Financial Results
Second Quarter 2023

August 16, 2023

NFI's mobility solutions

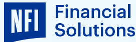
Buses & Coaches

Workforce Development & Training

Infrastructure Solutions

Parts, Publications & Service

Financing



Connected Vehicles & Diagnostics

Notes to readers

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS, 26-WEEKS, AND 52-WEEKS ENDED JULY 2, 2023

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's unaudited interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week and 26-week period ended July 2, 2023.

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

The Company retrospectively adopted IFRS 17 - Insurance Contracts on January 2, 2023. Refer to the section, "new and amended standards adopted by the Company" for details of the impact of the adoption on this MD&A. NFI's Financial Statements were prepared on a going concern basis in accordance with IFRS. Readers are recommended to read the section, "capital allocation policy" regarding the basis of preparation, the impact of upcoming financial covenants and the determination of application of the going concern assumption.

QUARTERLY AND ANNUAL REPORTING PERIODS

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

Period from January 2, 2023 to December 31, 2023 ("Fiscal 2023")				**Period from January 3, 2022 to January 1, 2023 ("Fiscal 2022")**			
	Period End Date		# of Calendar Weeks		Period End Date		# of Calendar Weeks
Quarter 1	April 2, 2023	("2023 Q1")	13	Quarter 1	April 3, 2022	("2022 Q1")	13
Quarter 2	July 2, 2023	("2023 Q2")	13	Quarter 2	July 3, 2022	("2022 Q2")	13
Quarter 3	October 1, 2023	("2023 Q3")	13	Quarter 3	October 2, 2022	("2022 Q3")	13
Quarter 4	December 31, 2023	("2023 Q4")	13	Quarter 4	January 1, 2023	("2022 Q4")	13
Fiscal year	December 31, 2023		52	Fiscal year	January 1, 2023		52

Notes to readers

Specific references and definitions are used throughout this MD&A, please see the Non-IFRS and Other Financial Measures section. References to LTM mean last-twelve months ("LTM"). Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), Invested Capital, net operating profit after taxes ("NOPAT"), return on invested capital ("ROIC"), Free Cash Flow, Free Cash Flow per Share, Adjusted Net Loss, Adjusted Net Loss per Share, Liquidity, Working Capital Days, Payout Ratio, Book-to-Bill and Backlog are non-IFRS measures and should not be considered substitutes or alternatives for IFRS measures. These are not defined terms under IFRS and do not have standard meanings, so may not be a reliable way to compare NFI to other companies.

The Company has two reportable segments which are the Company’s strategic business units: Manufacturing Operations and Aftermarket Operations. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies.

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

The Aftermarket Operations segment derives its revenue from the sale of aftermarket parts for transit buses, coaches and medium-duty/cutaway buses, both for the Company's and third-party products.

Single and double deck buses manufactured by New Flyer and Alexander Dennis Limited ("Alexander Dennis" or "AD") are classified as "transit buses". ARBOC Specialty Vehicles, LLC manufactures body on-chassis or “cutaway” and "medium-duty" buses that service transit, paratransit, and shuttle applications. Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses". A “motor coach” or “coach” is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) high deck floor, (ii) baggage compartment under the floor, (iii) high-backed seats with a coach-style interior (often including a lavatory), and (iv) no room for standing passengers. “Product lines” include heavy-duty transit buses, motor coaches, pre-owned coaches, cutaway and medium-duty buses.

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

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

Leader in zero-emission transportation

120M+
Electric service miles driven

3,123
ZEB EUs delivered since 2015

232
ZEB EUs delivered in 2023 Q2

25%
of new EUs delivered in 2023 Q2 were ZEBs

53%
of North American Public Bid Universe is ZEBs

~8,000
EUs annual ZEB production capacity

3,491
ZEBs in backlog

36%
of total backlog is ZEBs

140+
Cities have NFI ZEBs in service or on order

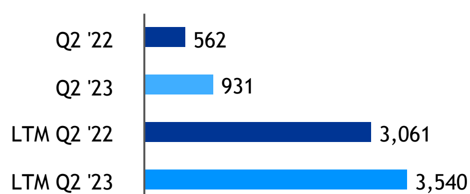
6
Countries have NFI ZEBs in service or on order

410+
EV chargers delivered via Infrastructure Solutions™ since 2018

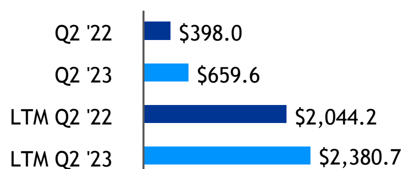
80+
Megawatts charging capacity delivered via Infrastructure Solutions™ since 2018

KEY PERFORMANCE INDICATORS

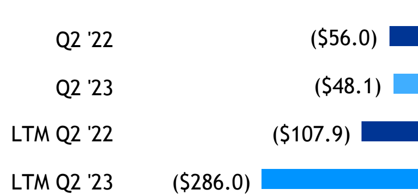
Deliveries (EUs)



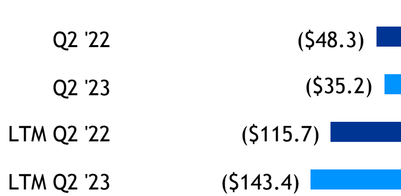
Revenue ($ millions)



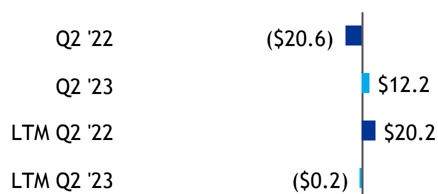
Net Loss ($ millions)



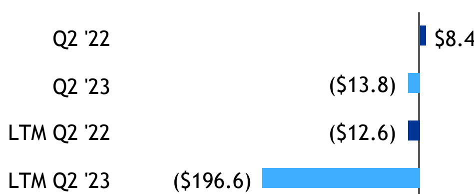
Adjusted Net Loss[1] ($ millions)



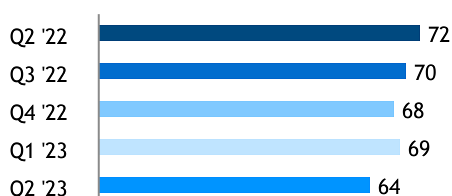
Adjusted EBITDA[1] ($ millions)



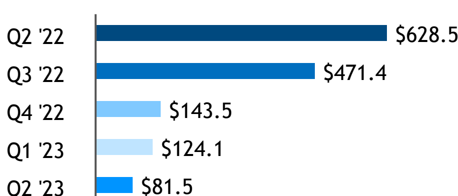
Net cash generated by (used in) operating activities ($ millions)



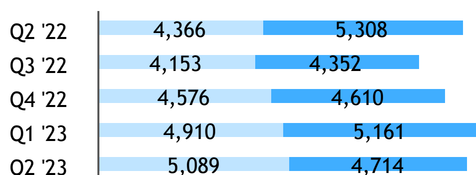
Working Capital Days[2]



Total Liquidity[2] ($ millions)

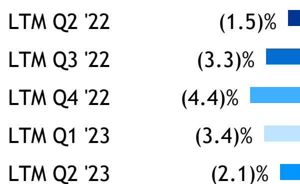


Backlog (EUs)



Firm Options

ROIC[3]



Footnotes

1. Represents a non-IFRS measure, meaning it is not a defined term under IFRS and does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. See Non-IFRS and Other Financial Measures section.
2. Represents a supplementary financial measure. See Non-IFRS and Other Financial Measures section.
3. Represents a non-IFRS ratio, meaning it is derived from a non-IFRS measure, which does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. The ratio is calculated using net operating profit after tax and average invested capital both of which are non-IFRS measures. See Non-IFRS and Other Financial Measures section.

FINANCIAL RESULTS

NFI's 2023 second quarter financial results reflect the ongoing global supply chain challenges, and the impacts of heightened inflation, supplier surcharges and rapid foreign exchange movements on select legacy contracts bid in 2020 and 2021. While these challenges negatively impacted results, there was significant improvement when compared to the same period in 2022, as overall supply chains showed improvement and vehicle deliveries increased by 66%. The Company's end markets are recovering from the COVID-19 pandemic, which is demonstrated by recent order activity, a robust North American bid environment, and unprecedented government funding for public transit. The Aftermarket business segment ("Aftermarket") experienced another strong quarter with year-over-year revenue growth and record quarterly Adjusted EBITDA.

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

Deliveries (EUs)	2023 Q2	2022 Q2	*% Change*	2023 Q2 LTM	2022 Q2 LTM	*% Change*
Transit buses	715	386	*85.2 %*	2,582	2,268	*13.8 %*
Motor coaches	128	129	*(0.8)%*	589	548	*7.5 %*
Medium-duty and cutaway	88	47	*87.2 %*	369	245	*50.6 %*
New vehicle deliveries	931	562	*65.7 %*	3,540	3,061	*15.6 %*
Pre-owned coach	64	19	*236.8 %*	324	112	*189.3 %*
Zero-emission deliveries (included in the above totals)	232	59	*293.2 %*	830	745	*11.4 %*
Zero-emission deliveries as a percentage of total new vehicle deliveries	24.9 %	10.5 %	*137.1 %*	23.4 %	24.3 %	*(3.7)%*

Revenue (dollars in millions)	2023 Q2	2022 Q2	*% Change*	2023 Q2 LTM	2022 Q2 LTM	*% Change*
Transit buses	420.6	199.1	*111.3 %*	1,439.6	1,195.8	*20.4 %*
Motor coaches	81.0	71.3	*13.6 %*	347.0	313.6	*10.7 %*
Medium-duty and cutaway	9.2	6.6	*39.4 %*	40.9	27.5	*48.7 %*
Total New Vehicle Revenue	**510.8**	**277.0**	***84.4 %***	**1,827.5**	**1,536.9**	***18.9 %***
Pre-owned coach revenue	5.8	0.9	*544.4 %*	22.7	5.6	*305.4 %*
Infrastructure Solutions™	3.5	4.4	*(20.5)%*	7.5	13.4	*(44.0)%*
Fiberglass reinforced polymer components	1.9	1.5	*26.7 %*	8.0	5.8	*37.9 %*
Manufacturing Revenue	**522.0**	**283.8**	***83.9 %***	**1,865.7**	**1,561.7**	***19.5 %***
Aftermarket	137.6	114.2	*20.5 %*	515.0	482.5	*6.7 %*
Total Revenue	**659.6**	**398.0**	***65.7 %***	**2,380.7**	**2,044.2**	***16.5 %***
North America	519.6	320.6	*62.1 %*	1,834.7	1,507.0	*21.7 %*
United Kingdom and Europe	131.4	63.8	*106.0 %*	496.0	441.1	*12.4 %*
Asia Pacific	8.6	13.6	*(36.8)%*	50.0	96.1	*(48.0)%*

Manufacturing revenue for 2023 Q2 increased by $238.2 million, or 83.9%, compared to 2022 Q2. The increase was driven by higher new vehicle and pre-owned coach deliveries. Quarterly and LTM deliveries are down relative to pre-COVID levels due to global supply chain challenges and related production inefficiencies. These challenges are largely the result of suppliers recovering from impacts of the COVID-19 pandemic, which has created numerous bottlenecks in the supply chain and disruptions to certain parts availability. NFI experienced significant improvement in supplier performance and on-time production during the quarter.

Quarterly revenue of the Company's Infrastructure Solutions™ division decreased by $0.9 million. The decrease is primarily due to the timing of revenue recognition on open contracts. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 376 plug-in and 35 overhead charger projects, for 59 different customers.

Aftermarket revenue for 2023 Q2 increased by $23.4 million, or 20.5% compared to 2022 Q2. The increase is mainly related to increased volume in the North America region. The Company continues to benefit from a multi-year retrofit program in the Asia-Pacific region, which continued throughout 2023 Q2, but at a lower run rate. The 2023 Q2 LTM sales under the program were $23.4 million, a decrease of $19.2 million compared to 2022 Q2 LTM sales of $42.6 million.

