

Service Center (Leased)

Warranty support, customer acceptance, for profit service work

Dallas, Texas

Service Center (Leased)

Warranty support, commercial service work and parts distribution

Des Plaines, Illinois

Service Center (Leased)

Warranty support, commercial service work and parts distribution

Los Alamitos, California

Service Center (Leased)

Warranty support, commercial service work and parts distribution

Winter Garden, Florida

Service Center (Leased)

Warranty support, commercial service work and parts distribution

Montreal, Quebec

Service Center (Leased)

Warranty support, commercial service work and parts distribution

Parts Fabrication

Elkhart, Indiana TCB Enterprises' Facilities (Leased) Parts fabrication	**Winnipeg, Manitoba** Parts Manufacturing Facility (Owned) Parts manufacturing
Winnipeg, Manitoba Fiberglass Facility (Partially owned/ partially Leased) Fiberglass parts manufacturing	

Manufacturing Process

The manufacturing planning process begins well in advance of actual fabrication or assembly. Generally, the Company manufactures its buses and motor coaches, from frame welding to final assembly, in approximately five weeks.

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. The MiDi® is manufactured at the New Flyer St. Cloud, Minnesota facility.

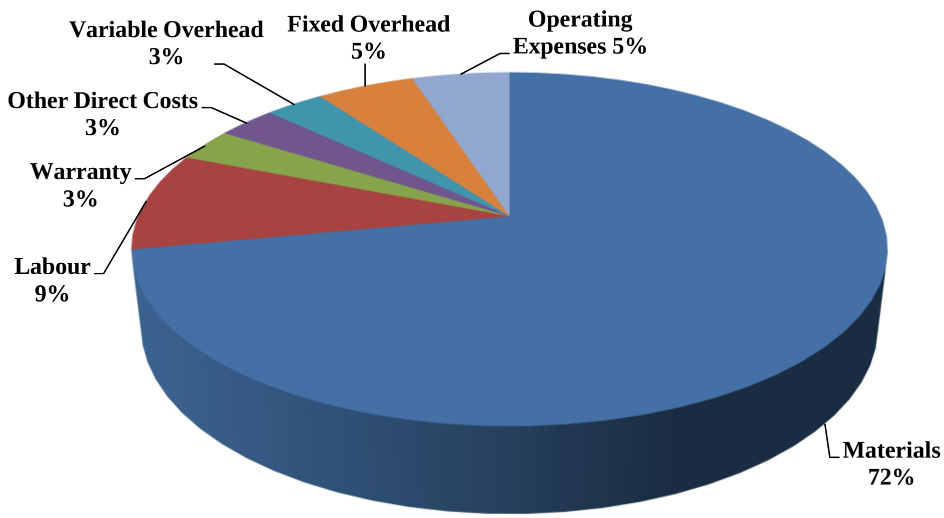
MCI's Winnipeg coach facility produces the J-model coach, from the initial weld of the chassis to completion ready for sale. In addition to the J-model coach, the Winnipeg facility produces the D-model coach shell, starting from weld to the completion of shell assembly and paint. The shell is then shipped 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 MCI Frank Fair fiberglass facility operates on two shifts and produces fiberglass parts for the J-model and D-model coaches. It matches its production rate to supply parts for MCI's assembly facilities. In addition, it also supports the fiberglass needs of MCI's aftermarket parts organization.

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 88% of the total cost structure of its transit bus and coach manufacturing operations is variable, based on the Company's 2015 financial results. The following chart provides a breakdown of the Company's cost structure for bus and coach manufacturing operations:

Cost Structure: 2015 Bus and Coach Manufacturing Operations



Product Warranty and Other Contractual Provisions

Heavy-Duty 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. 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.

Under the fleet defect provisions included in some transit bus and motor coach purchase contracts, the Company is required to proactively repair the entire fleet of transit buses or motor coaches delivered under the contract if the same defect occurs in more than a specified percentage of the fleet (typically 10% to 25%) within the base warranty period following delivery of the bus or coach. 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. 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 provides a seven to 12-year structural warranty on the coach (depending on the customer specification). The Company provisions an estimate of these costs into each of its contracts based on its historical experience and technical expectations. Management believes that the Company's current policy for reserving for warranty obligations is appropriate and conforms to the Company's current warranty spending levels.

See “Risk Factors — Risks Related to the Business of the Company — The Company may incur material losses and costs as a result of product warranty claims”.

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. There is no structural warranty beyond this base warranty.

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.

See “Risk Factors — Risks Related to the Business of the Company — The Company may incur material losses and costs as a result of product warranty claims”.

Liquidated Damages 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 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 2015 were not material. See “Risk Factors — Risks Related to the Business of the Company — Production delays may result in liquidated damages under the Company’s contracts with its customers”.

In addition, public customer purchase contracts typically include a right of the customer to terminate the contract for convenience. Although the exercise of this right has been rarely used, the Company’s customers may, with notice, terminate their relationships with the Company during the term of a contract. See “Risk Factors — Risks Related to the Business of the Company — Absence of fixed term customer contracts and customer termination for convenience”.

Bonding Requirements

Many municipalities and transit authorities 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 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 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 provide limits on the maximum coverage 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. 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 the Business of the Company — 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 private motor coach market.

Materials and Suppliers for Production

Materials represented 72% of the cost structure of the Company’s heavy-duty transit bus and motor coach manufacturing operations in 2015. 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 in order to meet the unique customer specifications within a contract. In addition, for certain components, such as engines for transit buses, the Company and the other manufacturers in the heavy-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 the Business of the Company — Dependence on limited sources of supply”.

The Company typically attempts to negotiate fixed price contracts on an annual or multi-year basis with most of 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 the Business of the Company — The Company’s profitability can be adversely affected by increases in raw material and component costs”.

The Company has implemented LEAN processes to plan and deliver material directly to its production lines. Most suppliers receive and process orders electronically using an internet web portal. This efficient and effective communication tool permits suppliers to directly access material requirements, accept and manage purchase orders, and validate delivery schedules in a real-time system that is available 24 hours a day, 7 days a week. The Company 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. The Company coordinates and schedules all in-bound logistics with its suppliers 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

Due to the assembly nature of the Company’s manufacturing process, production requires limited specialty tooling, machinery and equipment. As a result, 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.

In 2015, the Company incurred capital expenditures of $16 million related to investments for new tooling to support expanded product lines, expand investment in its information technology and for facility transformation to support its Operational Excellence and QAS initiatives. The Company financed approximately $1.4 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 27, 2015, the Company had a total of approximately 5,000 employees, of which approximately 3,400 were paid hourly and approximately 1,600 were salaried. Approximately 51% of the Company's employees are represented by unions. The average hourly employee age is approximately 46 years, with an average tenure with the Company of approximately 11 years.

Occupational Health and Safety Management

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

"A Great Place to Work" and New Flyer Institute

"A Great Place to Work" is one of the Company's core operating principles, and is an approach that the Company strives to embody in all of its work environments. In order to fully support the Company's commitment to this strategy, New Flyer has expanded its corporate training function and has developed a robust training framework that will enable it to meet the needs of all of its employees. This training and education function has been named the "New Flyer Institute". The New Flyer Institute is dedicated to developing and maintaining partnerships with local, regional and national manufacturing programs and organizations as well as working with educational institutions to recognize and give credit for New Flyer certifications. The Company also focuses on leadership and management development of all of its employees with managerial responsibilities.

iBus and Enhanced Employee Communication

New Flyer has continued to enhance its innovative employee communication tool called "iBus" and has implemented additional features to improve employee communication. iBus, which stands for "Internal Business User Site", provides employees with one-stop access to essential business links and important Company information, including an employee interactive feedback tool known as "Xpressline". Information kiosks have been installed at all of New Flyer's facilities and iBus can be accessed by employees on their work computers.

Key elements of the employee communication framework include regularly scheduled communication from the CEO and executive team to ensure timely and transparent information is available to all Company team members. These sessions include quarterly meetings conducted by the executive leadership team regarding their areas of responsibility, an annual "State of New Flyer" CEO address at all Company locations and quarterly CEO updates posted on iBus and MCIONE, which are distributed throughout the Company.

Employee Engagement and Culture

New Flyer 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. The Company plans to conduct its first survey of the MCI employees in 2016 and will incorporate the findings into its "Great Place to Work" strategy.

Collective Bargaining Agreements

Location	Union	Approximate Number of Unionized Employees	Term of Collective Agreements
Winnipeg…..	UNIFOR - Local 3003, (Production Unit)	700	April 1, 2015 to March 31, 2018
	UNIFOR - Local 3003, (Inspection Unit)	20	April 1, 2015 to March 31, 2018
	International Association of Machinists and Aerospace Workers (“IAMAW’)	600	February 1, 2015 to January 31, 2018
Crookston…..	United Steelworkers	200	February 15, 2013 to February 14, 2017
	Communication Workers of America — AFL-CIO, CLC District 7	250	January 1, 2016 to December 31, 2020
St. Cloud…..	Communication Workers of America — AFL-CIO, CLC District 7	600	April 1, 2013 to March 31, 2017
Pembina……	IAMAW	200	May 7, 2012 to May 6, 2016
Des Plaines…	International Brotherhood of Teamsters	20	February 1, 2016 to January 31, 2020

Pensions

Union employees working at New Flyer’s Winnipeg facility are participants in a defined benefit pension plan. Salaried employees at the Winnipeg facility participate in a defined contribution plan in which employees are required to contribute 3% of earnings and New Flyer matches this contribution.

Employees working at the New Flyer St. Cloud, Crookston and Anniston facilities participate in a tax-qualified defined contribution 401(k) plan to which participants may defer their eligible compensation as employee pre-tax elective deferral contributions and to which the Company may make discretionary matching contributions based upon a percentage of a participant’s pre-tax elective deferral contributions.

MCI union employees and certain salaried employees participate in tax-qualified defined contribution plans. MCI employees at the Pembina, ND and the Des Plaines, IL facilities are participants in a tax-qualified 401(k) plan.

MCI also sponsors two defined contribution plans at its MCI Winnipeg facility and at its Frank Fair facility. Certain MCI salaried employees at the Winnipeg facilities participate in a defined benefit pension plan and MCI union employees in Winnipeg participate in a multiemployer union sponsored defined benefit plan.