Net Earnings (Loss) (dollars in millions, except per share amounts)	2023 Q2	2022 Q2	% Change	2023 Q2 LTM	2022 Q2 LTM	% Change
Manufacturing	(24.0)	(60.7)	*60.5 %*	(267.9)	(163.6)	*(63.8)%*
Aftermarket	25.0	17.9	*39.7 %*	80.4	79.9	*0.6 %*
Corporate	(49.1)	(13.2)	*(372.0)%*	(98.4)	(24.2)	*(306.6)%*
Net Loss	**(48.1)**	**(56.0)**	***14.1 %***	**(286.0)**	**(107.9)**	***(165.1)%***
Adjusted Net Loss[1]	(35.2)	(48.3)	*27.1 %*	(143.4)	(115.7)	*(23.9)%*
Net Loss per Share	(0.62)	(0.73)	*15.1 %*	(3.70)	(1.44)	*(156.9)%*
Adjusted Net Loss per Share[1]	(0.46)	(0.64)	*28.1 %*	(1.86)	(1.60)	*(16.3)%*

Adjusted EBITDA[1] (dollars in millions)	2023 Q2	2022 Q2	% Change	2023 Q2 LTM	2022 Q2 LTM	% Change
Manufacturing	(15.9)	(42.4)	*62.5 %*	(106.3)	(87.4)	*(21.6)%*
Aftermarket	29.6	22.3	*32.7 %*	100.1	96.3	*3.9 %*
Corporate	(1.5)	(0.5)	*(200.0)%*	6.1	11.2	*(45.5)%*
Total Adjusted EBITDA[1]	**12.2**	**(20.6)**	***159.2 %***	**(0.2)**	**20.2**	***(101.0)%***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	(3.0)%	(14.9)%	*79.9 %*	(5.7)%	(5.6)%	*(1.8)%*
Aftermarket	21.5 %	19.5 %	*10.3 %*	19.4 %	20.0 %	*(3.0)%*
Total	**1.8 %**	**(5.2)%**	***134.6 %***	**— %**	**0.9 %**	***(100.0)%***

1. Non-IFRS Measure - See Non-IFRS and Other Financial Measures section.

The 2023 Q2 Manufacturing Adjusted EBITDA increased by $26.5 million, or 62.5%, compared to 2022 Q2. The increase was driven by higher overall deliveries, favourable sales mix, and a lower number of legacy inflation impacted contracts. Manufacturing experienced a net loss of $24.0 million in 2023 Q2 compared to a net loss of $60.7 million in 2022 Q2. The decrease in Manufacturing net loss was mainly attributable to the same items that impacted Manufacturing Adjusted EBITDA.

The 2023 Q2 Aftermarket realized record Adjusted EBITDA of $29.6 million, a $7.3 million, or 32.7%, year-over-year increase. The increase in Adjusted EBITDA was primarily due to improved sales volume and favourable product mix. Dynamic pricing, reduced freight costs, and higher demand in parts has contributed to the increase in Adjusted EBITDA. This increase in Aftermarket Adjusted EBITDA results were partially related to a multi-year retrofit program in the Asia-Pacific region, which will continue into early 2024, but at a lower run rate as the program unwinds. 2023 Q2 Aftermarket net earnings increased by $7.1 million, or 39.7%, primarily due to the same items that impacted Aftermarket Adjusted EBITDA.

2023 Q2 Corporate Adjusted EBITDA decreased by $1.0 million compared to 2022 Q2. 2023 Q2 Corporate net loss increased by $35.9 million compared to 2022 Q2, primarily due to increased interest on long-term debt, unfavourable mark-to-market adjustments to the Company's interest rate swaps, appropriate accruals for incentive compensation and unfavourable fair value adjustments to the Company's convertible debenture cash conversion option.

Free Cash Flow[1] and net cash generated by operating activities (dollars in millions, except per share amounts)	2023 Q2	2022 Q2	% Change	2023 Q2 LTM	2022 Q2 LTM	% Change
Net cash (used in) generated by operating activities	(13.8)	8.4	*(264.3)%*	(196.6)	(12.6)	*(1,460.3)%*
Free Cash Flow	(30.8)	(48.6)	*36.6 %*	(139.0)	(96.2)	*(44.5)%*
Free Cash Flow (CAD dollars)	(40.8)	(62.6)	*34.8 %*	(188.8)	(122.2)	*(54.5)%*
Declared Dividends (CAD dollars)	—	4.1	*(100.0)%*	4.1	39.7	*(89.7)%*
Free Cash Flow per Share (CAD dollars)[2]	(0.53)	(0.81)	*34.6 %*	(2.45)	(1.87)	*(31.0)%*
Dividends per Share (CAD dollars)	—	0.05	*(100.0)%*	—	0.53	*(100.0)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow)[2]	— %	(6.5)%	*100.0 %*	(2.2)%	(32.5)%	*93.2 %*

1. Non-IFRS Measure - See Non-IFRS and Other Financial Measures section.

2. Represents a non-IFRS ratio, meaning it is derived from a non-IFRS measure, which does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. The ratio is calculated using Free Cash Flow, which is a non-IFRS measure. See Non-IFRS and Other Financial Measures section.

Free Cash Flow in 2023 Q2 increased by $17.8 million, or 36.6%, compared to 2022 Q2, mainly due to higher earnings in the period and increased inflows related to changes in non-cash working capital. Also contributing is an increase in income taxes recovered, partially offset by an increase in interest paid.

Net cash used in operating activities in 2023 Q2 was $13.8 million, a change of $22.2 million or 264.3%, compared to cash generated in 2022 Q2 of $8.4 million, mainly due to the increase in interest paid, partially offset by a decrease in net losses. The 2023 Q2 LTM net cash used in operating activities increased by 1,460.3% compared to 2022 Q2 LTM, primarily due to an increase in net losses and interest paid, partially offset by a decrease in cash used in working capital.

	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Working Capital Days[1]	64	69	68	70	72
Liquidity ($ million)[1]	$ 81.5	$ 124.1	$ 143.5	$ 471.4	$ 628.5
Backlog (EUs)	9,803	10,071	9,186	8,505	9,674
ROIC[1]	(2.1)%	(3.4)%	(4.4)%	(3.3)%	(1.5)%

1. Working Capital Days and Liquidity represent supplementary financial measures. ROIC represents a non-IFRS ratio for the last 12-month period. See Non-IFRS and Other Financial Measures section.

As part of the Company's increased focus on cash conversion and leverage reduction, the Company is actively focused on reducing Working Capital Days, as it navigates through ongoing supply-related disruption to its operations. In 2023 Q2, Working Capital Days were 64, compared to 68 at the end of 2022 Q4, and 72 at the end of 2022 Q2. The decrease in Working Capital Days in 2023 Q2 compared to 2023 Q1 is mostly attributable to the increase in sales over the last twelve months, offset by an increase in average working capital balances. The increase of average working capital is primarily due to increases in accounts receivable as the Company had higher deliveries across each of its new vehicles and pre-owned coaches compared to 2023 Q1. As a result of these higher deliveries, work-in-progress and finished goods inventory have decreased from 2023 Q1, while raw materials has increased as production continues to ramp up.

The Company's liquidity position, which combines cash on-hand plus available capacity under its credit facilities, without consideration given to the minimum liquidity requirement of $25 million under the Amended Facilities[1], was $81.5 million at the end of 2023 Q2, down $42.6 million from the end of 2023 Q1. The decrease in liquidity is primarily due to increased requirements for letters of credit ("LOC") and increased debt drawings to support increased working capital levels.

At the end of 2023 Q2, the Company's total backlog (firm and options) was 9,803 EUs, a 2.7% decrease compared to 10,071 EUs at the end of 2023 Q1. The decrease was driven by higher quarterly deliveries and option expiries offset by new orders. There were 719 EUs of new firm and option orders that were in bid award pending at the end of 2023 Q2, up from 425 as of the end of 2023 Q1. These are orders where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company.

LTM 2023 Q2 return on invested capital ("ROIC") increased by 1.3% from LTM 2023 Q1, due to the increase in Adjusted EBITDA and by a lower invested capital base. The decrease in invested capital is primarily due to a decrease in shareholders' equity, partially offset by increases in long-term debt.

Footnotes:

1. As described in the Capital Allocation section on page 34.

2023 Q2 HIGHLIGHTS

The second quarter of 2023 saw significant improvement in year-over-year vehicle deliveries, revenue, Adjusted EBITDA, and a reduction in net loss as the Company continues to recover from the challenges of supply disruption and heightened inflation that has impacted operations and results over the past 24 months. The demand environment also remained very strong, with higher new orders, higher contract pricing, growth in backlog, and near-record bid activity.

While there has been improvement, NFI's Manufacturing operations continued to experience inflation impacts related to legacy contracts bid in 2020 and 2021, operational inefficiencies resulting from global supply chain challenges, and delivery delays stemming from the requirement to install a liquid drainage system on select North American battery-electric buses in production during the second quarter. NFI finalized a drainage solution within the battery energy enclosure system to address the impacted vehicles in June and delivered a large quantity of those vehicles prior to quarter-end, with expectations to finalize and deliver the remaining production impacted vehicles in the third quarter of 2023.

As NFI saw supply chain performance improvement in the second quarter, the Company started to slowly increase line entry rates towards the end of the second quarter of 2023, with a goal to reach pre-2020 levels by mid-2024. Supply improvement was driven through a combination of macroeconomic factors and specific actions taken by NFI, including longer lead-times to suppliers and use of alternative suppliers at different levels of the supply chain. The Company has also seen an easing of inflationary pressures related to components and raw materials.

NFI's Aftermarket business continued to benefit from heightened demand in various jurisdictions, a reflection of more vehicles being put into service as transit agencies and private operators increase service levels, and from an increase in overall fleet age due to lower industry deliveries in 2020, 2021, and 2022.

Refinancing Plan

On May 10, 2023, NFI announced it was working to complete a comprehensive refinancing plan (the "Refinancing Plan") that included amendments to its North American senior secured credit facility (the “North American Facility”) and its senior secured UK credit facility (the “UK Facility”), and collectively with the North American Facility, (the “Secured Facilities”). The proposed Refinancing Plan included the extension of the maturity dates of the Secured Facilities to April 30, 2026, changes to the structure and capacity of the Secured Facilities, the implementation of new financial covenants, the extension of the maturity of two unsecured loan facilities with Export Development Canada ("EDC") and Manitoba Development Corporation ("MDC"), a $150 million equity issuance and a $200 to $250 million second lien debt financing. All elements of the Refinancing Plan are mutually conditional and were expected to be completed by June 25, 2023.

On May 11, 2023, as part of the Refinancing Plan, NFI announced a $150 million private placement of common shares (the "Coliseum Private Placement") with Coliseum Capital Management ("Coliseum"), one of NFI's largest shareholders. Under the Coliseum Private Placement, Coliseum agreed to subscribe for and purchase from the Company an aggregate of up to 24,363,702 Shares, on a private placement basis, at a subscription price of $6.1567 (approximately C$8.25) per Share (the “Subscription Price”). Closing of the Coliseum Private Placement is subject to numerous conditions, including shareholder approval and completion of the Refinancing Plan.

On May 30, 2023, the Company announced a C$88 million (approximately $65 million) bought deal public offering of subscription receipts with a syndicate of underwriters. Each subscription receipt was to be issued for C$8.25 (approximately $6.07); on May 31, 2023, the bought deal was increased to C$108 million (approximately $80 million). On June 6, 2023 the bought deal was completed with expected gross proceeds of approximately C$125 million (approximately $92 million) from the sale of 15,102,950 subscription receipts. Each subscription receipt represents the right of the holder to receive, without payment of additional consideration or any further action on the part of the holder, one Share of NFI, upon satisfaction of certain escrow release conditions, including that other elements of the Refinancing Plan close concurrently. Reflecting the higher proceeds from the offering, the Coliseum Private Placement was lowered to approximately $133 million in total proceeds from the sale of 21,656,624 Shares. In total, NFI will receive $225 million in gross equity proceeds from the Coliseum Private Placement and the offering.

On June 26, 2023, NFI provided a timing update on the expected completion of the Refinancing Plan with a target completion date of August 2, 2023. On June 27, 2023, the Company announced that the Coliseum Private Placement had been approved by shareholders.

Subsequent to quarter-end, on July 25, 2023, NFI announced that it had finalized indicative terms for a $200 million second lien debt financing ("Second Lien Financing") and requested an extension of the date of completion of the required amendments and the financial covenant waivers under the Company's Secured Facilities to August 31, 2023. On July 31, 2023, NFI provided an update that it had received an extension of the date for the completion of the required amendments and financial covenant waivers under the Company's North American Facility and the extension of the maturity date and financial covenant waivers under the UK Facility to August 31, 2023.

Subsequent to the quarter, the Company announced that as part of its Refinancing Plan, it has entered into an investment agreement with a leading global asset manager (the "Investor") whereby the Investor has agreed to subscribe for and purchase from the Company an aggregate of 5,000,000 common shares of NFI ("Shares"), on a private placement basis, at a subscription price of C$10.10 per Share (the "Subscription Price"), for aggregate gross proceeds to NFI of C$50,496,000 (approximately $38,113,000) (the "August Private Placement").

The net proceeds from the August Private Placement will be used by the Company to repay outstanding indebtedness under NFI's existing credit facilities and for working capital and general corporate purposes. The Shares to be issued in the August Private Placement will be subject to a four-month hold period in accordance with applicable securities law rules. Completion of the August Private Placement is subject to customary conditions, approval by the Toronto Stock Exchange ("TSX"), and conditional upon the concurrent completion of the other elements of the Refinancing Plan.

Based on the expected proceeds from the August Private Placement, NFI intends to lower the gross proceeds from its proposed Second Lien Financing from $200 million to approximately $180 million. This is expected to generate annual interest savings of up to $2.9 million per annum.