MCI also has two US defined benefit plans that are closed to new entrants and plan benefits have been frozen.

Competition

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. There are three major competitors operating in the United States and Canada: New Flyer, Gillig LLC, and NOVA Bus Inc. Gillig is privately owned and Nova Bus is owned by Volvo Bus Corporation. Gillig will move its facilities from Hayward, CA to a new 600,000 square foot manufacturing plant in Livermore, CA, which is expected to open in 2017. Smaller heavy-duty bus manufacturers exist, including El Dorado and Grande West Transportation Group Inc.

Throughout 2015, procurement activity remained robust as transit agencies sought to replace aging vehicles within their fleets, resulting in an increase in new procurements issued. This increase in bid activity was offset by reduced option quantities per bid, as increased oversight by the FTA ensured procurement quantities were aligned with fleet replacement plans. Management notes that competition for orders among the major bus manufacturers continues to be intense with aggressive pricing as price continues to be a dominant evaluation criterion in public tenders and fewer options are available for assignment to other agencies.

Newer entrants to the United States heavy-duty transit bus market have been primarily focused on zero emission technology, such as battery electric vehicles. One manufacturer, Proterra (formerly Mobile Energy Solutions) is located in South Carolina. Proterra builds 35- and 40- foot zero-emission heavy-duty vehicle systems and transit buses (including hydrogen-electric buses), and has introduced an all-electric bus with a roof-top charging station. Proterra has announced it is constructing a second plant, to be located in California.

Chinese bus manufacturers have also shown an interest in the industry. BYD Company Limited, a Chinese company in which MidAmerican Energy Holdings Company, a subsidiary of Berkshire Hathway Inc., has an investment, operates an electric bus manufacturing plant in California, offers 25-, 30- and 60-foot electric buses and has tested a 40-foot vehicle at Altoona. BYD has successfully bid electric bus procurements in the United States.

There are barriers to new entrants, including the need for an established industry track record, a limited number of major customers, the need for significant capital investment and financial stability, the requirement for a sophisticated supply network (which, in the United States includes disadvantaged business enterprises), the requirement for a service and aftermarket parts support structure, United States Buy-America legislation, Ontario and Quebec policies regarding Canadian content and environmental, disability access and other regulatory requirements.

New Flyer differentiates itself by having the broadest and most diverse product offering in the industry, a strong reputation for quality and innovation and the largest production capacity and by being a leading provider of aftermarket parts and support. As a result, management believes that New Flyer is well positioned to continue to compete successfully and maintain its leading market share in the industry.

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 very similar manner as they procure heavy-duty transit buses. Historically, MCI was the only company that had capabilities to produce “Buy America” compliant coaches. In 2013, Volvo Bus Corporation, which sells the Prevost motor coach line, developed a “Buy America” compliant manufacturing process and entered the public motor coach market with an award from the New York transit agency.

There are three main competitors to MCI in the private market:

- Prevost, owned by Volvo Bus Corporation and based in Quebec, Canada, with manufacturing facilities in Canada and the United States.
- Van Hool, based in Belgium, has a coach manufacturing facility in Macedonia and distributes its coaches though ABC Bus.
- Temsa, based in Turkey, has a coach manufacturing facility in Turkey and distributes its coaches through CH Bus Sales.

Similar to MCI, Prevost has its own service network to support its fleet within the United States and Canada. Both Van Hool and Temsa use dealers and their networks to sell and service their coaches.

There are several new entrants that are working to gain traction in the United States and Canada. Significant barriers to entry exist in the form of the need for a service network to support coaches as well as an established residual value for coaches. As most motor coaches are owned by several owners over their lifetime, without an established residual value, it is difficult to quantify the true value of the coach. In addition, several competitors have come and gone from the motor coach industry and the residual value of a manufacturer's coaches falls precipitously once the manufacturer decides to exit the market. This affects the purchasing patterns of customers.

While pricing strategies could allow for some market penetration for new entrants in the private market, most public customers would require a multiple-year track record of motor coach operation within the public market before considering purchasing coaches from the new entrant.

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.

In addition to the above competitors, MCI also distributes the Setra brand through an exclusive agreement with EvoBus GmbH, a subsidiary of Daimler. This coach serves the luxury market and is viewed as the premium product in the industry for customers who want to differentiate their level of service. The Setra coach is manufactured in Germany and therefore is not "Buy America" compliant.

Legal and Regulatory Matters

In the United States and Canada, government regulation has had a significant impact upon the heavy-duty 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 bus 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 reforms and strengthens transportation programs, provides long-term funding certainty and more flexibility for states and local governments, streamlines project approval processes, and maintains a strong commitment to safety. FAST increases the current annual public transportation funding from $10.7 billion to $12.6 billion by 2020. Buses can be 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 includes increased funding for "clean technology" and low or zero emission buses as demonstrated by the creation of $55 million of annual "low or no emission" competitive grants.

FAST also amends several provisions affecting procurement methods for rolling stock. The U.S. federal government carryover period for funding allocations is decreased to three years from the current five year limit. Management believes this reduction in carryover may reduce order sizes and put pressure on unit delivery timelines to public customers. FAST also includes 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.

Operating funds for U.S. transit agencies have been stressed over the past several years and have resulted in many transit agencies reducing service, increasing fares, and laying off employees. Others have attempted to off-set budget shortfalls with new revenue streams such as the sale of naming rights for stations and routes, advertising on transit system websites and advertising on buses. While state and local budgets remain challenged, there have been some positive signs recently. Data from the Nelson Rockefeller Institute indicates state tax collections increased in the second quarter of 2015 by 6.8% over the previous year. State tax collections include personal income tax and sales tax, both of which have increased for 21 of the last 22 quarters, and corporate income taxes have increased for the past four quarters. Overall state tax revenues have recovered to pre-recession levels. Although these budgets are driven by tax revenue, there is a lag before any improved economic activity translates into new bus orders. See "Risk Factors — Risks Related to the Business of the Company — Funding may not continue to be available to the Company's customers at current levels or at all".

These state, county, and municipal taxes also comprise the principal source of the "local match" funding required for agencies to qualify for the FTA capital grants discussed previously. In most cases, the FTA provides 80% of the capital cost of buses, 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 will continue to fund 80% of the capital cost of a new bus, however the funding period carryover is decreased to three years from the current five year limit.

APTA reports that the average fleet age in the US has decreased from 8.0 years in 2011 to 7.8 years in 2013[2]. Management believes that other than fleet age statistics, there is no high-level indicator of the health of funding for transit bus purchases.

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 bus procurements. Instead, funding of bus purchases comes from a patchwork of provincial funding, municipal

[2] APTA, Public Transportation Fact Book, 2015

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, since 2003, successive federal governments have funded transit capital projects. Some cost share funding for public transit projects and new bus purchases has been provided since 2003 by federal programs such as the Canadian Strategic Infrastructure Fund and the Infrastructure Canada Program. The Canadian federal government announced in the 2008 budget that the federal Gas Tax Fund became permanent. In February 2014, the Canadian federal government announced the C$53 billion New Building Canada Plan for provincial, territorial and municipal infrastructure which continues the approximate C$2.0 billion annual federal Gas Tax Fund until 2019. While the overall federal contribution to infrastructure projects has increased, the eligibility categories have also become broader. Management does not believe this new federal program will significantly increase purchases of buses by transit agencies in Canada.

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

The Canadian Urban Transportation Association has previously reported a decrease in average fleet age from 10.8 years in 2002 to 7.3 years in 2014. Management believes that other than fleet age statistics, there is no high-level indicator of the health of funding for the industry.

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 that comply with the EPA emissions requirements for use in heavy-duty transit buses in North America.

Effective January 1, 2014, 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 manufacturer, such as New Flyer. These certifications are required to supply buses to agencies operating in California or in Pennsylvania (one of the states that follows the ARB regulations) with a diesel-hybrid electric engine configuration. All other states that follow ARB regulations have provided an exemption from these regulations for urban transit buses. 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 buses purchased by transit agencies in states that follow ARB regulations. See “Risk Factors — Risks Related to the Business of the Company — Dependence on supply of engines that comply with emission regulations”.

Rules of Origin (Buy America) Legislation

Introduced in the 1980s, 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 60% United States content by cost. The Company is compliant with Buy America requirements and 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.

In December 2015, FAST increased the “Buy America” content requirement for transit rolling stock from the current level of 60 percent to 65 percent in 2018 and to 70 percent in 2020. Only the percentage of U.S. domestic content is being amended under FAST and the rules relating to final assembly remain unchanged. See “Risk Factors — Risks Related to the Business of the Company — Current requirements under ‘Buy America’ legislation may change and/or become more onerous or suppliers’ ‘Buy America’ content may change”.

United States Content Bidding Preference

Legislation passed in the State of California in 2011 permits agencies in the State to grant bidding preference to a bidder based on the amount by which the buses it is proposing exceed the minimum US content requirements under the United States federal “Buy America” regulations. Management is not aware of any tenders being lost due to the application of these rules. There is no publicly available data regarding the US content of competitor’s buses compared to buses sold by the Company. See “Risk Factors — Risks Related to the Business of the Company — United States content bidding preference rules may create a competitive disadvantage”.

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. Solicitations originating from certain Quebec transit agencies have also had a Canadian content requirement. Management believes that the Company complies with these policies’ requirements. See “Risk Factors — Risks Related to the Business of the Company — Current requirements under the Ontario government’s or Canadian transit agencies’ Canadian content policy may change and become more onerous”.

Policy of the Toronto Transit Commission

The Toronto Transit Commission (the “TTC”) passed a policy in 2009 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. Although New Flyer is not currently building buses for the TTC, management believes that the Company would comply with these policy requirements.

Disadvantaged Business Enterprises

In accordance with United States Department of Transportation regulations, “Participation by Disadvantaged Business Enterprises in Department of Transportation Financial Assistance Programs”, the FTA reviews and approves bus manufacturers’ annual goals for supporting qualified disadvantaged business enterprises (as defined in the regulations). Compliance by manufacturers with these disadvantaged business enterprises regulations is required in order to be eligible to build buses for transit agencies that use FTA funding. The Company's annual goals for previous years in respect of disadvantaged business enterprises have been approved by the FTA and the FTA has approved the Company's goals for 2016.

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 bus 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.