All financing transactions of the Refinancing Plan are mutually conditional and the Company expects to close all elements of the Refinancing Plan at the same time prior to August 31, 2023. Upon completion of the Refinancing Plan, NFI expects that it will have 118,921,084 Shares outstanding, will permanently reduce capacity under its Secured Facilities by $250 million, and receive additional liquidity of approximately $135 to $140 million as the Company will lower carrying balances on its Secured Facilities. A summary of the expected gross proceeds is provided below:

Refinancing Plan Gross Proceeds	$ millions	Shares Issued
Equity		
Coliseum Private Placement	$ 133	*21,656,624*
Subscription Receipts Offering	$ 92	*15,102,950*
August Private Placement	$ 38	*5,000,000*
Debt		
Second Lien Debt	$ 180	*N/A*
Total Refinancing Plan Gross Proceeds	**$443**	***41,759,574***

Strong Market Demand and Increasing Procurements

The Company continued to see strong demand metrics during the second quarter of 2023. In 2023 Q2, while new orders decreased by 32.0% year-over-year, active bids of 10,054 EUs were up 32.6% year-over-year; and there were 719 EUs in bid awards pending (where NFI had received notification of award from the customer, but formal purchase order documentation had not yet been finalized). This positions NFI for another quarter of backlog growth in the third quarter of 2023.

NFI's Total Public Bid Universe for North America was at a record high for the third consecutive quarter, ending at 31,623 EUs and up 8.5% year-over-year. The Company ended 2023 Q2 with 1,682 EUs of bids in process, and another 8,372 EUs of bids submitted. See Appendix B for details.

Given the highly customized nature of NFI's products, there is significant lead time between when an order is received to when a vehicle is delivered. Generally, in North America, NFI will begin production on an order six to twelve months after it is awarded. In international markets, this lead time can be anywhere from three to eight months. This pre-production period is utilized to complete final engineering, coordinate supply delivery, and align production schedules. Due to this timing structure, there is a lag between when orders are received and when they impact NFI's financial results in the form of deliveries.

Zero-Emission Mobility—The *ZE*volution™

As at the end of 2023 Q2, NFI had 3,491 EUs of ZEBs in the backlog, representing 35.6% of the total backlog, down slightly from the record of 36.4% as at the end of 2023 Q1. A record 16,855 EUs, or 53.3%, of the Total Bid Universe were ZEBs, an increase of 12.7% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs. NFI sells buses to all of the 25 largest transit authorities in North America and has electric vehicles in service with 17 of these transit agencies. NFI also serves all of the UK's major transit and coach operators.

Within the second quarter of 2023, the Company announced the following achievements related to its zero-emission vehicles, including but not limited to the following:

- Canada: MCI delivered its first Canadian zero-emission J4500 CHARGE™ coach;
- USA: order for 26 of New Flyer's long-range zero-emission buses from Central Ohio Transit Authority;
- UK: repeat order from Go-Ahead London, for 141 electric buses from the BYD-Alexander Dennis partnership; and
- Hong Kong: operator KMG celebrated its 90th birthday with the launch of its first next-generation Alexander Dennis Enviro500EV

In April 2023, Alexander Dennis announced plans to expand its Larbert facility into a manufacturing site for the future: the Larbert site will focus on the production of the new Enviro400EV zero-emission bus starting in the second half of 2023, assembling the next-generation body on the new Alexander Dennis battery-electric chassis. The decision follows a successful pilot program to build Enviro400FCEV hydrogen fuel cell-electric buses in Larbert, Scotland. In May 2023, Alexander Dennis hosted the launch of the second phase of the Scottish Government's Scottish Zero Emission Bus Challenge Fund ("ScotZEB 2").

In May 2023, Alexander Dennis announced that the CAVForth autonomous bus service began in East Scotland, using five Alexander Dennis Enviro200AV buses. This follows the successful completion of an extensive testing program and registration of the bus service by Stagecoach, the UK's largest bus and coach operator. The CAVForth2 project will continue development of autonomous bus technology in the UK, and will see Stagecoach, the UK's largest bus operator, extend the 14-mile route of the existing CAVForth autonomous bus service, taking in more complex driving scenarios.

Environmental, Social & Governance

In May 2023, NFI announced its election of directors. After 17 years, the Honourable Brian Tobin, O.C. P.C. retired as a director and Chair of NFI's Board. Mr. Tobin had originally reached the director term limit under the Company's Board Mandate in 2021 but remained as Chair of the Board for two one-year extensions at the request of his fellow directors to maintain the continuity of Board representation and leadership as NFI navigated through the COVID-19 pandemic and the associated supply chain disruptions.

Ms. Wendy Kei, who joined NFI's Board in 2022, replaced Mr. Tobin as Chair of the Board. Ms. Kei is a corporate director, former Chief Financial Officer of Dominion Diamond Corporation (formerly Harry Winston Diamond Corporation and Aber Diamond Corporation) and currently serves as chairperson of the board for Ontario Power Generation Inc. Ms. Jannet Walker-Ford joined the Board as a new independent director, bringing more than two decades of diverse public and private sector experience.

As of May 2023, NFI's Board of Directors is 80% independent, with 63% of those independent directors self-identifying as female, above the Company's target for 50% female representation on the Board.

In May 2023, NFI released its environmental, social, and governance ("ESG") Report for 2022, which included updated ESG performance indicators, highlights for 2022, ESG priorities for 2023, as well as some specific projects and initiatives the Company undertook in the year. The Report focuses on the three main components of NFI's Sustainability Pledge, first adopted in 2006: "Better Product. Better Workplace. Better World", which guides the Company's daily actions and long-term planning.

Corporate Knights Best 50 Corporate Citizens in Canada

In June 2023, NFI announced that it had been ranked among Corporate Knights' Best 50 Corporate Citizens in Canada for the second consecutive year. The Best 50 Corporate Citizens in Canada highlights companies that outperform their peers in corporate sustainability leadership. To determine the ranking, Corporate Knights analyzed 286 large Canadian organizations on sustainable investments, sustainable revenues, and a range of other ESG key performance indicators.

OUTLOOK

NFI anticipates continued positive improvements to revenue, gross profit, Adjusted EBITDA and Free Cash Flow, reduction in net loss, and improvement in ROIC as it delivers on its backlog, and benefits from record government investments in public transportation, and growing demand for its buses, coaches, parts and Infrastructure Solutions™ services.

Market demand is evident through the high volume of active bus and motor coach procurements in both North America and international markets. As of 2023 Q2, the Company's North American active bids remained high at 10,054 EUs. This bid activity is expected to drive additional backlog growth in the second half of 2023 and throughout 2024, and revenue growth in the medium- and longer-term. The current five-year demand within the Company's North American bid universe also appears strong at 21,569 EUs, and, when combined with active bids, provides a record Total Bid Universe of 31,623 EUs.

In addition to the increased numbers of bids for ZEBs, the number of EUs per bid has increased, as transit agencies are progressing from pilot or trials to more active deployment and operation of ZEB fleets. NFI expects active ZEB bids to remain high through the coming years based on strong government funding levels.

While certain supply chain challenges continue and have impacted NFI's operating and financial performance, the Company has seen signs of significant improvement in the first half of 2023. The number of moderate and high risk suppliers within NFI's supply base has decreased, and, when combined with actions taken by NFI, on-time supplier delivery performance has improved, supporting expected increases to 2023 production volumes. Higher production allows NFI to absorb less fixed overhead on a per unit basis.

NFI is maintaining its plan to increase new vehicle production rates in the second half of 2023, subject to continued and sustained supply performance and anticipates it will hire approximately 100 additional direct labour team members before the end of 2023. This will be a phased approach with gradual headcount additions throughout the second half of the year and is expected to drive improvements to new vehicle starts and deliveries.

Gross margins and other profitability metrics are expected to improve as NFI increases production rates, delivers more vehicles, and completes the remaining inflation impacted legacy contracts, originally bid in 2020 and 2021; it is anticipated these remaining contracts will be delivered by the end of 2023. The Company has experienced signs of inflation easing during the first half of 2023 and anticipates that newer contracts in NFI's backlog now reflect appropriate, inflation-adjusted pricing.

Strong Government Support for Recovery and Zero-Emission Transition

The Company’s bus and coach product lines (New Flyer, ARBOC, MCI and AD) are primarily used for public transit, which remains a critical method of transportation and an economic enabler for users in cities around the world. Public transit has also been a significant and focused area of investment for governments as they seek to improve ridership access, reduce urban congestion, and achieve emissions targets. These investments increased NFI's new orders in 2022 and throughout the first half of 2023.

The importance of long-term government funding in key markets cannot be understated, as it allows public transit agencies to proceed with confidence regarding their multi-year fleet replacement plans and capital asset procurements. In addition to funding, ridership trends have begun to recover. The American Public Transportation Association's ("APTA") Ridership Trends Dashboard reports that national public transit ridership in the U.S. for the first 26 weeks of 2023 ranged from 61% to 75% of pre-2020 levels, showing continued signs of recovery.

In the U.S., the Infrastructure Investment and Jobs Act ("IIJA") signed in 2021 includes $86.9 billion over five years for the Federal Transit Administration ("FTA"); the IIJA also authorized an additional $21.2 billion in supplemental appropriations from general revenues, for a total of $108 billion in FTA funding, a 63% increase from the previous government funding act. Generally, U.S. public agencies can secure up to 80% of the capital costs for a new transit bus from FTA funds, with the remaining 20% coming from state and local sources. There are also several unique funding sources such as the FTA's Low or No emission funding programs ("Lo-No"), designed to assist with the incremental cost of ZEBs and the required charging infrastructure, that can sometimes cover 100% of the capital costs.

The Canadian government has committed over C$17 billion to 2027 to support Canadian public transit. The funding includes C$1.5 billion flowing through the Canada Infrastructure Bank to support the adoption of ZEBs and charging infrastructure.

The UK government also continues to support purchases of low- and zero-emission buses, and has previously committed to introducing 4,000 British-built zero-emission buses through its various funding programs, with several rounds of the Zero Emission Bus Regional Areas, or "ZEBRA", funding scheme having already been released. Alexander Dennis has received several customer orders for ZEBs funded by ZEBRA, but overall the release of UK government funding has been slower than expected.

In May 2023, Alexander Dennis hosted the Scottish Government's launch of ScotZEB 2 at its facility in Larbert, Scotland. ScotZEB 2 will have up to £58 million available in grant funding, and expands eligibility to include financiers, manufacturers, community groups and others in the industry to work together collaboratively on applications to accelerate the adoption of zero-emission buses.

As the market leader in North American transit and coach production and the UK's leading provider of buses and coaches, management believes NFI is extremely well-positioned for both the near- and long-term based on the multi-year commitments being made by governments in all of NFI's core markets.

NFI’s private customer markets within Alexander Dennis, MCI and ARBOC continue to see recovery with volumes increasing and pricing now reflecting current input costs and inflation. The North American motor coach space has been especially positive with strong demand in the tour and charter segment.

NFI’s Aftermarket business primarily sells spare parts to public and private customers and also provides service to private operators. The Aftermarket business has continued to deliver strong performance with increased volumes and margins in 2023 for both public and private markets in North America and internationally. As private markets continue to recover and through the execution of several large-scale mid-life vehicle programs, NFI anticipates that its Aftermarket segment will continue to generate revenue growth and strong margin contribution in 2024 and 2025, although Adjusted EBITDA margin percentages may be slightly lower than those seen in 2022 and 2023.

In each of NFI’s end-markets, government support for public transit vehicles continues to be at an all-time high. Not only has government support for transit operations remained strong during the global pandemic, governments have also committed billions of dollars for long-term fleet and infrastructure investments.

The Company also continues to focus on growing its NFI Infrastructure Solutions™ business to assist customers in assessing their charging infrastructure requirements and to project manage infrastructure procurement and installation. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 376 plug-in and 35 overhead charger projects, for a total of 80 megawatts ("MW") charging capacity, for 59 different customers. Currently, Infrastructure Solutions™ has projects under contract for 2023-2025 with 4 existing and 7 new customers, which will add 141 plug-in and 36 overhead depot chargers, for a total of 32 MW.

Other International Markets

NFI's international expansion through Alexander Dennis is expected to continue, with plans for further growth in export markets including New Zealand, Australia, Hong Kong, Singapore and Germany, where multi-year, multi-million dollar funding investments are being made by governments with commitments to transition to zero-emission transportation.

Although the proposed legislation, government plans and announcements referred to above are encouraging for the future of public transit, management does not yet know how, when or if the proposals and funds will materialize, contracts will be awarded to the Company, or the expected impact on NFI's financial performance. NFI will continue to monitor and provide updates, as appropriate. Management anticipates that the strong underlying financial support from governments will provide significant opportunities for NFI to grow revenue from increased market demand for its products.

Financial Guidance and Targets

NFI updates its financial guidance for Fiscal 2023, including revenue of $2.6 to $2.8 billion (previous: $2.5 to $2.8 billion) and Adjusted EBITDA of $40 to $60 million (previous: $30 to $60 million); anticipated ZEBs as a percentage of manufacturing sales and cash capital expenditures remain unchanged for 2023. NFI also reaffirms its Fiscal 2024, and its 2025 targets, as presented on March 1, 2023.