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 buses 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 buses manufactured by New Flyer and NABI that do not currently comply with regulations governing maximum axle weight or length in certain jurisdictions. To date, only a few of New Flyer's customers have required that the Company reconfigure its buses to comply with local axle weight regulations. 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. For example, such waivers have not yet been issued in the province of Ontario. 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 the Business of the Company — The Company may incur costs in connection with provincial, state or federal regulations relating to axle weight restrictions and bus lengths".

United States Bus Testing

All applicants for United States federal funding must certify to the FTA that any heavy-duty transit bus acquired with such funding has been tested in accordance with an endurance test conducted in Altoona, Pennsylvania 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 product offering (including the MiDi®) has been tested in Altoona, and additional testing occurs regularly with the introduction of new products, or in the case of substantial changes to existing products.

Recent US federal legislation included major changes to the bus testing requirements performed at the center in 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 model or major modification. It does not say a bus "passed" or "failed" an Altoona test 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.

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 motor coach customers typically do not require any testing of coaches and leave structural design decisions to motor coach manufacturers.

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 heavy-duty 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 heavy-duty transit buses and motor coaches in Canada are also manufactured to provide access to persons with disabilities.

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.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

The authorized share capital of NFI consists of an unlimited number of Shares. As at December 27, 2015, 55,739,281 Shares were issued and outstanding.

Holders of Shares are entitled to receive dividends as and when declared by 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 Amended and Restated SRP, approved by the shareholders of NFI at the annual meeting of shareholders held on May 8, 2014, 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.

Debentures

General

As at December 27, 2015, US$64,144,000 aggregate principal amount of Debentures were issued and outstanding. The Debentures were issued under a trust indenture dated June 5, 2012 (the "Indenture") between NFI and Computershare Trust Company of Canada, as trustee (the "Trustee"). The following summary of certain provisions of the Indenture is subject to, and is qualified in its entirety by reference to all the provisions of the Indenture. A copy of the Indenture is available on SEDAR at www.sedar.com.

Interest Rate

The Debentures bear interest at a rate of 6.25% per annum.

Maturity Date

The Debentures will mature on June 30, 2017.

Conversion Privilege

The Debentures are convertible at the holder's option into Shares at any time prior to the close of business on the earliest of (i) the business day immediately preceding the maturity date; (ii) if called for redemption, the business day immediately preceding the date specified by NFI for redemption of the Debentures; or (iii) if called for repurchase pursuant to a Change of Control (described below), the business day immediately preceding the payment date, at the conversion price of US$10.00 per Share. Holders converting their Debentures will receive all accrued and unpaid interest to, but excluding, the date of conversion.

Principal Repayment

On maturity, NFI will repay the indebtedness represented by the Debentures by paying the Trustee, on behalf of the holders, an amount equal to the principal amount of the outstanding Debentures, together with accrued and unpaid interest.

NFI may, at its option, on not more than 60 and not less than 40 days' prior notice and subject to applicable regulatory approval and provided that no event of default has occurred and is continuing and certain other conditions are satisfied, elect to satisfy its obligation to pay the principal amount of the Debentures which are due on the maturity date by issuing freely-tradeable Shares to the holders of the Debentures. The number of Shares to be issued will be determined by dividing the principal amount of the outstanding Debentures which have matured by 95% of the volume weighted average price of the Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the maturity date. No fractional Shares will be issued on maturity but, in lieu thereof, NFI shall satisfy fractional interests by a cash payment.

Optional Redemption

On and after June 30, 2015 and prior to the maturity date, NFI may redeem the Debentures, in whole or in part from time to time, at its option on not more than 60 days' and not less than 30 days' prior written notice at a price equal to the principal amount of the Debentures plus accrued and unpaid interest to, but excluding, the date of redemption, provided that the volume weighted average trading price of the Shares on the TSX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price.

Change of Control

Within 30 days following the occurrence of a Change of Control, as defined in the Indenture, NFI will be required to make an offer to purchase the Debentures at a price equal to 100% of the principal amount of the Debentures plus all accrued and unpaid interest thereon up to, but excluding, the date of purchase. Holders of Debentures may accept this offer in whole or in part.

If holders of 90% or more in aggregate principal amount of the Debentures outstanding on the date NFI delivers the offer to purchase to the Trustee accept the offer to purchase, NFI will have the right to redeem all the remaining Debentures at the same price. Notice of such redemption must be given to the Trustee within 10 days following the date of purchase, and promptly thereafter, by the Trustee to the holders of the Debentures not tendered pursuant to the offer to purchase.

Cash Change of Control

Upon the occurrence of Cash Change of Control, as defined in the Indenture, then, during the period beginning 10 trading days before the anticipated date on which the Cash Change of Control becomes effective and ending 30 days after NFI delivers notice to the Trustee of the occurrence of a Cash Change of Control, holders of Debentures are entitled to convert their Debentures and receive, in addition to the number of Shares they would otherwise be entitled to receive as set forth under "— Conversion Privilege" above, an additional number of Shares per US$1,000 principal amount of Debentures as set forth under the Indenture.

Interest Payment Election

Unless an Event of Default, as defined in the Indenture, has occurred and is continuing, NFI may elect to satisfy all or part of its interest obligation on the Debentures, (i) in cash; (ii) by delivering Shares to the Trustee, for sale, to satisfy the interest obligations in accordance with the Indenture in which event, holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Shares; or (iii) any combination of (i) and (ii) above.

Rank and Subordination

The Debentures are direct, subordinated, unsecured obligations of NFI and are subordinate to all other existing and future senior secured and senior unsecured indebtedness of NFI, including all trade creditors, and rank pari passu to all future subordinated unsecured indebtedness of NFI. The Indenture does not restrict NFI or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities.

Book-Entry Settlement and Clearance

General

CDS acts as securities depository for the Shares and the Debentures, which are referred to collectively as the "Securities". The Securities are represented by one or more global certificates (each, a "Global Certificate"). The Global Certificates for the Securities 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 Securities, an investor must do so through direct and indirect CDS participants. The participant through which a purchase is made will receive a credit for the applicable number of Securities on CDS' records. The ownership interest of each actual purchaser of the applicable security, referred to as a "beneficial owner", is recorded on the participant's records. Beneficial owners will not receive written confirmation from CDS of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the CDS participant through which the beneficial owner holds its Securities.

All interests in the Securities are subject to the operations and procedures of CDS. The following is a summary of those operations and procedures and is provided by NFI solely for convenience. The operations and procedures of each settlement system may be changed at any time. NFI is not responsible for those operations and procedures.

To facilitate subsequent transfers, all Securities deposited by direct CDS participants are registered in the name of CDS. The deposit of Securities with CDS and their registration in the name of CDS effect no change in beneficial ownership. CDS has no knowledge of the actual beneficial owners of the Securities. CDS' records reflect only the identity of the direct CDS participants to whose accounts such Securities are credited, which may or may not be the beneficial owners. The CDS participants remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of beneficial ownership interests in the Securities are effected by entries made on the books of the CDS participants acting on behalf of beneficial owners. Beneficial owners do not receive certificates representing their ownership interests in the applicable Security except in the event that use of the book-entry only system for the Securities is discontinued.

Cross-market transfers between CDS participants, on the one hand, and Depositary Trust Company ("DTC") participants, on the other hand, will be effected within CDS through DTC. To deliver or receive an interest in Securities held in a DTC account, a participant must send transfer instructions to DTC under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets DTC's settlement requirements, DTC will send instructions to its CDS depositary to take action to effect final settlement by delivering or receiving interests in the Securities in CDS and making or receiving payment under normal procedures for same-day funds settlement applicable to CDS. DTC participants may not deliver instructions directly to the CDS depositary that is acting for DTC.

Conveyance of notices and other communications by CDS to direct participants, by direct participants to indirect CDS participants, and by CDS participants to beneficial owners are governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

CDS will not consent or vote with respect to the Securities. Only beneficial owners may consent or vote with respect to any Securities. Under its usual procedures, CDS mails an omnibus proxy to NFI as soon as possible after the record date. The omnibus proxy assigns CDS' consent or voting rights to those direct participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the omnibus proxy).

NFI and the Trustee make payments on the Shares and the Debentures, as applicable, to CDS. CDS' practice is to credit direct CDS participants' accounts on the payment date in accordance with their respective holdings shown on CDS' records unless CDS has reason to believe that it will not receive payment on the payment date. Payments by CDS participants to beneficial owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and are the responsibility of such participant and not of CDS, NFI or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time.

NFI and the Trustee are responsible for the payment of all amounts 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.

CDS may discontinue providing its service as securities depository with respect to any of the Securities at any time by giving reasonable notice to NFI and the Trustee. If CDS discontinues providing its service as securities depository with respect to any of the Securities and NFI is unable to obtain a successor securities depository, NFI will automatically take a position in such Securities and will print and deliver to the investor certificates for such Securities.

Also, in the event that NFI decides to discontinue use of the system of book-entry only transfers through CDS (or a successor securities depository), NFI will print and deliver to the investor certificates for the Shares and Debentures the investor may own.

The information in this section concerning CDS and CDS' book-entry only system has been obtained from sources that NFI believes to be reliable, including CDS, but NFI takes no responsibility for its accuracy.

Neither NFI nor the Trustee has any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to:

- the accuracy of the records of CDS, its nominee, or any participant, of any ownership interest in the securities; or

- any payments to, or the providing of notice to, participants or beneficial owners.

Dividend Policy

In May 2015, the Board approved an annual dividend rate increase to C$0.62 per Share from the previous rate of C$0.585 per Share and dividends were paid at that rate until the end of 2015. With the acquisition of MCI in December 2015, the Board approved a further 12.9% increase in the annual dividend rate from C$0.62 to C$0.70 per Share, and revised its policy to pay dividends on a quarterly basis. 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 the Capital Structure – 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 monthly dividends paid on the Shares for the period from January 1, 2013 to December 31, 2015.

2103 Record Dates	Dividend per Share ($)	2014 Record Dates	Dividend per Share ($)	2015 Record Dates	Dividend per Share ($)
January 31, 2013	0.04875	January 31, 2014	0.04875	January 30, 2015	0.04875
February 28, 2013	0.04875	February 28, 2014	0.04875	February 27, 2015	0.04875
March 29, 2013	0.04875	March 31, 2014	0.04875	March 31, 2015	0.04875
April 30, 2013	0.04875	April 30, 2014	0.04875	April 30, 2015	0.04875
May 31, 2013	0.04875	May 30, 2014	0.04875	May 29, 2015	0.05167
June 28, 2013	0.04875	June 30, 2014	0.04875	June 30, 2015	0.05167
July 31, 2013	0.04875	July 31, 2014	0.04875	July 31, 2015	0.05167
August 30, 2013	0.04875	August 29, 2014	0.04875	August 31, 2015	0.05167
September 30, 2013	0.04875	September 30, 2014	0.04875	September 30, 2015	0.05167
October 31, 2013	0.04875	October 31, 2014	0.04875	October 30, 2015	0.05167
November 29, 2013	0.04875	November 28, 2014	0.04875	November 30, 2015	0.05167
December 31, 2013	0.04875	December 31, 2014	0.04875	December 31, 2015	0.05167
Total Distributions	**0.58500**	**Total Distributions**	**0.58500**	**Total Distributions**	**0.60836**

Credit Facility

On December 18, 2015, NFI and certain of its subsidiaries, including certain of the acquired MCI entities (collectively, the "Borrower") entered into the Credit Facility with a syndicate of financial institutions, in the amount of $825 million. The Credit Facility consists of a $482 million secured term loan facility and a secured revolving credit facility of up to $343 million (including a $55 million letter of credit sub-facility). The Credit Facility also includes an accordion feature of $75 million. The Credit Facility matures on December 18, 2019. 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 the obligations in respect of the Credit Facility are secured by the assets of the borrowers and those guarantors. NFI will continue to receive 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 and Debentures.

DIRECTORS, OFFICERS AND MANAGEMENT

Directors and Management

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, V. James Sardo, 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 and Phyllis Cochran, 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 Capital Markets
V. James Sardo ……………………….. Mississauga, Ontario	Director (Chairperson of the human resources, compensation and corporate governance committee)	2005	Corporate Director
John Marinucci ………………..……… Oakville, Ontario	Director	2005	Corporate Director
Larry Edwards ………………………... Tulsa, Oklahoma, USA	Director	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 …………………..…… Deer Park, Illinois, 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

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 John Marinucci. 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 V. James Sardo (Chair), The Honourable Brian Tobin, Krystyna Hoeg and Paulo Nunes. 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 unit plan and the restricted share unit plan, and administers the deferred 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.

Disclosure

The Board is also responsible for adopting and periodically reviewing and updating the written disclosure policy for NFI and its subsidiaries. This policy, among other things:

- articulates the legal obligations of NFI, its affiliates and their respective directors, officers and employees with respect to confidential information;
- identifies spokespersons of NFI, who are the only persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- requires advance review by senior executives of any selective disclosure of financial information to ensure that the information is not material, to prevent the selective disclosure of material information, and to ensure that if selective disclosure does occur, a news release is issued immediately; and

- establishes "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes, during which periods NFI, its subsidiaries and their directors, managers, officers, employees and consultants may not purchase or sell Shares or Debentures or other securities of NFI or its subsidiaries (including securities exchangeable for or convertible into Shares).

Remuneration of the Directors

In 2015, compensation for non-management directors of NFI was C$125,000 per year with a maximum amount of C$75,000 being paid in cash and a minimum amount of $50,000 being received in the form of deferred share units ("DSUs") under NFI's Deferred Share Unit Plan for Non-Employee Directors (as described below) or in the form of restricted share units ("Director RSUs") under NFI's Restricted Share Unit Plan for Non-Employee Directors (as described below), or a combination of both, in four equal quarterly installments. Some non-management directors elected to receive a greater amount of their compensation in the form of deferred compensation. Directors do not receive meeting attendance fees. The Board believes a flat-fee base retainer is more aligned with a director's duties and responsibilities and time commitment to the Company, which should not be meeting focused, but is a year-round commitment.

In 2015, the chairperson of the Board received additional remuneration of C$90,000 per year (with a minimum amount of $45,000 being received in the form of DSUs or Director RSUs, or a combination of both) and the chairperson of the audit committee and the chairperson of the human resources, compensation and corporate governance committee each received additional remuneration of C$15,000 per year.

The directors determined that as the Company reports its financial statements in U.S. dollars, the majority of its revenue and business is generated from the United States and its functional currency is the U.S. dollar, effective January 1, 2016, non-management directors' compensation will be paid in U.S. dollars, instead of in Canadian dollars, in quarterly payments, in advance. In order to further align the Board's interest with the interest of shareholders, the maximum amount of compensation to be paid in cash was reduced effective January 1, 2016 to USD$62,500 per year, with a minimum amount of USD$62,500 being received in the form of DSUs or in the form of Director RSUs, or a combination of both, in four equal quarterly installments, paid in advance.

Effective January 1, 2016, the additional remuneration of the chairperson of the Board was increased to USD$100,000 per year (with a minimum amount of USD$50,000 being received in the form of DSUs or Director RSUs, or a combination of both).

Directors may also receive a per diem of USD$2,000 in the event that they perform additional work authorized by the Board where such additional work occupies a majority of the director's day. Directors are also reimbursed for out-of-pocket expenses for attending Board and committee meetings. Directors participate in the insurance and indemnification arrangements described below under "Insurance Coverage and Indemnification".

Deferred Share Unit Plan for the Non-Employee Directors

In 2011, the Board adopted a Deferred Share Unit Plan for Non-Employee Directors. The plan was recently amended on December 8, 2015 and December 18, 2015. Pursuant to the plan, non-employee directors may elect to receive all or a portion of their annual retainer and meeting fees in the form of DSUs instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director's account on the first day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director's annual retainer by the fair market value of a Share on that date. When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director's account. At the end of the director's tenure as a member of the Board, he or she will be entitled to receive a cash redemption payment equal to the fair market value of a Share multiplied by the number of DSUs held.

Restricted Share Unit Plan for the Non-Employee Directors

In 2014, the Board adopted NFI's Restricted Share Unit Plan for Non-Employee Directors (the "Director RSU Plan"). The plan was amended on December 8, 2015. A maximum of 500,000 Shares are available for issuance under the Director RSU Plan. Pursuant to the Director RSU Plan, non-employee directors are permitted to elect, once each calendar year, to receive all or a portion of their annual retainer in the form of Director RSUs and/or DSUs instead of cash. A Director RSU is a right to acquire a fully-paid and non-assessable Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. A director generally must make the election prior to the end of the calendar year preceding the year to which such election is to apply. The Board, in its sole discretion, may award additional Director RSUs, subject to an annual aggregate value of $150,000 per director. The number of Director RSUs to be awarded to a director is determined by dividing the amount of the applicable portion of the director's annual retainer by the applicable fair market value of a Share on that date. When dividends are paid on a Share, additional Director RSUs equivalent to the aggregate number of Director RSUs held by a director on the dividend record date multiplied by the amount of dividend paid by NFI on each Share, and then divided by the fair market value of the Shares on the dividend payment date, will automatically be credited to the director's account. Under the Director RSU Plan, Director RSUs vest immediately as at each applicable award date. A director (other than a U.S. director) will be permitted to exercise the Director RSUs credited to his or her account at any time prior to December 15 of the year following the year in which the director ceases to be a non-employee director of NFI or one of its affiliates. A U.S. director will be required to specify the exercise date in an annual election form in accordance with Section 409(A) of the U.S. Internal Revenue Code.

Management

Paul Soubry is the President and Chief Executive Officer, Glenn Asham is the Chief Financial Officer and Colin Pewarchuk is Executive Vice President, General Counsel and Corporate Secretary of the Company.

Biographies of Directors and Executive Officers of NFI

The Honourable Brian V. Tobin, P.C., O.C., ICD.D, was named as an Officer of the Order of Canada in 2013 for his contribution to Canadian public policy. Mr. Tobin is currently a Vice-Chair of BMO Capital Markets, is the Chairperson of the board of New Flyer, serves as Lead Director and Vice Chairperson on the board of Aecon Group Inc. and is a member of the board of Element Financial Corporation. Mr. Tobin is also a member of the board of directors of the Royal Conservatory of Music. Previously, Mr. Tobin served as the Premier of Newfoundland and Labrador from 1996 to 2000 and won two consecutive majority governments in provincial elections held in February 1996 and February 1999. Mr. Tobin also served as a Member of Parliament from 1980 to 1996, served as Minister of Fisheries and Oceans in the federal cabinet from 1993 to 1996 and served as the Federal Minister of Industry from October 2000 to January 2002. Mr. Tobin served as the Executive Chairman, President and Chief Executive Officer of Consolidated Thompson Iron Mines Limited until May 2011 when that company was purchased by Cliffs Natural Resources Inc. Mr. Tobin has also served as a director of Aurvista Gold Corporation, Calvista Gold Corporation, Cline Mining Corporation, Marret Resources Inc., Lions Gate Entertainment Corp. and Canpages Inc. and was a trustee of Newport Partners Income Trust. Mr. Tobin has been awarded honorary degrees by St. Francis Xavier University in Nova Scotia, Canada and by Brock University in Ontario, Canada. Mr. Tobin is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

V. James Sardo, ICD.D, is a corporate director and also serves on the boards of Currency Exchange International, Corp. and Capstone Infrastructure Corporation. Mr. Sardo was a director of Cline Mining Corporation from 2013 to 2015, Consolidated Thompson Iron Mines Limited from 2010 to 2011, Royal Group Technologies Limited from 2003 to 2006, Hydrogenics Corporation from 2003 to 2009, SonnenEnergy Corp from 2008 to 2009 and Northstar Healthcare Inc. from 2008 to 2010. Mr. Sardo was also a trustee of Countryside Power Income Fund from 2004 to 2007; Union Waterheater Income Trust from 2003 to 2007; and Custom Direct Income Fund from 2003 to 2007. Prior to these appointments, Mr. Sardo was interim CEO of Royal Group Technologies Limited from 2004 to 2005, President of the Canadian Operations of Moore Corporation Limited, a business forms and communications company, from 1999 to 2001 and President and CEO of SMK Speedy International Inc., an international automotive repair company, from 1997 to 1999. Prior to 1997 Mr. Sardo was Chief Executive Officer of Amre Inc., a Dallas based marketer of home improvement products from 1994 to 1995 and Chief Executive Officer of SNE Inc., a manufacturer and marketer of windows and doors from 1991 to 1994. Mr. Sardo was the President of Firestone Canada Inc. from 1983 to 1988 and its Chairman and Chief Executive Officer from 1985 to 1988. Mr. Sardo holds a Bachelor of Arts degree from the University of Western Ontario in London, Ontario and an MBA from McMaster University in Hamilton, Ontario and is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