	2019 Pro-forma Results	2023 Guidance	2024 Guidance	2025 Targets
Revenue	$3.2 billion	**$2.6 to $2.8 billion**	$3.2 to $3.6 billion	~$4 billion
ZEBs (electric) as a percentage of manufacturing sales	6%	25% to 30%	30% to 35%	~40%
Adjusted EBITDA[2]	$331 million	**$40 to $60 million**	$250 to $300 million	~$400 million
Cash Capital Expenditures - including NFI Forward 2.0	$38 million	$35 to $40 million	$50 to $60 million	~$50 million
Return on Invested Capital - provided for 2025 targets	9.8%			>12%

Please review the Company's March 1, 2023 press release and the 2022 Q4 and Fiscal Year MD&A for details on the assumptions that drive Fiscal 2023 and Fiscal 2024 guidance, and 2025 targets, as well as certain applicable risks. Management's expectations regarding financial guidance and targets above are also subject to the risks and other factors referred to in Appendix A.

The 2023 and 2024 guidance ranges and the 2025 targets provided above are driven by numerous expectations and assumptions including, but not limited to, the following:

- **Revenue:** Anticipated revenue growth in 2023, 2024 and 2025 is based on year-to-date results, NFI's firm order backlog, current 2023 and 2024 production schedules, expected backlog option order conversion, and anticipated 2023, 2024 and 2025 new vehicle orders and aftermarket parts sales. Revenue guidance and targets reflect higher volume of ZEB sales and anticipated product mix benefits, plus expected international sales expansion. The guidance ranges also reflect potential variances in delivery volumes from supply disruption, product mix and expected timing of production recovery driving improved efficiency in the second half of 2023 and Fiscal 2024 and Fiscal 2025.

- **Adjusted EBITDA**: Adjusted EBITDA performance is driven by 2023 year-to-date results, anticipated recoveries in new vehicle deliveries, changes to product mix, a higher percentage of ZEB deliveries and improved operating margins, especially from the second half of 2023 onwards, due to anticipated recovery in supply chain health. While there will be some impact to margins in 2023 from legacy inflation impacted contracts, contracts secured in the second half of 2022 and in Fiscal 2023 reflect updated pricing and improved margins.

- The ranges for ZEBs as a percentage of manufacturing sales are based on year-to-date results combined with existing firm backlog, active bids and anticipated future orders. Cash capital expenditures are based on investments made in 2023 and expected future maintenance and growth projects.

Guidance and targets above are conditional on several factors and expectations, including the recovery of supply chain performance, a higher percentage of ZEB sales (which provide a higher revenue and dollar margin benefit), the mitigation of inflationary pressures, end markets recovering inline with management expectations, international expansion, aftermarket parts sales, continuous improvement initiatives and completion of the Refinancing Plan. There can be no assurance that the Refinancing Plan will be completed on the terms disclosed or otherwise.

NFI's guidance and targets are subject to the risk of extended duration of the current supply disruptions and the risk of additional supply disruptions affecting particular key components. In addition, the guidance and targets do not reflect potential escalated impact on supply chains or other factors arising directly or indirectly as a result of the ongoing Russian invasion of Ukraine. Although NFI does not have direct suppliers based in Russia or Ukraine, additional supply delays and possible shortages of critical components may arise as the conflict progresses and if certain suppliers' operations and/or subcomponent supply from affected countries are disrupted further. In addition, there may also be further general industry-wide price increases for components and raw materials used in vehicle production as well as further increases in the cost of labour and potential difficulties in sourcing an increase in the supply of labour. See Appendix C Forward Looking Statements for risks and other factors and the Company's filings on SEDAR.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

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

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

Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA[1]	Earnings (loss) per Share
2023						
	Q2	659,569	(11,297)	(48,101)	12,178	(0.62)
	Q1	524,411	(21,749)	(45,964)	7,409	(0.60)
	Total	**1,183,980**	**(33,046)**	**(94,065)**	**19,587**	**(1.22)**
2022						
	Q4	682,604	(139,206)	(149,444)	(4,156)	(1.94)
	Q3	514,047	(43,363)	(42,483)	(15,593)	(0.56)
	Q2	397,952	(63,497)	(56,009)	(20,624)	(0.73)
	Q1	459,330	(41,481)	(27,795)	(16,660)	(0.36)
	Total	**2,053,933**	**(287,547)**	**(275,731)**	**(57,033)**	**(3.59)**
2021						
	Q4	694,843	(4,785)	(8,691)	26,154	(0.12)
	Q3	492,038	(2,797)	(15,415)	31,330	(0.22)
	Q2	582,794	26,675	2,588	51,856	0.04
	Q1	574,119	26,918	7,033	54,841	0.10
	Total	**2,343,794**	**46,011**	**(14,485)**	**164,181**	**(0.21)**

COMPARISON OF SECOND QUARTER 2023 RESULTS

(U.S. dollars in thousands)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022	52-Weeks Ended July 2, 2023	53-Weeks Ended July 3, 2022
Statement of Earnings Data						
Revenue						
North America	408,915	231,204	713,280	468,132	1,424,997	1,146,340
United Kingdom and Europe	109,605	47,672	189,736	137,390	414,028	361,772
Asia Pacific	3,480	4,902	4,312	4,891	26,655	53,582
Other	—	—	—	—	—	—
Manufacturing operations	522,000	283,778	907,328	610,413	1,865,680	1,561,694
North America	110,711	89,350	220,986	186,455	409,631	360,582
United Kingdom and Europe	21,716	16,100	43,849	41,080	81,935	79,336
Asia Pacific	5,142	8,724	11,817	19,334	23,385	42,551
Other	—	—	—	—	—	—
Aftermarket operations	137,569	114,174	276,652	246,869	514,951	482,469
Total revenue	$ 659,569	$ 397,952	$ 1,183,980	$ 857,282	$ 2,380,631	$ 2,044,163
Loss from operations	$ (11,297)	$ (63,497)	$ (33,046)	$ (104,978)	$ (215,615)	$ (112,560)
Loss before interest and income taxes	$ (16,737)	$ (64,484)	$ (38,045)	$ (110,360)	$ (214,070)	$ (125,552)
Net Loss	$ (48,101)	$ (56,009)	$ (94,065)	$ (83,805)	$ (285,992)	$ (107,909)
Adjusted EBITDA[1]	$ 12,178	$ (20,624)	$ 19,587	$ (37,284)	$ (162)	$ 20,200
Cash capital expenditures	$ 5,089	$ 4,232	$ 8,076	$ 10,440	$ 19,007	$ 28,697

1. Non-IFRS Measure - See Non-IFRS and Other Financial Measures section.

Results of Operations

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

Revenue

(U.S. dollars in thousands)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022
Manufacturing Revenue	522,000	283,778	907,328	610,413
Aftermarket Revenue	137,569	114,174	276,652	246,869
Total Revenue	659,569	397,952	1,183,980	857,282
Loss from Operations	(11,297)	(63,497)	(33,046)	(104,978)
Loss before interest and income taxes	(16,737)	(64,484)	(38,045)	(110,360)
Loss before income tax expense	(56,707)	(73,604)	(110,233)	(110,145)
Net Loss	(48,101)	(56,009)	(94,065)	(83,805)

Manufacturing revenue for 2023 Q2 increased by $238.2 million, or 83.9%, compared to 2022 Q2. Manufacturing revenue for 2023 Q2 YTD increased by $296.9 million, or 48.6%, compared to 2022 Q2 YTD. Both quarter-to-date and year-to-date figures increased as a result of increased deliveries during the quarter.

Aftermarket revenue for 2023 Q2 increased by $23.4 million, or 20.5% compared to 2022 Q2. Aftermarket revenue for 2023 Q2 YTD increased by $29.8 million, or 12.1%, compared to 2022 Q2 YTD. Both quarter-to-date and year-to-date figures increased due to higher sales volume as the Aftermarket segment has experienced an increase in demand during 2023 Q2. Aftermarket sales were higher in the North American region offset by lower sales in the Asia-Pacific Region, as a specific multi-year retrofit program continues, but at lower run rates.

Cost of sales

(U.S. dollars in thousands)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022
Manufacturing				
Direct cost of sales	452,588	248,329	772,447	529,795
Depreciation and amortization	16,324	17,613	34,713	38,360
Other overhead	48,263	49,716	101,162	91,795
Manufacturing cost of sales	517,175	315,658	908,322	659,950
As percent of Manufacturing Sales	99.1 %	111.2 %	100.1 %	108.1 %
Aftermarket				
Direct cost of sales	92,096	77,250	186,611	171,654
Depreciation and amortization	2,406	2,669	4,918	5,272
Aftermarket cost of sales	94,502	79,919	191,529	176,926
As percent of Aftermarket Sales	68.7 %	70.0 %	69.2 %	71.7 %
Total Cost of Sales	611,677	395,577	1,099,851	836,876
As percent of Sales	92.7 %	99.4 %	92.9 %	97.6 %

The consolidated cost of sales for 2023 Q2 increased by $216.1 million, or 54.6%, compared to 2022 Q2. The consolidated cost of sales for 2023 Q2 YTD increased by $263.0 million, or 31.4%, compared to 2022 Q2 YTD.

Cost of sales from Manufacturing operations in 2023 Q2 was $517.2 million (99.1% of Manufacturing operations revenue) compared to $315.7 million (111.2% of Manufacturing operations revenue) in 2022 Q2, an increase of $201.5 million, or 63.8%. Cost of sales from Manufacturing operations in 2023 Q2 YTD was $908.3 million (100.1% of Manufacturing operations revenue) compared to $660.0 million (108.1% of Manufacturing operations revenue) in 2022 Q2 YTD. The increase in both periods was driven by higher bus and coach deliveries. Cost of sales decreased as a percentage of revenue in both periods, mainly due to a reduction of operational inefficiencies that resulted from supply shortages and impacts of inflation.

Cost of sales from Aftermarket operations in 2023 Q2 was $94.5 million (68.7% of Aftermarket revenue) compared to $79.9 million (70.0% of Aftermarket revenue) in 2022 Q2, a decrease of 1.3% as a percentage of revenue. Cost of sales from Aftermarket operations in 2023 Q2 YTD was $191.5 million (69.2% of Aftermarket revenue) compared to $176.9 million (71.7% of Aftermarket revenue) in 2022 Q2 YTD. Cost of sales decreased as a percentage of revenue in both periods primarily due to increased sales, and favourable product mix. Also contributing is mitigated inflationary impacts on labour, freight costs, and surcharges.

Gross Margins

(U.S. dollars in thousands)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022
Manufacturing	4,825	(31,880)	(994)	(49,537)
Aftermarket	43,067	34,255	85,123	69,943
Total Gross Margins	47,892	2,375	84,129	20,406
As a percentage of sales				
Manufacturing	0.9 %	(11.2)%	(0.1)%	(8.1)%
Aftermarket	31.3 %	30.0 %	30.8 %	28.3 %
	7.3 %	0.6 %	7.1 %	2.4 %

Manufacturing gross margin for 2023 Q2 of $4.8 million (0.9% of Manufacturing revenue), increased by $36.7 million compared to a negative gross margin of $31.9 million ((11.2)% of Manufacturing revenue) for 2022 Q2. Manufacturing had a negative gross margin for 2023 Q2 YTD of $1.0 million ((0.1)% of Manufacturing revenue), an improvement of $48.5 million, or 98.0%, compared to a negative gross margin of $49.5 million ((8.1)% of Manufacturing revenue) in 2022 Q2 YTD.

Manufacturing gross margin increased as a percentage of revenue in both periods, mainly due to a reduction of operational inefficiencies that resulted from supply shortages and impacts of inflation. A healthier supply chain is now allowing higher production volumes, resulting in less fixed overhead on a per unit basis.

Aftermarket gross margins for 2023 Q2 of $43.1 million (31.3% of Aftermarket revenue) increased by $8.8 million, or 25.7%, compared to 2022 Q2 gross margins of $34.3 million (30.0% of Aftermarket revenue). Aftermarket gross margins for 2023 Q2 YTD of $85.1 million (30.8% of Aftermarket revenue) increased by $15.2 million, or 21.7%, compared to 2022 Q2 YTD gross margins of $69.9 million (28.3% of Aftermarket revenue). The increase in gross margins and gross margins as a percentage of revenue are mainly due to increased sales, favourable product mix and the mitigated inflationary impacts on the cost of labour, freight and surcharges.

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

(U.S. dollars in thousands)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022
Selling expenses	6,740	7,561	13,514	13,264
General and administrative expenses	55,162	56,082	106,145	107,001
Other costs	—	1,734	0	4,558
Total SG&A	61,902	65,377	119,659	124,823

The consolidated SG&A for 2023 Q2 of $61.9 million (9.4% of consolidated revenue) decreased by $3.5 million, or 5.3%, compared to $65.4 million (16.4% of consolidated revenue) in 2022 Q2. The consolidated SG&A for 2023 Q2 YTD of $119.7 million (10.1% of consolidated revenue) decreased by $5.2 million, or 4.1%, compared to $124.8 million (14.6% of consolidated revenue) in 2022 Q2 YTD.

The decrease in both periods is primarily the result of restructuring costs incurred during 2022 Q2 which did not re-occur in 2023 Q2. Also contributing to the decrease in 2022 Q2 YTD is the result of the Company adopting hedge accounting policies related to equity hedges in the second quarter of 2022. Under this policy, changes to fair value of derivatives are reported in other comprehensive income rather than net earnings (loss). As this policy was not in place during 2022 Q1, these fair value impacts were recorded through SG&A expenses during that period. The positive year-over-year impact of this policy change was offset by increased compensation in 2023 Q2 YTD.

Realized foreign exchange loss/gain

In 2023 Q2, the Company recorded a realized foreign exchange gain of $2.7 million compared to a loss of $0.5 million in 2022 Q2. In 2023 Q2 YTD, the Company recorded a realized foreign exchange gain of $2.5 million compared to a loss of $0.6 million in 2022 Q2 YTD.

The Company uses foreign exchange forward contracts to buy various currencies in which it operates with U.S. dollars, Canadian dollars and GBP. The purchase of these currencies using foreign exchange forward contracts at favorable forward rates compared to the spot rates at settlement were the primary reason for the gains in the fiscal period.

Loss from operations

Consolidated losses from operations in 2023 Q2 were $11.3 million ((1.7%) of consolidated revenue) compared to losses of $63.5 million ((16.0%) of consolidated revenue) in 2022 Q2, an improvement of of $52.2 million or 82.2%. Consolidated losses from operations in 2023 Q2 YTD were $33.0 million ((2.8)% of consolidated revenue) compared to a loss of $105.0 million ((12.2)% of consolidated revenue) in 2022 Q2 YTD.

In 2023 Q2, losses from operations attributable to the Manufacturing segment were $32.7 million ((6.3)% of Manufacturing revenue) compared to losses of $78.4 million ((17.0)% of Manufacturing revenue) in 2022 Q2. Losses from Manufacturing operations in 2023 Q2 YTD were $81.8 million ((9.0)% of Manufacturing revenue) compared to losses of $133.9 million ((21.9)% of Manufacturing revenue) in 2022 Q2 YTD, a decrease of $52.1 million, or 38.9%. The decreased loss as a percentage of revenue both periods is primarily attributable to increased new vehicle deliveries, and a reduction in operational inefficiencies resulting from supply chain challenges.

Earnings from operations related to Aftermarket operations in 2023 Q2 were $25.0 million (18.2% of Aftermarket revenue) compared to $17.9 million (14.0% of Aftermarket revenue) in 2022 Q2. Earnings from operations related to Aftermarket operations in 2023 Q2 YTD were $49.8 million (18.0% of Aftermarket revenue) compared to $36.5 million (14.8% of Aftermarket revenue) in 2022 Q2 YTD. Earnings from Aftermarket operations increased in both periods due to favourable sales mix and a reduction of inflationary impacts on the cost of labour, freight, and surcharges.

Unrealized foreign exchange loss

The Company has recognized a net unrealized foreign exchange loss consisting of the following:

(U.S. dollars in thousands)	**2023 Q2**	**2022 Q2**	**26-Weeks Ended July 2, 2023**	**26-Weeks Ended July 3, 2022**
Unrealized gain (loss) on forward foreign exchanges contracts	1	(3,839)	(6,630)	(6,291)
Unrealized gain (loss) on other long-term monetary assets/liabilities	(4,472)	2,794	2,583	478
	(4,471)	(1,045)	(4,047)	(5,813)

At July 2, 2023, the Company had $126.3 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, and GBP). The related liability of $1.0 million (January 1, 2023: $1.7 million asset) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net loss and total comprehensive loss.

Earnings (loss) before interest and income taxes (“EBIT”)

In 2023 Q2, the Company recorded an EBIT loss of $16.7 million compared to an EBIT loss of $64.5 million in 2022 Q2. In 2023 Q2 YTD, the Company recorded EBIT loss of $38.0 million compared to EBIT loss of $110.4 million in 2022 Q2 YTD.

Interest and finance costs

The interest and finance charges for 2023 Q2 of $40.0 million increased by $30.9 million compared to $9.1 million in 2022 Q2 . The interest and finance charges for 2023 Q2 YTD of $72.2 million increased by $72.4 million compared to interest and finance income of $0.2 million in 2022 Q2 YTD. The quarterly increase is primarily due to higher interest cost on long-term debt as a result of elevated debt levels, and higher interest rates on components of the Company's debt. Also contributing are fair market value losses on the adjustment to the Company's interest rate swaps and cash conversion option related to the convertible debt. The Company had a fair market value loss on the interest rate swap of $2.0 million in 2023 Q2 compared to a gain of $5.8 million in 2022 Q2. The Company had a fair market value loss on its cash conversion option of $4.5 million compared to a gain of $6.0 million in 2022 Q2. The Company had a fair market value loss on the interest rate swap of $7.6 million in 2023 Q2 YTD compared to a gain of $28.3 million in 2022 Q2 YTD. The Company had a fair market value loss on its cash conversion option of $1.9 million in 2023 Q2 YTD compared to a gain of $11.3 million in 2022 Q2 YTD.

The fair market value adjustments on the interest rate swaps relate to risk management activities management has undertaken to reduce the uncertainty related to the Company's cost of borrowing. The Company's first interest rate swap fixes the interest rate which the Company will pay on $600.0 million of its long-term debt at 2.27% plus an applicable margin. The fixed portion amortizes $20 million annually and matures in October 2023. The notional value of the swap as at July 2, 2023 was $520 million.

On July 9, 2020, the Company entered into a $200 million amortizing notional interest rate swap designed to hedge floating rate exposure on its Credit Facility. The interest rate swap fixes the interest rate at 0.243% plus applicable margin until July 2025. The swap begun amortizing on January 9, 2023 at a rate of $20 million per annum. The Company's accounting policy does not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses. The notional value of the swap at July 2, 2023 was $180 million.

The fair value of the interest rate swap asset of $20.2 million at July 2, 2023 (January 1, 2023: liability of $27.8 million) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments asset and the change in fair value has been recorded in finance costs for the reported period.

Subsequent to 2023 Q2, on July 20, 2023, the Company sold its interest rate swap contracts (valued at $20.2 million asset at the end of 2023 Q2) for total proceeds of $18.4 million. As part of the sale, NFI's equity hedge (valued at $2.6 million liability at the end of 2023 Q2) was unwound and removed from liabilities on the balance sheet. Please see Note 19 of the unaudited interim condensed consolidated financial statements for disclosure of this subsequent event.

Earnings (loss) before income taxes ("EBT")

EBT loss for 2023 Q2 of $56.7 million decreased by $16.9 million compared to EBT loss of $73.6 million in 2022 Q2. EBT loss for 2023 Q2 YTD of $110.2 million remains unchanged compared to EBT loss of $110.1 million in 2022 Q2 YTD. The primary drivers of the changes of EBT are addressed in the Earnings (loss) from Operations and interest and finance costs sections above.

Income tax recovery

The income tax recovery for 2023 Q2 was $8.6 million compared to $17.6 million in 2022 Q2. The income tax recovery for 2023 Q2 YTD is $16.2 million, compared to $26.3 million in 2022 Q2 YTD. The decrease in the overall income tax recovery is primarily due to the non-recognition of deferred tax assets associated with Canadian loss carryforwards and restricted interest in the UK.

The Effective Tax Rate ("ETR") for 2023 Q2 was 15.2% and the ETR for 2022 Q2 was 23.9%. The ETR for 2023 Q2 YTD was 14.7% and the ETR for 2022 Q2 YTD was 23.9%. The 2023 Q2 ETR is negatively impacted by the non-recognition of deferred tax assets associated with Canadian loss carryforwards, and restricted interest in the UK.

Net loss

The Company reported net losses of $48.1 million in 2023 Q2, an improvement of $7.9 million, or 14.1%, compared to net losses of $56.0 million in 2022 Q2. The Company reported net losses of $94.1 million in 2023 Q2 YTD, an increase of $10.3 million, or 12.2%, compared to net losses of $83.8 in 2022 Q2 YTD. The increase in net loss for 2023 Q2 YTD is primarily due to increases in interest and finance costs as discussed above, partially offset by a decrease in the Company's loss from operations previously discussed.

Net loss (U.S. dollars in millions, except per Share figures)	**2023 Q2**	**2022 Q2**	**26-Weeks Ended July 2, 2023**	**26-Weeks Ended July 3, 2022**
Loss from operations	(11.3)	(63.5)	(33.0)	(105.0)
Gain (loss) on disposition of property, plant and equipment	(1.0)	0.1	(1.0)	0.4
Unrealized foreign exchange loss on monetary items	(4.5)	(1.0)	(4.0)	(5.8)
Interest and finance costs	(40.0)	(9.1)	(72.2)	0.2
Income tax recovery	8.6	17.6	16.2	26.3
Net Loss	(48.1)	(56.0)	(94.1)	(83.8)
Net loss per Share (basic)	(0.62)	(0.73)	(1.22)	(1.09)
Net loss per Share (fully diluted)	(0.62)	(0.73)	(1.22)	(1.09)

The Company recorded net loss per Share for 2023 Q2 of $0.62 compared to net loss per Share of $0.73 in 2022 Q2 . The Company's net loss per Share for 2023 Q2 YTD of $1.22 increased from net loss per Share of $1.09 in 2022 Q2 YTD. The per Share net loss increased in 2023 Q2 YTD as a result of an increased loss during the period, and by increased Shares outstanding as discussed below.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)		2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid		5,957	(36,429)	9,201	(54,120)
Interest paid		(27,957)	(12,959)	(57,203)	(27,497)
Income taxes recovered (paid)		19,509	(2,974)	20,876	(2,090)
Cash flow provided by (invested in) working capital		(11,284)	60,802	(53,028)	(40,681)
Net cash (used in) generated by operating activities		(13,775)	8,440	(80,154)	(124,388)
Net cash generated by financing activities	$	17,089	23,566	115,004	106,142
Net cash used in investing activities		(7,606)	(6,218)	(29,939)	(7,244)

Cash flows from operating activities

The 2023 Q2 net operating cash used in operating activities of $13.8 million is mainly comprised of $2.5 million of net cash loss and $11.3 million of cash invested in working capital. The 2022 Q2 net cash generated by operating activities of $8.4 million is comprised of $52.4 million of net cash loss and $60.8 million of cash provided by working capital.

The 2023 Q2 YTD net operating cash used of $80.2 million is comprised of $27.2 million of net cash loss and $53.0 million of cash invested in working capital. The 2022 Q2 YTD net operating cash used of $124.4 million is comprised of $83.7 million of net cash loss and $40.7 million of cash invested in working capital.

Cash flow from financing activities

The cash generated by financing activities of $17.1 million during 2023 Q2 is comprised mainly of proceeds from the revolving credit facilities of $22.4 million offset by repayments of obligations under leases of $5.3 million. The cash generated of $115.0 million during 2023 Q2 YTD is due to proceeds from senior unsecured debt of $87.0 million and proceeds from the revolving credit facilities of $38.4 million offset by repayments of obligations under leases of $10.4 million.

Cash flow from investing activities

(U.S. dollars in thousands)		2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022
Acquisition of intangible assets	$	(2,583)	(2,214)	(4,044)	(3,529)
Proceeds from disposition of property, plant and equipment	$	66	228	205	1,313
Long-term restricted deposits		—	—	(18,024)	5,412
Acquisition of property, plant and equipment		(5,089)	(4,232)	(8,076)	(10,440)
Cash used in investing activities		(7,606)	(6,218)	(29,939)	(7,244)

Cash used in investing activities was higher in 2023 Q2, primarily due to increased investments in property, plant and equipment. Cash used in investing activities was higher in 2023 Q2 YTD, primarily due to increased investments in long-term restricted deposits and intangible assets, offset by decreased investment in property, plant and equipment. Long-term restricted deposit is collateral for certain of the Company's letters of credit.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management believes that the credit risk associated with accounts receivable is mitigated by the significant proportion of counterparties that are well established public transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. public sector customer payments - up to 80% of the capital cost of new transit buses, coaches or cutaways, while the remaining 20% comes from state and municipal sources. There are a few U.S. public sector customers that obtain 100% of their funding from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities.

The purchase of new coaches, transit buses or cutaways by private fleet operators is paid from the operators' own capital budgets and funded by their own cash flow. A significant portion of private fleet operators choose to finance new coach purchases with lending organizations. In

some cases, MCI assists in arranging this financing, and in some cases, it provides financing through its ultimate net loss program. The Company has experienced a nominal amount of bad debts with its private sales customers as most transactions require payment on delivery. Management has not observed, and does not anticipate, significant changes to credit risk as a result of the COVID-19 pandemic and the recovery therefore.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within SG&A. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against SG&A in the unaudited interim condensed consolidated statements of net loss and total comprehensive loss.