John Marinucci, C.A., ICD.D, H.R.C.C.C, joined New Flyer as President and Chief Executive Officer in 2002 and retired as an executive officer of the Company at the beginning of 2009. Mr. Marinucci also serves as a director of Intelgenx Corporation. He is a past governor and chairperson of Mohawk College in Hamilton, Ontario and was the chairperson of the CWB Group of Companies. Mr. Marinucci previously served as a director of SMTC Corporation and Advance Engineered Products Ltd. Mr. Marinucci is a Chartered Accountant and holds an Honours Bachelor of Commerce degree from McMaster University. Mr. Marinucci has a strong manufacturing background with a proven track record in operational restructurings and management of highly leveraged business concerns. Mr. Marinucci served for eight years as President and Chief Operating Officer for a major Canadian manufacturer and lessor of freight railcars and is a former President of the Canadian Association of Railway Suppliers. He has also held executive and senior management roles within leading Canadian and United States based organizations. Mr. Marinucci is also a member of several private company boards and is the founder and Chairman of the Marinucci Family Foundation, a registered charity focused on funding education, live arts and proactive healthcare initiatives. Mr. Marinucci is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

Larry Edwards, ICD.D, is a corporate director and also serves as a director and Chairman of the board of Victory Energy Organization, LLC, an Oklahoma (USA) based designer and manufacturer of fired packaged boilers, waste heat boilers and heat recovery steam generators and related equipment. Mr. Edward also serves on the board of directors of Patriot Bank and Black Mesa Production, LLC. Mr. Edwards served on the board of Red Fork Energy Limited (a company that was listed on the Australian Securities Exchange) from 2013 to 2015, NCI Building Systems, Inc. from 2007 to 2009 and Global Power Equipment Group Inc. ("GPEG") and its predecessor Global Energy Equipment Group, Inc. from 1998 until January, 2008. Mr. Edwards served as the President and Chief Executive Officer of GPEG from June 1998 until his retirement in December 2006. Mr. Edwards also served as the CEO of GPEG's predecessor company from June 1998 until GPEG's initial public offering in May 2001. From February 1994 until June 1998, Mr. Edwards served as the President of Jason Incorporated's power generation division. From 1976 until 1994, Mr. Edwards held various positions with Braden Manufacturing, including Vice President of Operations, General Manager and President. Prior to the IPO, Mr. Edwards served on the board of Transit Holdings, Inc. since August 2004. Mr. Edwards earned a B.S. in Industrial Engineering and Management from Oklahoma State University and an M.B.A. with honors from Oklahoma City University. Mr. Edwards is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

Adam Gray is a managing partner of Coliseum Capital Management, a private firm that makes long-term investments in both public and private companies, which he co-founded in December 2005. He also serves as non-executive Chairman of Redflex Holdings Limited and serves on the board of The Pas Group Limited (both of which are listed on the Australian Securities Exchange) and the board of Blue Bird Corporation. Mr. Gray served on the board of directors of DEI Holdings, Inc. since February 2009 until its sale in June 2011, and on the board of directors of Benihana Inc. since September 2010 until its sale in August 2012. From January 2005 to November 2005, Mr. Gray was a consultant for a private investment firm. From 2003 to 2004, Mr. Gray served as Executive Vice President, Strategic Projects and Capital Management at Burger King Corp. From 1993 to 2003, Mr. Gray held several executive positions with the Metromedia Restaurant Group, comprised of S&A Restaurant Corp. and Metromedia Steakhouses Company, LP, which included the Bennigan's, Steak & Ale, Ponderosa and Bonanza restaurant concepts. Prior to that time, Mr. Gray served as an Associate at Kluge & Co. and an Analyst within Morgan Stanley's Merchant Banking Group. Mr. Gray holds both a BSE in Finance from the Wharton School of Business and a BS in Mechanical Engineering from the School of Engineering & Applied Science at the University of Pennsylvania.

Krystyna Hoeg, CPA, CA, is a corporate director and was the former President and Chief Executive Officer of Corby Distilleries Limited, a marketer and seller of spirits and wine. She occupied this position from October 1996 to February 2007. She joined the Allied Domecq group of companies in 1985 and held a number of senior financial positions with Hiram Walker & Sons Ltd., Hiram Walker – G&W Ltd., Allied Domecq Spirits and Wine and Hiram Walker and Sons Limited, lastly as Senior Vice-President of Finance – the Americas. Ms. Hoeg is currently a director of Imperial Oil Limited and Sun Life Financial Inc. and is also a director of Revera Inc. and Samuel, Son & Co. Limited, both of which are private companies. She is a past director of Canadian Pacific Railway Limited, Shoppers Drug Mart Corporation and Cineplex Galaxy Income Fund and was a director of Ganong Bros. Limited, a private company. Currently, Ms. Hoeg is the chairperson of the board of directors of the Toronto East General Hospital. She was a director of the Woodrow Wilson Center, Canadian Institute (Advisory Council), Green Shield Canada and St. Michael's Hospital Foundation, as well as the Business Advisory Council of United Nations Office for Project Services. Ms. Hoeg is a Chartered Accountant (1982) and holds a Bachelor of Science from McMaster University, and a Bachelor of Commerce and a Masters of Science from the University of Windsor.

Phyllis Cochran, CPA, is a corporate director and has served on the board of Spartan Light Metal Products, which is a private company, since 2014. Ms. Cochran also served on the board of The Mosaic Company from 2006 to 2013. She retired in 2012 after 33 years with Navistar International Corporation, a global manufacturer of commercial trucks and engines, where she served as President, Parts Group and President and Chief Executive Officer of Navistar Financial Corporation, among other leadership roles. She has strong strategic, operational and financial experience. Ms. Cochran also serves on several not-for-profit and charitable boards and is a member of the Institute of Corporate Directors, National Association of Corporate Directors and the American Institute of Certified Public Accountants.

Paulo Cezar Da Silva Nunes is a corporate director and an independent automotive business consultant, providing services focused on strategy and governance in the automotive industry. Mr. Da Silva Nunes also serves as a director of Marcopolo S.A., one of the world's largest bus manufactures and Cesbe S.A. Engenharia e Empreendimentos, a Brazilian construction company mainly focused on energy generation segments and industrial building construction. He served on the board of Sindipeças, the Brazilian association of auto parts manufacturers from 2002 to 2013. Mr. Da Silva Nunes held various senior positions with Dana Holding Corporation from 1994 to 2012, including as Vice-President, Business Development, as well as various positions with Racine Hidraulica S.A. from 1974 to 1993 and Massey Ferguson S.A. from 1971 to 1974. Mr. Da Silva Nunes holds degrees in business administration and general accounting.

Paul Soubry, ICD.D, joined New Flyer as President and Chief Executive Officer in January 2009. Mr. Soubry holds a Bachelor of Commerce (Honours) degree from the University of Manitoba and completed the executive development program at Harvard Business School. Mr. Soubry has a strong sales, marketing, business development and operations background in businesses held by both trade and private equity owners, with substantial experience in business transformations and LEAN operational practices. Prior to joining New Flyer, Mr. Soubry worked for StandardAero for 24 years where he held a variety of increasingly senior positions including being named President in 2001, Chief Operating Officer in 2006, and Chief Executive Officer in 2007. Mr. Soubry currently serves on the boards of True North Sports and Entertainment Limited/Winnipeg Jets Hockey Club and the Winnipeg Airports Authority. He has also served on the board of the Mondetta Clothing Company and Economic Development Winnipeg Inc. In 2003, Mr. Soubry was named one of the recipients of "Canada's Top 40 under 40" award and in 2014 was inducted in the Canadian Manufacturers and Exporters Hall of Fame. Mr. Soubry is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

Glenn Asham joined New Flyer in 1992. Mr. Asham obtained his chartered accountancy designation in 1987 and a Bachelor of Commerce from the University of Manitoba in 1984. Prior to joining the Company, he worked with Deloitte & Touche for eight years, providing client services in the areas of accounting, auditing, taxation and management consulting.

Colin Pewarchuk joined New Flyer in 2006 and is the Executive Vice President, General Counsel and Corporate Secretary. Mr. Pewarchuk obtained a Bachelor of Commerce (Honours) from the University of Manitoba in 1990 after which he worked for a leading Canadian financial institution as a personal banker. Mr. Pewarchuk obtained a law degree from the University of Manitoba in 1996 and prior to joining New Flyer, was a lawyer at the law firm of Aikins, MacAulay & Thorvaldson LLP since 1997. Mr. Pewarchuk is a member of the Institute of Corporate Directors and a graduate of the Directors Education Program.

As at December 27, 2015 the directors and executive officers of NFI as a group beneficially owned, directly or indirectly, or exercised control or direction over, approximately 6,226,085 Shares, representing approximately 11% 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 6,559,993 Shares, representing approximately 12% of all issued and outstanding Shares as at December 27, 2015. None of the directors or officers of NFI or the executive officers of NFI's subsidiaries own Debentures.

Cease Trade Orders, Bankruptcies, Penalties and Sanctions

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. 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.

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.

Mr. Sardo has served as a director on the board of directors of Cline Mining Corporation ("Cline") from May 23, 2013 to July 8, 2015. At the time of his appointment, Cline was in default of its senior secured debt obligations. Mr. Sardo was appointed to assist Cline and the board of directors with their assessment of strategic alternatives to address the company's financial challenges for the benefit of the company and its stakeholders. Subsequently, Cline and certain of its subsidiaries obtained protection under the CCAA in the Ontario Superior Court of Justice (Commercial List) on December 3, 2014 in connection with a proposed restructuring and recapitalization. On July 8, 2015, Cline completed a re-capitalization and emerged from CCAA, at which time Mr. Sardo resigned as a director of Cline.