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

U.S. dollars in thousands	July 2, 2023	January 1, 2023
Current, including holdbacks	$ 452,143	$ 333,522
Past due amounts but not impaired		
1 – 60 days	21,688	15,931
Greater than 60 days	7,922	5,480
Less: allowance for doubtful accounts	(175)	(107)
Total accounts receivables, net	481,578	354,826

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

Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of leases and accrued benefit liabilities as at July 2, 2023:

U.S. dollars in thousands	Total	2023	2024	2025	2026	2027	Post 2027
Leases	208,870	13,854	22,569	18,051	15,377	13,934	125,085
Accrued benefit liability	2,896	2,896	—	—	—	—	—
	211,766	16,750	22,569	18,051	15,377	13,934	125,085

As at July 2, 2023, outstanding surety bonds guaranteed by the Company totaled $344.0 million (January 1, 2023: $375.6 million). The estimated maturity dates of the surety bonds outstanding at July 2, 2023 range from July 2023 to December 2039. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company has established a letter of credit sub-facility of $100.0 million (January 1, 2023: $100.0 million). As at July 2, 2023, letters of credit totaling $83.5 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility. This increase is primarily driven by collateral requirements provided to support deposits and prepayments associated with new contracts.

Included as part of the EDC facility is up to $100 million surety reinsurance support arrangement with EDC for NFI's surety and performance bonding requirements ("bonding support facility"). The bonding support facility is made up of account performance security guarantee ("PSG") up to $25 million and surety reinsurance support up to $100 million.

The PSG program is in place to cover a standby letter of credit or letter of guarantee (in each case an "LOC"), required as part of a collateral package provided to support a surety facility where the new bonding capacity is a minimum of at least twice the face value of the LC. The underlying surety facility must only be supporting surety bonds required under contracts entered into by the NFI, and where such Surety Bonds are bid bonds, performance bonds, regulatory bonds, license and permit bonds.

The bonding support facility program is in place to cover surety bond(s) issued on behalf of the NFI. A surety bond, required under contracts entered into by the Company, provided that such surety bond is a bid bond, performance bond, regulatory bond, license and permit bond. Surety reinsurance support not to exceed 75% of the surety bond amount.

As at July 2, 2023, there is $94.7 million outstanding under the bonding support facility.

As at July 2, 2023, letters of credit in the UK totaling $19.9 million remain outstanding as a security for contractual obligations of the Company outside of the UK facility (January 1, 2023: $18.3 million). Additionally, there are $45.8 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the Credit Facility.

As at July 2, 2023, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at July 2, 2023.

Share Option Plan

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

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(490,356)	—	—	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(252,233)	(11,368)	(236,383)	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(30,942)	(121,941)	—	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(62,446)	(222,228)	—	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	(2,126)	709	July 15, 2027	C$35.98	C$4.90
December 31, 2019	519,916	—	(83,720)	(327,150)	109,046	December 31, 2027	C$26.81	C$3.36
December 28, 2020	258,673	—	(29,250)	(114,717)	114,706	December 28, 2028	C$24.70	C$6.28
February 10, 2021	1,894	—	—	(947)	947	December 28, 2028	C$28.74	C$6.28
August 16, 2021	601	—	—	(150)	451	August 16, 2029	C$30.79	C$6.28
January 3, 2022	311,892	—	(7,940)	(75,993)	227,959	January 3, 2030	C$20.26	C$6.10
April 1, 2022	1,728	—	—	(432)	1,296	April 3, 2030	C$16.25	C$6.51
January 9, 2023	374,448	—	—	—	374,448	January 9, 2031	C$10.46	C$5.28
	3,887,412	(1,366,150)	(249,356)	(1,442,344)	829,562		C$24.60	

The vested options granted on December 28, 2014 due to expire on December 28, 2022 remain exercisable.

The Board adopted a new share option plan on March 12, 2020 (the "2020 Option Plan"), which was approved by shareholders on May 7, 2020, and amended on August 5, 2020, under which certain employees of NFI and certain of its affiliates may receive grants of options for Shares. Directors who are not employed with NFI are not eligible to participate in the 2020 Option Plan. A maximum of 3,200,000 Shares are reserved for issuance under the 2020 Option Plan. The options vest one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date. No options have been issued under the 2020 Option Plan.

The following reconciles the Share options outstanding:

	2023 Q2		2022 Q2	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,910,057	$27.41	1,617,759	C$28.82
Granted during the period	374,448	$10.46	313,620	$20.24
Expired during the period	(12,599)	$31.84	(12,058)	$34.94
Exercised during the period	—	C$0.00	—	C$0.00
Balance at end of period	2,271,906	$24.60	1,919,321	$27.38

Restricted Share Unit Plan for Non-Employee Directors

Pursuant to the Company's Restricted Share Unit Plan for Non-Employee Directors, a maximum of 500,000 Shares are reserved for issuance to non-employee directors. The Company issued 31,401 director restricted Share units ("Director RSUs"), with a total value of $0.2 million, in 2023 Q2. Approximately $0.1 million of the issued Director RSUs were exercised and exchanged for 11,724 Shares.

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2022 Annual Financial Statements.

New and amended standards adopted by the Company

During the period, the Company adopted the following accounting standards:

IFRS 17 – Insurance Contracts:

Effective January 2, 2023, the Company adopted IFRS 17, which introduced new guidance for recognition, measurement, presentation and disclosure of insurance contracts. The Company applied a full retrospective approach. The Company previously used IFRS 4, Insurance Contracts, which is no longer in effect to account for these contracts.

The IFRS 17 Standard establishes principles for the recognition, measurement, presentation and disclosure of (re)insurance contracts.

The Company has applied the measurement method for insurance contracts using a probability weighted discounted cash flow model, including a best estimate and an adjustment for non-financial risk calculated for groups of similar contracts. There is a reliance on actuarial modelling techniques and the quality of underlying data. The Company has applied the premium allocation approach. If, at initial recognition or subsequently, the fulfillment cash flows are in a net outflow, the contract is considered onerous and the excess is recognized immediately in profit. A loss recovery component is recognized immediately in profit representing amounts recoverable from reinsurers related to onerous contracts.

The adoption of the standard resulted in a decrease to net loss and retained deficit of $732 for the Q2 2022 period, $1,607 for the 2022 fiscal period, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

The transition adjustment in 000s is as follows:

	Assets		Liabilities		Shareholders' Equity
	Accounts receivable	Prepaid expenses and deposits	Accounts payable and accrued liabilities	Provisions	Retained Earnings (Deficit)
As reported January 1, 2023	$ 366,224	$ 16,928	$ 455,368	$ 71,299	$ (419,373)
Transition adjustment	(11,398)	6,524	(1,575)	(3,723)	425
Restated January 1, 2023	$ 354,826	$ 23,452	$ 453,793	$ 67,576	$ (418,948)

IAS 1 - Presentation of Financial Statements:

Classification of Liabilities as Current or Non-current, which amends IAS 1, was issued January 2020 and October 2022, effective for annual reporting periods beginning on or after January 1, 2024. This clarified a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. Management assessed that this standard does not have a material impact on the consolidated financial statements and that the Company is in compliance with the required disclosures.

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A is based on reported earnings in accordance with IFRS and on the following non-IFRS and other financial measures:

Adjusted EBITDA and Net Operating Profit after Taxes

Management believes that Adjusted EBITDA, and net operating profit after taxes ("NOPAT") are important measures in evaluating the historical operating performance of the Company. However, Adjusted EBITDA and NOPAT are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Accordingly, Adjusted EBITDA and NOPAT may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with IFRS and NOPAT should not be construed as an alternative to earnings (loss) from operations determined in accordance with IFRS as an indicator of the Company's performance.

The Company defines Adjusted EBITDA as earnings before interest, income tax, depreciation and amortization after adjusting for the effects of certain non-recurring, non-operating, and items occurring outside of normal operations that do not reflect the current ongoing cash operations of the Company. These adjustments are provided in the following table reconciling net earnings or losses to Adjusted EBITDA based on the historical Financial Statements of the Company for the periods indicated.

The Company defines NOPAT as Adjusted EBITDA less depreciation of plant and equipment, depreciation of right-of-use assets and income taxes at a rate of 31%.

(U.S. dollars in thousands)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022	52-Weeks Ended July 2, 2023	53-Weeks Ended July 3, 2022
Net loss	(48,101)	(56,009)	(94,065)	(83,805)	(285,992)	(107,910)
Addback						
Income taxes	(8,606)	(17,595)	(16,168)	(26,340)	(37,249)	(32,410)
Interest expense[15]	39,970	9,120	72,188	(215)	109,171	14,768
Amortization	18,731	20,282	39,632	43,633	84,494	92,720
(Gain) loss on disposition of property, plant and equipment and right of use assets	969	(58)	952	(431)	818	25
Fair value adjustment for total return swap[9]	—	—	—	952	—	2,335
Unrealized foreign exchange (gain) loss on non-current monetary items and forward foreign exchange contracts	4,471	1,045	4,047	5,813	(2,363)	12,968
Costs associated with assessing strategic and corporate initiatives[7]	—	—	—	—	—	(106)
Past service costs and other pension costs[11]	—	7,000	4,764	7,000	4,764	7,000
Proportion of the total return swap realized[10]	—	—	—	(275)	—	(1,525)
Equity settled stock-based compensation	831	243	1,240	528	2,058	1,114
Unrecoverable insurance costs and other[12]	—	7,913	—	8,324	164	8,324
Expenses incurred outside of normal operations[17]	480	—	1,726	—	5,487	—
Prior year sales tax provision [13]	—	—	—	—	—	1,996
COVID-19 costs[14]	—	—	—	—	—	3,205
Out of period costs[16]	—	—	—	—	(1,597)	1,234
Impairment loss on goodwill[18]	—	—	—	—	103,900	—
Restructuring costs[8]	3,433	7,435	5,271	7,531	16,183	16,462
Adjusted EBITDA	12,178	(20,624)	19,587	(37,284)	(162)	20,200
Depreciation of property, plant and equipment and right of use assets	(10,896)	(12,346)	(23,932)	(27,558)	(53,387)	(60,350)
Tax at 31%	(397)	10,221	1,347	20,101	16,600	12,447
NOPAT	885	(22,749)	(2,998)	(44,741)	(36,949)	(27,703)
Adjusted EBITDA is comprised of:						
Manufacturing	(15,912)	(42,380)	(39,005)	(81,839)	(106,330)	(87,353)
Aftermarket	29,567	22,256	59,029	45,090	100,093	96,342
Corporate	(1,477)	(500)	(437)	(535)	6,075	11,211

(Footnotes on page 29)

Free Cash Flow and Free Cash Flow per Share

Management uses Free Cash Flow and Free Cash Flow per Share as non-IFRS measures to evaluate the Company's operating performance and liquidity and to assess the Company's ability to pay dividends on the Shares, service debt, pay interest on Convertible Debentures and meet other payment obligations. However, Free Cash Flow and Free Cash Flow per Share are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Accordingly, Free Cash Flow and the associated per Share figure may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Free Cash Flow should not be construed as an alternative to cash flows from operating activities determined in accordance with IFRS as a measure of liquidity and cash flow. The Company defines Free Cash Flow as net cash generated by or used in operating activities adjusted for changes in non-cash working capital items and adjusted for items as shown in the reconciliation of net cash generated by operating activities (an IFRS measure) to Free Cash Flow (a non-IFRS measure) based on the Company's historical Financial Statements.

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

The Company defines Free Cash Flow per Share as Free Cash Flow divided by the average number of Shares outstanding.

(U.S. dollars in thousands, except per Share figures)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022	52-Weeks Ended July 2, 2023	53-Weeks Ended July 3, 2022
Net cash generated by (used in) operating activities	(13,775)	8,440	(80,154)	(124,388)	(196,551)	(12,629)
Changes in non-cash working capital items[3]	11,284	(60,802)	53,028	40,681	109,520	(57,524)
Interest paid[3]	27,957	12,959	57,203	27,497	88,054	58,370
Interest expense[3]	(30,112)	(18,570)	(56,032)	(34,871)	(99,011)	(72,106)
Income taxes (recovered) paid[3]	(19,509)	2,974	(20,876)	2,090	(24,388)	6,079
Current income tax recovery (expense)[3]	53	2,824	(920)	5,437	13,452	3,105
Repayment of obligations under lease	(5,283)	(6,029)	(10,361)	(10,871)	(24,025)	(18,722)
Cash capital expenditures	(5,089)	(4,232)	(8,076)	(10,440)	(19,007)	(28,697)
Acquisition of intangible assets	(2,583)	(2,214)	(4,044)	(3,529)	(10,727)	(5,673)
Proceeds from disposition of property, plant and equipment	66	228	205	1,313	579	4,477
Costs associated with assessing strategic and corporate initiatives[7]	—	—	—	—	—	(106)
Defined benefit funding[4]	454	1,261	1,271	2,296	3,240	4,511
Defined benefit expense[4]	(779)	(1,746)	(1,392)	(2,554)	(2,336)	(6,735)
Past service costs and other pension costs[11]	—	7,000	—	7,000	—	7,000
Expenses incurred outside of normal operations[17]	480	—	1,726	—	5,488	—
Equity hedge	229	(124)	921	(124)	42	(124)
Proportion of the total return swap realized[10]	—	—	—	(275)	—	(1,525)
Unrecoverable insurance costs and other[12]	—	7,913	—	8,324	164	10,320
Out of period costs[16]	—	—	—	1,264	(1,597)	2,498
Restructuring costs[8]	3,433	3,627	5,269	3,723	13,228	12,492
COVID-19 costs[14]	—	—	—	12	—	3,217
Foreign exchange gain (loss) on cash held in foreign currency[5]	2,405	(2,118)	2,590	(1,554)	4,915	(4,384)
Free Cash Flow[1]	(30,769)	(48,609)	(59,642)	(88,969)	(138,960)	(96,156)
U.S. exchange rate[2]	1.3245	1.2883	1.3376	1.2718	1.3590	1.2710
Free Cash Flow (C$)[1]	(40,754)	(62,624)	(79,776)	(113,147)	(188,847)	(122,213)
Free Cash Flow per Share (C$)[6]	(0.5281)	(0.8118)	(1.0338)	(1.6637)	(2.4474)	(1.8726)
Declared dividends on Shares (C$)	—	4,096	—	8,192	4,096	39,668
Declared dividends per Share (C$)[6]	—	0.0531	—	0.1062	—	0.5312

1. Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS.
2. U.S. exchange rate (C$ per US$) is the weighted average exchange rate applicable to dividends declared for the period.
3. Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the credit facilities which are available to fund general corporate requirements, including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and income taxes paid.
4. The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.
5. Foreign exchange gain (loss) on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS; however, because it is a cash item, management believes it should be included in the calculation of Free Cash Flow.
6. Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2023 Q2 was 77,174,517 and 77,140,467 for 2022 Q2. The weighted average number of Shares outstanding for 2023 Q2 LTM and 2022 Q2 LTM are 77,159,634 and 74,517,345, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.
7. Normalized to exclude non-operating expenses and recoveries related to the costs of assessing strategic and corporate initiatives.
8. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, inefficient labour costs, increased medical costs and right-of-use asset impairments and inventory impairments associated with NFI Forward and other restructuring initiatives. Free Cash Flow reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.
9. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted EBITDA. Beginning in Q2 2022, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
10. A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA and Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
11. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans. 2022 Q2 includes $7.0 million for the liability related to the closure of the Pembina facility and withdrawal from the multi-employer pension plan. Also included is $4.8 million of pension past service costs incurred during Q1 2023.
12. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.
13. Provision for sales taxes as a result of a previous state sales tax review.
14. Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. During 2022, management determined costs related to sanitization and masks were an operating cost and would no longer be included in the definition.
15. Includes fair market value adjustments to interest rate swaps and the cash conversion option on the Convertible Debentures. 2023 Q2 includes a loss of $2.0 million and 2022 Q2 includes a gain of $5.8 million for the interest rate swaps. 2023 Q2 includes a loss of $4.5 million and 2022 Q2 includes a gain of $5.9 million on the cash conversion option.
16. Includes adjustments made related to expenses that pertain to prior years. 2022 Q2 includes expenses related to amounts that should have been capitalized from Fiscal Years 2010 - 2021.
17. Includes adjustments made related to items that occurred outside of normal operations. This includes specified items purchased in broker markets at a premium and associated broker fees, which the Company provided to suppliers, and does not normally directly purchase. Also included is the additional labour costs associated with the shortage of the specified item.
18. Includes 2022 Q4 impairment charges with respect to ARBOC's goodwill of $23.2 million and the AD manufacturing cash generating unit ("CGU")'s goodwill of $80.7 million.

Liquidity

Liquidity is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines liquidity as cash on-hand plus available capacity under its North American credit facilities, without consideration given to the minimum liquidity requirement under the Amended Facilities.

Backlog

Backlog value is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines backlog as the number of EUs in the backlog multiplied by their expected selling price.

Book-to-Bill Ratio

Book-to-bill ratio is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines book-to-bill ratio as new firm orders and exercised options divided by new deliveries.

Working Capital Days

Working Capital Days is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines Working Capital Days as the calculated number of days to convert working capital to cash. It is calculated by the number of days in the last twelve months (2023 Q2 LTM - 364 days) divided by the working capital turnover ratio (total sales for the last twelve months divided by average working capital for the last thirteen months).

Working Capital Days is calculated based on the following financial statement line items: Accounts Receivable and Inventories less Accounts Payables, Deferred Revenue and Provisions.

Payout Ratio

Payout ratio is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Management believes the payout ratio is an important measure of the Company's ability to pay dividends with cash generated. The Company defines payout ratio as the declared dividends divided by the Free Cash Flow.

Adjusted Net Earnings (Loss) and Adjusted Net Earnings (Loss) per Share

Management believes that Adjusted Net Earnings (Loss) and the associated per Share figure are important measures in evaluating the historical operating performance of the Company. Adjusted Net Earnings (Loss) and Adjusted Net Earnings (Loss) per Share are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. Accordingly, Adjusted Net Earnings (Loss) and Adjusted Net Earnings (Loss) per Share may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted Net Earnings (Loss) and Adjusted Net Earnings (Loss) per Share should not be construed as an alternative to Net Earnings (Loss), or Net Earnings (Loss) per Share, determined in accordance with IFRS as indicators of the Company's performance.

The Company defines Adjusted Net Earnings (Loss) as net earnings (loss) after adjusting for the after tax effects of certain non-recurring, non-operating and items occurring outside of normal operation, that do not reflect the current ongoing cash operations of the Company. These adjustments are provided in the following reconciliation of net earnings (loss) to Adjusted Net Earnings (Loss) based on the historical Financial Statements of the Company for the periods indicated.

The Company defines Adjusted Net Earnings (Loss) per share as Adjusted Net Earnings (Loss) divided by the average number of Shares outstanding.

(U.S. dollars in thousands, except per Share figures)	2023 Q2	2022 Q2	26-Weeks Ended July 2, 2023	26-Weeks Ended July 3, 2022	52-Weeks Ended July 2, 2023	53-Weeks Ended July 3, 2022
Net loss	(48,101)	(56,009)	(94,065)	(83,805)	(285,992)	(107,909)
Adjustments, net of tax[1, 7]						
Fair value adjustments of total return swap[4]	—	—	—	657	—	1,286
Unrealized foreign exchange (gain) loss	3,085	722	2,792	4,011	(1,632)	7,267
Unrealized loss (gain) on interest rate swap	1,385	(4,010)	5,212	(19,543)	(1,264)	(24,854)
Unrealized gain on Cash Conversion Option	3,113	(4,122)	1,320	(7,825)	(2,294)	(12,790)
Portion of the total return swap realized[5]	—	—	—	(190)	—	(759)
Costs associated with assessing strategic and corporate initiatives[2]	—	—	—	—	—	(106)
Equity settled stock-based compensation	574	167	856	364	1,421	631
(Gain) loss on disposition of property, plant and equipment	669	(40)	657	(297)	564	(89)
Past service costs and other pension costs[6]	—	4,830	3,287	4,830	3,287	4,830
Unrecoverable insurance costs and other[11]	—	5,460	—	5,744	114	7,214
Expenses incurred outside of normal operations[12]	332	—	1,191	—	3,786	—
Other tax adjustments[9]	45	(1,700)	(201)	(1,880)	20,663	(5,329)
COVID-19 costs[8]	—	—	—	—	—	1,458
Out of period costs[10]	—	—	—	1,264	(2,366)	1,264
Accretion in carrying value of convertible debt and cash conversion option	1,289	1,309	2,558	2,609	5,221	2,883
Impairment loss on goodwill[13]	—	—	—		103,900	—
Restructuring costs[3]	2,368	5,130	3,636	5,196	11,166	9,259
Adjusted Net Loss	(35,241)	(48,263)	(72,757)	(88,865)	(143,426)	(115,744)
Loss per Share (basic)	(0.62)	(0.73)	(1.22)	(1.09)	(3.70)	(1.44)
Loss per Share (fully diluted)	(0.62)	(0.73)	(1.22)	(1.09)	(3.70)	(1.44)
Adjusted Net Loss per Share (basic)	(0.46)	(0.64)	(0.94)	(1.17)	(1.86)	(1.60)
Adjusted Net Loss per Share (fully diluted)	(0.46)	(0.64)	(0.94)	(1.17)	(1.86)	(1.60)

1. Addback items are derived from the historical financial statements of the Company.
2. Normalized to exclude non-operating expenses and recoveries related to the costs of assessing strategic and corporate initiatives.
3. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, inefficient labour costs, increased medical costs and right-of-use asset impairments and inventory impairments associated with NFI Forward and other restructuring initiatives. Free Cash Flow reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.

4. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted EBITDA. Beginning in Q2 2022, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
5. A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA and Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
6. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans. 2022 Q2 includes $7.0 million for the liability related to the closure of the Pembina facility and withdrawal from the multi-employer pension plan. Also included is $4.8 million of pension past service costs.
7. The Company has utilized a rate of 54.5% to tax effect the adjustments in periods related to Fiscal 2021. A rate of 31.0% has been used to tax effect the adjustments for all other periods.
8. Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. During 2022, management determined costs related to sanitization and masks were an operating cost and would no longer be included in the definition.
9. Includes the impact of changes in deferred tax balances as a result of substantively enacted tax rate changes. The 2021 and 2022 amounts include the impact of the revaluation of deferred tax balances due to the enacted increase in the UK corporate tax rate from 19% to 25% in 2021 Q3. Also included in 2022 Q4 is the impact of the reduction of deferred tax assets related to the derecognition of loss carry forwards in Canada, and restricted interest in the UK.
10. Includes adjustments made related to expenses that pertain to prior years. 2022 Q1 includes expenses related to amounts that should have been capitalized from Fiscal Years 2010 - 2021.
11. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.
12. Includes adjustments made related to items that occurred outside of normal operations. This includes specified items purchased in broker markets at a premium and associated broker fees, which the Company provided to suppliers, and does not normally directly purchase. Also included is the additional labour costs associated with the shortage of the specified item.
13. Includes 2022 Q4 impairment charges with respect to ARBOC's goodwill of $23.2 million and the AD manufacturing CGU's goodwill of $80.7 million.

ROIC

ROIC is not a recognized measure under IFRS and its components do not have standardized meanings prescribed by IFRS. Management believes that ROIC is an important measure in evaluating the historical performance of the Company. The Company defines ROIC as net operating profit after taxes divided by average invested capital for the last 12-month period.

Reconciliation of Shareholders' Equity to Invested Capital

(U.S. dollars in thousands)	2023 Q2	2023 Q1	2022 Q4	2022 Q3
Shareholders' Equity	$ 495,140	533,756	577,575	710,984
Addback				
Long term debt	935,605	911,203	896,626	859,297
Obligation under lease	124,405	127,247	131,625	122,666
Convertible debentures	225,081	218,719	217,516	211,281
Senior unsecured debt	87,363	86,431	—	—
Derivatives	9,422	(17,164)	(21,620)	(18,904)
Cash	(57,488)	(59,375)	(49,987)	(39,832)
Bank indebtedness	—	—	—	—
Invested Capital	1,819,528	1,800,817	1,751,735	1,845,492
Average of invested capital over the quarter	1,810,173	1,776,276	1,798,614	1,822,554

	2022 Q2	2022 Q1	2021 Q4	2021 Q3
Shareholders' Equity	783,905	850,323	871,772	787,010
Addback				
Long term debt	718,139	677,996	586,411	1,049,273
Capital leases	131,077	139,129	143,675	150,212
Convertible debentures	224,947	229,673	225,768	—
Senior unsecured debt	—	—	—	—
Derivatives	(8,179)	4,806	31,883	20,920
Cash	(50,274)	(26,604)	(77,318)	(64,822)
Bank indebtedness	—	1,233	—	—
Invested Capital	1,799,615	1,876,556	1,782,191	1,942,593
Average of invested capital over the quarter	1,838,086	1,829,373	1,862,392	1,924,303

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

The Company's liquidity requirements are met through a variety of sources, including cash on hand, cash generated from operations, the credit facilities, leases, and debt and equity capital markets. While management expects that the Company will have sufficient liquidity to continue operations in the ordinary course, it is possible that unexpected events (such as delayed customer payments, supply chain issues, product recalls, warranty claims, etc.) could significantly impair the Company's liquidity and there can be no assurance that the Company would be able to obtain additional liquidity when required in such circumstances.

At January 1, 2023, the Company has convertible debentures outstanding of $338 million ("Debentures"). The Debentures may be converted in whole or in part from time to time at the holder's option into 30.1659 Shares for each C$1,000 principal amount of Debentures, representing a conversion price of approximately C$33.15 per Share and total potential conversion of 10,196,074 shares.