On September 28, 2006, Global Power Equipment Group Inc. ("GPEG") and all of its U.S. subsidiaries filed voluntary petitions for reorganization under chapter 11 of title 11, United States Code in the United States Bankruptcy Court for the District of Delaware. Mr. Edwards served as Chairman of the Board, President and Chief Executive Officer at the time of filing. On November 22, 2006, Mr. Edwards resigned as President and Chief Executive Officer of the Company; remaining as Chairman of the Board. GPEG and its U.S. subsidiaries emerged from bankruptcy proceedings in January, 2008 and Mr. Edwards resigned as a director of GPEG.

Between April 3, 2006 and May 3, 2006, Mr. Sardo, who was then a director of Royal Group Technologies Limited, was prohibited from trading in securities of Royal Group Technologies Limited pursuant to a management cease trade order issued by the Ontario Securities Commission in connection with the delay in filing of certain of Royal Group Technologies Limited's financial statements.

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.

Long-Term Incentive Plans

Performance and Restricted Share Unit Plan

Effective December 17, 2012, the Board approved the Performance and Restricted Share Unit Plan (the "PRSU Plan"). The PRSU Plan was introduced on a go-forward basis to consolidate the former New Performance Unit Plan and the Restricted Share Unit Plan into one document. The terms of the PRSU Plan govern awards made on or after January 1, 2013. The PRSU Plan was amended effective December 16, 2013 (the "Amended PRSU Plan") to change the performance measure from 3-year cumulative Adjusted EBITDA to 3-year average annual return on invested capital. The terms of the Amended PRSU Plan govern awards made on or after the 2014 plan year.

The purposes of the Amended PRSU Plan are to attract, retain and motivate key personnel and reward officers and senior management and to align their interests with those of shareholders by making a significant portion of their incentive compensation directly dependent on achieving key strategic, financial and operational objectives that are crucial to the ongoing growth and profitability of the Company. Under the terms of the Amended PRSU Plan, the human resources, compensation and corporate governance committee may grant eligible participants performance share units ("PSUs") or restricted share units ("RSUs"), which give the holders thereof the right to receive, upon vesting and redemption of a unit, a cash payment equal to the fair market value of a Share at the time of redemption. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of PSUs and RSUs held (and determined based on the then fair market value of the Shares) are credited to a participant's account. The actual value of a PSU on the settlement date is contingent on the Share price and the Company's actual performance over a three-year period relative to the established objectives. The actual value of an RSU on the settlement date is contingent on the Share price only and RSUs generally vest and settle as to one-third on each of the first, second and third anniversaries of the grant date. PSUs and RSUs also immediately vest upon the closing of a transaction resulting in certain change of control events and upon certain terminations of employment.

Share Option Plan

NFI implemented a Share Option Plan (the "Option Plan") in March 2013. The plan was amended on December 8, 2015. Only employees of NFI and certain affiliates ("participants") may receive grants of share options ("Options") under the Option Plan. The Option Plan permits the grant of incentive stock options under the U.S. Internal Revenue Code and non-qualified stock options. Non-employee directors of NFI are not eligible to participate in the Option Plan. A maximum of 3,600,000 Shares of NFI are available for issuance under the Option Plan.

The purposes of the Option Plan are to: (i) support the achievement of NFI's performance objectives; (ii) ensure that interests of key persons are aligned with the success of NFI; and (iii) provide compensation opportunities to attract, retain and motivate senior management critical to the long-term success of NFI and its subsidiaries. The human resources, compensation and corporate governance committee may award Options to any eligible employee. The exercise price of an Option may not be less than fair market value on the date of the grant which, for these purposes means the closing price of a Share on the principal stock exchange on which the Shares are traded on the last trading day immediately preceding the applicable day. The vesting terms and expiry of an Option will be determined by the committee for each applicable grant, provided that Options must expire no later than the eighth anniversary of the date of grant, except that Options which would otherwise expire during, or within 10 business days following a blackout period will expire 10 business days following the end of the blackout period. Each Option will vest on the date or dates designated in the grant agreement or such earlier date as is provided for in the Option Plan or is determined by the committee. If no specific provision is made, Options will vest 25% on each of the first through fourth anniversaries of the date of grant. Vested Options may be exercised by the participant providing a notice of exercise and (i) paying the exercise price in full to NFI; or (ii) without payment either (A) by receiving an amount in cash per Option equal to the cash proceeds realized upon the sale of the Shares by a securities dealer in the capital markets, less the applicable exercise price and any applicable withholding taxes, or (B) by receiving the net number of Shares remaining after the sale of such number of Shares by a securities dealer in the capital markets as required to realize cash proceeds equal to the applicable exercise price and any applicable withholding taxes, or (C) a combination of (A) and (B). On exercise of a vested Option, NFI will issue one Share for each vested Option elected to be exercised. Options are not transferable or assignable other than by will or the laws of descent and distribution.

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 John Marinucci, 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 licensed certified public accountant 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.
John Marinucci	Mr. Marinucci is a chartered accountant and has worked as an audit manager in an international chartered accounting firm. Mr. Marinucci has served as president and chief executive officer of other companies, including NFI.

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 2015	Fiscal 2014
Audit Fees	C$779,499	C$847,923
Audit-Related Fees	C$0	C$33,209 (1)
Taxation Fees	C$424,395 (2)	C$288,871 (2)
All Other Fees	C$738,312 (3)	C$0

(1) The 2014 audit-related fees relate to the audit impact of the rationalization plans of the NABI product offering and Canadian Public Accountability Board fees.

(2) The 2014 and 2015 taxation fees relate to compliance, research and advisory services.

(3) The 2015 fees related to due diligence associated with the acquisition of MCI.

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 have been 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 (chaired by the Company's Chief Financial Officer) in conjunction with the Company's Director of the Audit and Risk Management Services department.

RISK FACTORS

An investment in the Shares and the Debentures 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 and the Debentures may materially decline.

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 are municipal and other local transit authorities that rely on funding from various levels of government to purchase heavy-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 heavy-duty 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, President Obama signed FAST into law. 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 increases the current annual public transportation funding from $10.7 billion to $12.6 billion by 2020.

With the acquisition of MCI, the Company now has much greater exposure to the private market. 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 and coaches 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.

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 both Canadian dollars and U.S. dollars in the ordinary course. The currency mix of cash flows and earnings depends on the geographic source of orders for heavy-duty transit buses and 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 rate between the Canadian dollar and the U.S. dollar. Fluctuations in the exchange rate between the United States dollar and Canadian dollar will affect 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 Canadian dollars. This is largely dependent on the Company's delivery of buses and coaches to Canadian customers. During 2015, the Company generated a net cash inflow of Canadian dollars. During 2016, based on production plans as of the date hereof and management's estimates of the Company's Canadian dollar revenues and expenses and resulting cash flows, management expects the Canadian dollar outflows to exceed Canadian dollar inflows. The Company will have temporary surpluses and deficits of Canadian dollar cash flows from time to time during this period. The Company intends to implement 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 the Canadian dollar strengthens relative to the United States dollar. To the extent the Company has borrowings that are denominated in Canadian dollars, its results of operations are also negatively affected by a strengthening in the Canadian dollar compared to the United States dollar.

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

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 to the customer. This effective increase in the cost of the coach may decrease the size of the private motor coach market and as a result, may reduce the volume of motor coaches sold by the Company.

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. The Company has entered into an interest rate swap until December 2019, which fixes the interest rate on the $482 million term portion of the Credit Facility at 1.053% plus the applicable interest margin.

The market price for the Shares or Debentures may be volatile

Factors such as variations in the Company's financial results, announcements by the Company or others, developments affecting the Company's business, general interest rate levels, general market volatility and many other factors could cause the market price of the Shares or the Debentures to fluctuate significantly.

In addition, future sales or the availability for sale of substantial amounts of Shares or a significant principal amount of Debentures in the public market could adversely affect the prevailing market price of the Shares and the Debentures 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 and the Debentures.

Risks Related to the Business Environment

Competition in the industry and entrance of new competitors

There is significant competition and excess production capacity in the heavy-duty transit bus industry in Canada and the United States. Although the Company is the current market leader, its principal competitors (among which are Gillig LLC and Nova Bus Inc.) and more recent entrants such as BYD and Proterra 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 two publicly-traded heavy-duty transit bus manufacturers in the United States and Canada (the other being Grande West Transportation Group Inc.) and is subject to certain legal disclosure requirements. These disclosure requirements may put New Flyer at a competitive disadvantage. In addition, the recent recession that began in 2008 put funding pressures on transit agencies for capital purchases and operating funds, combined with aging bus fleets 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 also significant competition in the motor coach industry. In the private market sector, MCI's primary competitors are Prevost, which is owned by Volvo Bus Corporation, and Van Hool. Recently, Temsa from Turkey has entered the market. Manufacturers from China, Spain and South America have recently shown interest in the North American market. Additionally, the relatively recent entrance of Prevost into the U.S. public motor coach market will increase competition.

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.

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

Manufacturers of new buses and coaches must comply with "Buy America" requirements in order for new bus and coach purchases to qualify for United States federal funding. "Buy America" regulations currently require that buses and coaches purchased with federal funds contain a minimum of 60% United States content by cost and that final assembly take place in the United States. In December 2015, FAST increased the "Buy America" content requirement for transit rolling stock from the current level of 60% to 65% in 2018 and to 70% in 2020. There can be no assurance that these "Buy America" requirements will not change and/or become more onerous or that the Company will continue to meet the "Buy America" content 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".

Absence of fixed term customer contracts, exercise of options and customer 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 buses and coaches once every few years. Customers may, without notice or penalty, 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 buses and 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 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 terminate the contract for convenience (or without any reason). As such, customers may, without notice and for no reason, 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.

United States content bidding preference rules may create a competitive disadvantage

Legislation passed in late 2011 in the State of California permits California agencies to grant bidding preference to a bidder based on the amount by which the buses it is proposing exceed the minimum United States content requirements under the United States federal "Buy America" regulations. Although management does not believe that the U.S. content of competitors' buses is materially different from the U.S. content of the Company's buses, no such data is publicly available and there can be no assurance that competitors' buses don't now or won't in the future contain a materially higher percentage of U.S. content than the Company's buses. If this occurs, it may create a competitive bidding advantage for such competitors in the State of California under procurements utilizing these bid preference rules. If this materially limits the Company's ability to win awards it may have an adverse effect on the Company's business, financial condition, liquidity and operating results. See "Description of the Business — Legal and Regulatory Matters — United States Content Bidding Preference".

United States local job creation criteria in solicitations may create a competitive disadvantage

U.S. transit agencies are assessing whether to evaluate bus manufacturers participating in bus solicitations on the ability to create jobs locally. One large U.S. agency did include local job creation as a criteria in its bus solicitation, which was awarded to New Flyer. Management does not know whether other customers will use such criteria in their procurement award process. Any changes in legislation or procurement criteria that mandate a U.S. or local jobs preference may put the Company at a competitive disadvantage if it is unable to create a sufficient number of U.S. or local jobs to win a solicitation. To the extent that this prevents the Company from winning a material number of solicitations, it may have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

Current requirements under the Ontario government's or Canadian transit agencies' Canadian content policy may change and/or become more onerous

Manufacturers selling new buses to transit customers in Ontario, Canada that use provincial funding to purchase such buses must comply with the Ontario government policy requiring that such transit vehicles must contain a minimum 25% Canadian content by cost. There can be no assurance that these "Canadian content" requirements will not change and/or become more onerous or that other provinces or transit agencies 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, the Company may not be able to comply with the 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 – Ontario Policy Regarding Canadian Content" and "Description of the Business – Legal and Regulatory Matters – Policy of the Toronto Transit Commission".

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, 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.

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 heavy-duty transit 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, such as the supply of transmissions, axles, heating and air conditioning units and fiberglass and 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 or a particular supplier may be specified by a customer and such 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 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 mandates 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 heavy-duty transit buses in North America. The failure of this sole engine manufacturer (or any new engine supplier that may enter the transit bus engine market) to supply the heavy-duty transit industry with engines that comply with current emissions standards will have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

In the motor coach industry, there are currently two engine manufacturers that sell engines that comply with EPA requirements for use in motor coaches sold in the United States. In addition, EvoBus GmbH, the Daimler subsidiary that manufactures the Setra motor coaches, certifies that the engines in the Setra coaches comply with all applicable regulatory requirements. There can be no assurance that these 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.

Effective January 1, 2014, the California ARB requires annual 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 manufacturer, such as New Flyer. All other states that follow ARB regulations, with the exception of Pennsylvania, have provided an exemption from these regulations for urban transit buses. Unless this certification requirement is waived or until it can be achieved by the suppliers, transit agencies in these two states will need to purchase or convert options to diesel or CNG powered buses. If hybrid propulsion suppliers are unable to provide the required certifications, the Company will not be able to sell hybrid propulsion systems in states that implement the ARB rules. Such limitations, depending on their scope and on the availability of alternative propulsion system options and the willingness or ability of customers to purchase buses with such alternative propulsion systems, 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. As a result, the Company's profit margins could be materially adversely affected. Increases in the prices paid for raw materials and components, particularly in situations where prices under multi-year bus purchase contracts have been quoted to customers as firm and fixed, could also impair the Company's ability to compete and 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 buses

The Company is subject to product warranty claims in the ordinary course of its business. For heavy-duty transit buses, the Company provides a 12-year warranty (and in some circumstances, an 18-year warranty) on its bus structures and a one to five year warranty on certain other bus components. For the public sector coach market, the Company often provides a seven to 12-year warranty on the coach structure and a one to five year warranty on certain other coach components. For the private sector coach market, the Company normally provides a 24- to 30-month limited warranty that typically excludes the coach engine and transmission (and certain other components warranted only by the component supplier). In addition, many bus purchase contracts have fleet defect provisions whereby if a certain percentage of a customer's fleet (typically 10% to 25%) experiences the same defect, the Company is obligated to replace or repair all such components (whether they experienced failures or not) across the fleet. Certain other extended warranties for major subsystems such as engines, transmissions, axles and air conditioning are generally purchased for the customer from the component supplier. The Company 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. The Company is currently aware of warranty issues regarding rear bus structures, structural corrosion and certain propulsion systems which may result in unforeseen material warranty costs. 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 periodically subject to product warranty claims from its customers due to bus fires. Such fires are common in the transit bus industry, particularly in the engine compartment area due to the restricted size of the compartment, the nature of the components used in the manufacture of buses and the arduous operating life cycles of buses.

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 buses and coaches. The Company may also have to remedy or retrofit 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

Bus manufacturing contracts in the heavy-duty transit bus and public sector coach industries typically include liquidated damages provisions that result in monetary penalties on a per bus per day basis when buses 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, 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 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 51% of the Company's total employees are represented by unions under eight collective bargaining agreements. The collective bargaining agreement between MCI and the union representing the production, maintenance, clerical, and quality assurance employees at MCI's Pembina, North Dakota facility expires on May 6, 2016, and MCI and the union leadership are currently negotiating a new collective agreement. 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, 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. Further, insurance may not be available to the Company at reasonable rates in the future. 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 may incur material losses and costs as a result of product liability claims

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. Significant product liability claims 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 incur costs in connection with provincial, state or federal regulations relating to axle weight restrictions and vehicle lengths

The Company is required, in its customer contracts, to comply with applicable provincial, state and federal regulatory requirements. Certain models and types of the Company's buses and 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 buses or coaches or new buses or coaches that are manufactured and that do not comply with local axle weight or length standards. To date, only a few of New Flyer's customers have required that the Company reconfigure its buses to comply with local axle weight regulations. The Company may incur material costs in the future if it is required to redesign new 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 buses and/or coaches would not comply with such more onerous regulations. If the Company is unable to design buses and coaches that comply with such new weight requirements it will not be able to sell buses and/or coaches to customers whose vehicles are governed by such laws, which depending on the volume of 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 heavy-duty transit buses and motor coaches to recover such costs and, accordingly, lower margins may result.

Dependence on management information systems

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 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 upgraded as required, there could be a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The Company's success depends on a limited number of key executives whom the Company may not be able to adequately replace in the event they leave the Company

The success of the Company's business strategy and its ability to operate profitably depend on the continued employment of its senior management team. The loss of the services of one or more of these key executives could have a material adverse effect on the Company. There can be no assurance that the Company will be able to retain its existing senior management, attract additional qualified executives or adequately fill new senior management positions or vacancies created by expansion or turnover.

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 27, 2015 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.

The Company has limited its design of ICFR to exclude controls, policies and procedures of MCI as MCI was acquired not more than 365 days before the end of the financial period ending December 27, 2015.

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 27, 2015 were effective.

The Company has limited its design of disclosure controls and procedures to exclude controls, policies and procedures of MCI as MCI was acquired not more than 365 days before the end of the financial period ending December 27, 2015.

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 products 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.

Development and testing of new products

The Company may not be able to successfully design, develop or test new products or improvements to existing products (for example Xcelsior®, MiDi®, the J-model or D-model coaches 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 recently completed acquisition of MCI.

Joint Ventures/Arrangements

The Company has entered into a long-term joint operation with Alexander Dennis to develop and sell MiDi® and may, in the future, enter into other joint venture arrangements. The Company is subject to the risks normally associated with the conduct of joint ventures or arrangements and having strategic partners, which include:

- disagreement with the partners on how to develop, operate or finance the Company's joint ventures or arrangements activities;
- that the partners may at any time have economic or business interests or goals that are, or become, inconsistent with the Company's business interests or goals;
- that the partners may not comply with the agreements governing the Company's relationship with them;
- disagreement with the partners over the exercise of their respective rights under the agreements governing the relationship;
- that the partners may be in a position to take action contrary to the Company's instructions, requests, policies, objectives or interests;
- the possibility that partners may become insolvent or bankrupt; and
- possible litigation with the partners over joint ventures or arrangements or strategic matters.

These risks could result in legal liability and affect NFI's ability to develop the Company's joint ventures or arrangements or strategic initiatives. Any failure of partners to meet their obligations to the Company or to third parties, any disagreements and disputes with respect to the parties' respective rights and obligations, or the occurrence of any of the other risks described above could have a material adverse effect on the Company's ability to successfully pursue joint ventures or arrangements and strategic initiatives, 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 (e.g., Quebec, Canada) 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, particularly with respect to certain types of buses such as MiDi®. 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.

In 2012, MCI entered into a Distribution Rights Agreement ("DRA") with EvoBus GmbH, a subsidiary of Daimler, pursuant to which MCI was granted the exclusive rights to distribute certain Setra coaches, and corresponding aftermarket parts, in the U.S. and Canada. The DRA has an initial term of five years, and automatically renews for additional one-year periods unless either party gives the other party at least six months notice of non-renewal prior to the expiration of the initial or any renewal term. There can be no assurance that the Company will be able to renew or extend the term of the DRA, or to do so on terms favorable to the Company.

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 December 2019. 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 will also need to repay in cash the principal amount of any Debentures that are not converted into Shares prior to the maturity of the Debentures, subject to the ability of the Company to make such repayment in the form of Shares in certain circumstances.

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, the Debentures 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, the Debentures and other agreements with third parties. As at December 27, 2015, the Company had total third party indebtedness of US$727 million. In addition, the Credit Facility and the Indenture 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 and Debentures, 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 and the Debentures, 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, the Debentures 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;

- sell assets;

- consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's assets;

- enter into transactions with the Company's affiliates;

- create liens; and

- enter into new lines of businesses.

In addition, the Credit Facility includes other restrictive covenants and prohibits the Company and certain of its affiliates from prepaying its other indebtedness, including the Debentures, while debt under the Credit Facility is outstanding. The Credit Facility also requires the Company to achieve specified financial and operating results and maintain compliance with specified financial ratios. The Company's ability to comply with these 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 substantial amount of the Company's cash is distributed, which may restrict potential growth

Historically, a substantial amount of the Company's cash generated from operations has been distributed to investors in the form of dividends on the Shares and interest payments on the Debentures 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 and interest on the Debentures while they remain outstanding. 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 and Debentures 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 or Debentures 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 and make payments to holders of Debentures. While NFI is contractually obligated to make interest payments on the Debentures, cash dividends by NFI on the Shares are not guaranteed and will fluctuate with the performance of the business of NFI's subsidiaries.

NFI may not be able to make principal payments on the Debentures

The Debentures will mature in June 2017. NFI may not be able to repay the principal outstanding from new financing, cash flows or other sources. There is no guarantee that NFI will be able to repay the outstanding principal amount upon maturity of the Debentures.

Redemption by NFI of the Debentures for Shares will result in dilution to holders of Shares

NFI may determine to redeem outstanding Debentures for Shares or to repay outstanding principal amounts and interest owing thereunder at maturity of the Debentures by issuing additional Shares. Accordingly, holders of Shares may suffer dilution.

Debentures may be redeemed by NFI prior to maturity

The Debentures may be redeemed, at the option of NFI, on and after June 30, 2015 and prior to maturity at any time and from time to time subject to certain conditions. Holders of Debentures should assume that this redemption option will be exercised if NFI is able to refinance at a lower interest rate or it is otherwise in the interest of NFI to redeem the Debentures.

NFI may not be able to repurchase the Debentures upon a change of control as required by the Indenture

Upon the occurrence of certain specific kinds of change of control events, NFI will be required to offer to purchase outstanding Debentures at their principal amount plus accrued and unpaid interest, if any, to the date of purchase. However, it is possible that NFI will not have sufficient funds at the time of the change of control to make the required purchase or that restrictions contained in other indebtedness will restrict those purchases. Failure to make an offer to purchase the Debentures would constitute a default under the Indenture, which might constitute a default under the terms of NFI's other indebtedness at that time.

If a holder of Debentures converts its Debentures in connection with a Cash Change of Control that occurs, NFI may, in certain circumstances, be required to increase the conversion rate pursuant to the terms of the Indenture. While the increased conversion rate is designed to compensate a holder of Debentures for the lost option time value of its Debentures as a result of a Cash Change of Control in certain circumstances, the increased conversion rate amount is only an approximation of such lost value and may not adequately compensate the holder for such loss. In addition, in some circumstances as described in the Indenture, no adjustment will be made.

Conversion of the Debentures following certain transactions could lessen or eliminate the value of the conversion privilege associated with the Debentures

In the case of certain transactions, each Debenture may (i) become convertible into the securities, cash or property receivable by a holder of Shares based on the number of Shares into which the Debenture was convertible immediately prior to the transaction, or (ii) become convertible into certain prescribed securities with limited liquidity. These changes could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future and result in the receipt of illiquid securities and thereby have a material adverse effect on the value of the Debentures.

Future sales or the possibility of future sales of a substantial amount of Shares or Debentures may impact the price of the Shares and the Debentures and could result in dilution

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

NFI may issue Shares and Debentures, 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 and/or the aggregate principal amount of Debentures, 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, Debentures or other securities in connection with any acquisitions or investments.

Payments to holders of the Debentures are subordinated in right of payment to existing and future Senior Indebtedness and will depend on the financial health of NFI and its creditworthiness

The likelihood that holders of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of NFI and its creditworthiness. In addition, the Debentures are unsecured obligations of NFI and are subordinate in right of payment to all NFI's existing and future Senior Indebtedness (as defined under the Indenture). Therefore, if NFI becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, NFI's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its Senior Indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively and structurally subordinate to claims of creditors (including trade creditors) of NFI's subsidiaries. The Indenture does not prohibit or limit the ability of NFI or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness) or to make distributions on the Shares. The Indenture does not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving NFI.

Investment Eligibility and Canadian Federal Income Tax Risks

There can be no assurance that the Shares and the Debentures 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

Under certain circumstances, Section 163(j) of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), limits a corporation's deductions for interest paid to related foreign persons exempt from U.S. tax or for interest paid on debt that is guaranteed by a related foreign person. Because NFI is a guarantor under the Credit Facility, the NF Group's interest deductions may be limited with respect to the Credit Facility, which may increase the NF Group's U.S. federal income tax liability. In addition, the NF Group's interest deductions may be limited under Code Section 163(j) with respect to indebtedness owed by NFI ULC to NFI. Similar limitations on interest deductions may apply with respect to U.S. subsidiaries recently acquired through MCI. Any such limitations 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 recharacterized for U.S. tax purposes, which could increase the NF Group's tax liability

Management believes that certain transactions completed in connection with the acquisitions of MCI and NABI, whereby certain preferred shares issued by U.S. subsidiaries in the NF Group were acquired by NFI pursuant to sale-repurchase transactions, should be treated as financing transactions (the

“Financing Transactions”), with the U.S. subsidiary as the borrower and NFI as the lender. In such case, dividend payments made on the preferred shares (in the amount of approximately US$28.4 million per year) should be treated as an interest expense of the U.S. subsidiary for U.S. federal income tax purposes. However, there is a risk that the Financing Transactions could be treated for U.S. federal income tax purposes as equity rather than debt, in which case the otherwise deductible deemed interest paid in the form of dividends on the preferred shares 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. Even if the Financing Transactions are respected as debt for U.S. tax purposes, the treatment of dividend payments on the preferred shares as interest expense may be subject to the limitation under Code Section 163(j), as described above.

The NF Group’s interest deductions on intercompany indebtedness between NFI and NFI ULC may generate “dual consolidated losses” for U.S. federal income tax purposes and may result in disallowance of interest deductions if certain “triggering events” occur

Pursuant to Code Section 1503(d) and the Treasury Regulations thereunder (the “DCL Rules”), the interest deductions associated with the intercompany indebtedness between NFI, as lender, and NFI ULC, as borrower, independently or together with any other deductions attributable to NFI ULC, may generate a “dual consolidated loss” (“DCL”) for U.S. federal income tax purposes and would, in that case, be deductible by the NF Group only if the NF Group and NFI ULC make an election provided by the DCL Rules, and comply with all applicable requirements, including annual reporting and certification requirements. In the event that NFI ULC has a DCL for a taxable year, the NF Group and NFI ULC intend to make such election and comply with all applicable requirements. Even if such an election is made, however, if any of several “triggering events” occurs (e.g., the use of such losses to offset the income of any other non-U.S. person, or, in certain circumstances, a disposition of NFI ULC stock or assets), the NF Group will generally be required to report all or a portion of the amount of any prior interest deductions on the intercompany indebtedness between NFI and NFI ULC and other deductions (plus interest thereon) as gross income in the year of the triggering event. The NF Group and NFI ULC intend to comply with all of the DCL reporting and certification requirements. However, if the NF Group and NFI ULC fail to satisfy such reporting and certification requirements, or if a DCL triggering event occurs and no exception applies, the NF Group’s taxable income and thus its U.S. federal income tax liability would be materially increased. This would 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 2015 are set forth in the following table [1]:

	CLOSING HIGH (C$)	CLOSING LOW (C$)	TOTAL VOLUME
January 2015	13.79	12.72	1,221,080
February 2015	13.95	13.06	656,140
March 2015	14.19	13.53	1,363,242
April 2015	14.70	14.11	3,007,086
May 2015	15.74	14.15	3,772,188
June 2015	15.57	15.02	1,046,710
July 2015	16.51	15.20	1,279,270
August 2015	19.83	16.30	3,203,187
September 2015	20.00	18.21	2,203,606
October 2015	20.41	18.50	2,892,737
November 2015	26.17	18.98	4,733,036
December 2015	28.32	26.55	6,660,375

(1) Source: Historical data from the TSX.

Debentures

The Debentures are listed and posted for trading on the TSX under the trading symbol "NFI.DB.U". The total monthly volume of trading and the closing price ranges of the Debentures on the TSX in each month of 2015 are set forth in the following table [1]:

	CLOSING HIGH ($)	CLOSING LOW ($)	TOTAL VOLUME[1]
January 2015	117.50	112.75	4,320
February 2015	115.25	110.75	22,480
March 2015	117.50	112.25	12,840
April 2015	121.82	117.50	2,570
May 2015	129.00	119.00	4,990
June 2015	128.00	124.00	5,240
July 2015	128.00	118.00	15,360
August 2015	150.00	129.75	31,680
September 2015	150.73	137.00	22,125
October 2015	154.00	142.00	22,270
November 2015	197.00	150.00	17,180
December 2015	205.00	192.89	13,020

(1) Source: Historical data from the TSX.

AUDITORS, TRANSFER AGENT, REGISTRAR AND TRUSTEE

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

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

The trustee for the Debentures is Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

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 Deferred Share Unit Plan for Non-Employee Directors adopted November 7, 2011 and amended on December 8, 2015 and December 18, 2015;
- the Restricted Share Unit Plan for Non-Employee Directors adopted May 8, 2014 and amended on December 8, 2015;
- the Share Option Plan amended and effective March 21, 2013 and amended on December 18, 2015;
- the Amended Performance and Restricted Share Unit Plan dated December 17, 2012 and amended on December 16, 2013;
- Securities Purchase Agreement by and among Motor Coach Holdings, LP, New MCI Holdings, Inc. and New Flyer Holdings, Inc. referred to under "General Development of the Business — Recent Developments — Fiscal 2015";
- the Credit Facility referred to under "General Development of the Business – Recent Developments – Fiscal 2015" and "Description of Capital Structure – Credit Facility";
- the Amended and Restated SRP dated May 8, 2014 and referred to under "General Development of the Business – Recent Developments – Fiscal 2014" and "Description of Capital Structure – Shareholder Rights Plan";
- Purchase Agreement dated as of June 21, 2013 by and among The Traxis Group B.V., NF Transit Holdings, LLC, and NFI referred to under "General Development of the Business — Recent Developments — Fiscal 2013";
- Purchase and Sale Agreement dated as of March 1, 2013 by and among Daimler Buses North America Inc., Daimler Buses North America Ltd., Daimler North America Corporation and NFI ULC referred to under "General Development of the Business — Recent Developments — Fiscal 2013";
- the Investment Agreement dated January 23, 2013 between Marcopolo S.A. and NFI referred to under "General Development of the Business – Recent Developments – Fiscal 2013";
- the Indenture dated June 5, 2012 referred to under "Description of Capital Structure – Description of Debentures"; and
- the investor representation agreement March 21, 2012 between Coliseum Capital Management, LLC and NFI.

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, except as described herein.

INTERESTS OF EXPERTS

Deloitte LLP, NFI's auditor, 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 27, 2015. 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 and the principal holders of NFI's securities will be contained in NFI's Management Information Circular, to be filed with Canadian securities regulatory authorities in connection with the annual meeting of shareholders of NFI to be held in 2016.

APPENDIX “A”

NEW FLYER INDUSTRIES 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, Multilateral 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) 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;

(xii) 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

(xiii) 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" or "adjusted" 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.

(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.