On December 29, 2022, the Company amended the Credit Facility and the UK Facility (together the "Amended Facilities"). Amendments provide relief from previous key financial covenants (Total Leverage Ratio ("TLR"), Minimum Adjusted EBITDA and Interest Coverage Ratio ("ICR")) for the fourth quarter of 2022 and the first two quarters of 2023 ending June 30, 2023 (the "Waiver Period") to provide the Company with relaxed covenants as the Company navigates supply chain disruptions, heightened inflation and other impacts of the COVID-19 pandemic. During the Waiver Period, the Company is subject to a Total Net Debt to Capitalization ("TNDC") ratio, starting in January 2023, and a minimum Adjusted EBITDA covenant starting in March 2023. The terms of the Amended Facilities impose restrictions over the declaration and payment of dividends until the Waiver Period has ended.

On January 20, 2023 the Company entered into agreements with MDC for a C$50 million debt facility, for general corporate purposes, and EDC for credit facilities of up to $150 million to support supply chain financing ($50 million) and surety and performance bonding requirements for new contracts (up to $100 million).

The Credit Facility has a total borrowing limit of $1 billion, which includes a $100 million letter-of-credit facility subject to the Company being in compliance with its credit covenants. $83.5 million of outstanding letters-of-credit were drawn against the Credit Facility at April 2, 2023. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

The UK Facility has a total borrowing limit of £40 million which matures on August 31, 2023. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin.

NFI has received an extension to its financial covenant waivers under the Credit Facility and the UK Facility to August 31, 2023.

The Company entered into an agreement for up to C$10,000,000 in interest-free financing through the Government of Canada to support facility enhancements and zero-emission product growth. The financing matures on March 1, 2030.

While NFI finalizes its Refinancing Plan, which is expected to significantly improve NFI's liquidity position, the Company remains focused on cash management and liquidity. The Company is executing on efforts to reduce inventory and accelerate customer payments, including the pursuit of advance payments and deposits from customers, wherever possible, and exploring other potential opportunities to generate cash flows. The Company's current focus on simultaneously reducing work-in-progress and ramping up production puts additional stress on liquidity.

In support of these efforts, on July 31, 2023 NFI received approval under the Amended Facilities to lower the minimum liquidity requirement from $25 million to $5 million, effective as of July 31, 2023 to August 31, 2023. Post-completion of the Refinancing Plan the minimum liquidity requirement under the Secured Facilities will increase to $50 million.

The details of the covenants under the Amended Facilities are as follows:

	Total Leverage Ratio ("TLR")	Interest Coverage Ratio ("ICR")	Total Net Debt to Capitalization	Minimum Cumulative Adjusted EBITDA	Minimum Liquidity
January 2, 2023 - March 31, 2023	Waived	Waived	<0.62:1.00	>($28,000)	$25,000
April 1, 2023 - April 30, 2023	Waived	Waived	<0.62:1.00	>($31,000)	$25,000
May 1, 2023 - May 31, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
June 1 - July 30, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
July 31 - August 31, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$5,000
September 1, 2023 - October 1, 2023	<4.50	>2.00	N/A	N/A	$25,000
October 2, 2023 - December 31, 2023	<4.00	>2.50	N/A	N/A	$25,000
January 1, 2024 and thereafter	<3.75	>3.00	N/A	N/A	$25,000

1. TLR is calculated as borrowings on the Credit Facilities, not including the Company's 5.0% convertible debentures, less unrestricted cash and cash equivalents, divided by Adjusted EBITDA, typically calculated on a trailing twelve-month basis. When the TLR is reintroduced under the Amended Facilities in 2023 Q3, Adjusted EBITDA will be annualized until a full rolling four quarters of results are available (i.e., period ending 2023 Q3).
2. ICR is calculated as the same trailing twelve month Adjusted EBITDA as the TLR divided by trailing twelve month interest expense on the Credit Facilities, the Debentures and other interest and bank charges.
3. Total Net Debt to Capitalization is calculated as borrowings on the Credit Facilities, less unrestricted cash and cash equivalents, divided by Shareholder's Equity, as shown on the Company's balance sheet, plus borrowings on the Credit Facilities. The calculation of shareholder's equity is adjusted to exclude up to $100 million of goodwill impairment.
4. Cumulative Adjusted EBITDA starting with 2023 Q1 results. The calculation is adjusted for the impact of the adoption of IFRS 16 in Fiscal 2019, per the Amended Facilities agreement.
5. Liquidity is calculated as unrestricted cash and cash equivalents plus the aggregate amount of credit available under the Credit Facilities.

US dollars in thousands	**July 2, 2023**	January 1, 2023
Liquidity Position (must be greater than $25 million)	$ 81,532	$ 143,454
Minimum Cumulative Adjusted EBITDA (must be greater than ($13,000) [2022: N/A])	$ 12,140	Waived
Net Debt to Capital Ratio (must be less than 0.65:1.00 [2022: N/A])	0.45	Waived

1. Represents a supplementary financial measure. See Non-IFRS and Other Financial Measures section.

As of July 2, 2023, NFI's liquidity was $81.5 million, without consideration given to the minimum liquidity requirement of $25 million under the Amended Facilities. As part of the Company's efforts to improve working capital and liquidity, the Company requested prepayments and deposits from certain customers. As of July 2, 2023, the Company has received $117.2 million in prepayments and is continuing to work with other customers to help alleviate some of the Company's working capital investments while it navigates through the supply chain challenges.

Due to the ongoing uncertainty created by continuing supply chain disruptions, the Company now expects that lower Adjusted EBITDA combined with the Company's anticipated debt profile will affect the Company's ability to comply, after the expiry of the Waiver Period, with certain financial covenants under the Amended Facilities. These events result in a material uncertainty that may cast significant doubt as to the ability of the Company to continue as a going concern.

The Company expects operations to continue into the long-term. The Company is taking a number of operational steps including cost savings measures to ensure adequate short-term liquidity. Additionally, the Company is continuing to work directly with suppliers and sub-suppliers to search for alternate or substitute parts where possible, increase production line parts inventories and develop longer lead times to better support new vehicle production.

On May 10, 2023 NFI announced that it is working to complete its Refinancing Plan (see note 1.2 of the Financial Statements for full details) and has made significant progress towards completion since that time. The Company is targeting completion of all elements of the Refinancing Plan before August 31, 2023. If the Refinancing Plan is not completed by that date, the Company will require relief from the lenders under the Amended Facilities and potentially additional liquidity support. There can be no assurance that such relief or support will be available.

In assessing whether the going concern assumption is appropriate, the Company took into account all relevant information available about the future including its backlog, demand for its products, government funding levels in its core markets and the Company's ability to raise additional capital by issuing long-term debt or additional Shares, or other securities through either a public offering, rights offering or private placement.

The Company believes that its cash position and capacity under its Amended Facilities, combined with anticipated future cash flows and access to capital markets, will be sufficient to fund operations, meet financial obligations as they come due, and provide the funds necessary for capital expenditures, and other operational needs. See Appendix A.

The Company remains focused on deleveraging its balance sheet and returning to its target leverage of 2.0x to 2.5x total debt to Adjusted EBITDA. Management had originally expected the Company to return to those levels 18 to 24 months following the acquisition of AD in May 2019, but the impact of COVID-19, inflation, higher rates of interest and the continuing supply chain disruptions and associated production inefficiencies, extended the anticipated timing of deleveraging. Management believes it will achieve its longer-term leverage targets as the Company delivers on its backlog, and benefits from record government investments in public transportation, and growing demand for its buses, coaches, parts and Infrastructure Solutions™ services. The reduction in leverage will also be driven by increased production rates, the anticipated stabilization of parts and components supply, and the focus on reducing working capital.

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

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in common systems and lean manufacturing operations to improve quality and cost effectiveness, while also investing to expand the Company's expertise in ZEBs, Infrastructure Solutions™, and Advanced Driver Assistance Systems ("ADAS") and automated vehicles. The Company has made significant investments in its ZEB production capabilities to be prepared for the expected evolution to a more electrified fleet. New Flyer now has the capability to manufacture ZEBs at all of its North American facilities. Alexander Dennis is the market leader in ZEBs with production capabilities at all of its UK facilities, MCI has invested in its electric coach offering for both public and private customers, and ARBOC developed its medium-duty Equess CHARGE™ electric bus. NFI is planning for the roll-out of its next generation battery technology for the North American market with a second battery supplier planned to launch late in 2023 based on projects that originally started in 2020. In November 2022, Alexander Dennis announced that several of its vehicles will now offer its next-generation electric driveline and future-proof battery system. Alexander Dennis has secured orders in the UK using this new technology, and, in 2023 Q2, Alexander Dennis delivered its first battery-electric buses to key customers in Hong Kong. To support customers making the transition to zero-emission fleets, NFI launched its Infrastructure Solutions™ business in 2018.

The Company has automated bus projects in development with specialized partners who have expertise of artificial intelligence and ADAS. As part of this program to advance automated vehicles and ADAS, on January 29, 2021, NFI announced the launch of the New Flyer Xcelsior AV™, North America's first automated Level 4 transit bus. Alexander Dennis continues to advance its autonomous bus programs in the United Kingdom with ongoing pilot programs in Scotland and expectations for additional trials on its new Enviro100AEW bus platform in 2023. NFI has also made numerous investments into telematics solutions to assist customers to track detailed performance and maintenance metrics associated with their vehicles.

The Company"s capital allocation priorities are currently focused on product development, deleveraging, strengthening its balance sheet and supporting the recovery of operations. While the Company will consider business acquisitions and partnerships that will further grow and diversify the business and contribute to long-term competitiveness, its current focus remains on internal initiatives, that support deleveraging efforts. Investment decisions are based on several criteria, including but not limited to: investment required to maintain or enhance operations; enhancement of cost effectiveness through vertical integration of critical supply and sub-assembly in-sourcing; and acquisitions in current or adjacent markets that are considered accretive to the business.

Return of Capital to Shareholders

The Company intends to have a Share dividend policy that is consistent with the Company's financial performance and the desire to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities. Under the terms of the Amended Facilities, the Company is not permitted to declare or pay dividends. Currently dividends have been suspended, future decisions on the resumption of dividend payments will be dependent on financial performance and compliance with credit facility covenants.

The Company's 2023 Q2 Free Cash Flow was (C$40.8) million with no dividends declared during this period. For 2022 Q2 Free Cash Flow was C$(62.6) million compared to declared dividends of C$4.1 million. This resulted in payout ratio[1] of nil% in 2023 Q2 compared to (6.5)% in 2022 Q2.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2023 Q2**	**2022 Q2**
Dividends paid	$ —	$ 3.2

1. Represents a non-IFRS ratio, meaning it is derived from a non-IFRS measure, which does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. The ratio is calculated using Free Cash Flow, which is a non-IFRS measure. See Non-IFRS and Other Financial Measures section.

Controls and Procedures

Internal Controls over Financial Reporting

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

Management adheres to the “Internal Control – Integrated Framework 2013” (“COSO 2013”) from the Committee of Sponsoring Organizations of the Treadway Commission.

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company’s ICFR as of January 1, 2023 in accordance with the criteria established in COSO 2013, and concluded that the Company’s ICFR are effective.

ICFR, no matter how well designed, have inherent limitations. Therefore, ICFR can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There have been no changes in our internal control over financial reporting during the quarter ended July 2, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company’s CEO and CFO have concluded that disclosure controls and procedures as at July 2, 2023 were effective.

Appendix A - Meaning of Certain References

References in this MD&A to the "Company" are to NFI and all of its direct or indirect subsidiaries, including New Flyer Industries Canada ULC ("NFI ULC"), New Flyer of America Inc. ("NFAI"), The Aftermarket Parts Company, LLC ("TAPC"), KMG Fabrication, Inc. ("KMG"), Carfair Composites Inc. ("CCI") and Carfair Composites USA, Inc. ("CCUI", and together with "CCI", "Carfair"), The Reliable Insurance Company Limited, ARBOC Specialty Vehicles, LLC ("ARBOC"), New MCI Holdings, Inc. and its affiliated entities (collectively, "MCI"), NFI Holdings Luxembourg s.a.r.l., and Alexander Dennis Limited and its affiliated entities (collectively, "AD"). References to "New Flyer" generally refer to NFI ULC, NFAI, TAPC, KMG, CCI, and CCUI. References in this MD&A to "management" are to senior management of NFI and the Company.

The Shares trade on the Toronto Stock Exchange ("TSX") under the symbol NFI and the Convertible Debentures trade on the TSX under the symbol NFI.DB and the subscription receipts trade under NFI.R. As at July 2, 2023, 77,176,763 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI's Annual Information Form and information circular, is available on SEDAR at www.sedarplus.ca.

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

Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities laws, which reflect the expectations of management regarding the Company's Refinancing Plan, the Private Placement, the use of proceeds therefrom, the second lien debt financing, the Company's future growth, financial performance, and liquidity and objectives and the Company's strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic, supply chain disruptions and plans to address them, and the Company's expectation of obtaining long-term credit arrangements and sufficient liquidity. The words "believes", "views", "anticipates", "plans", "expects", "intends", "projects", "forecasts", "estimates", "guidance", "goals", "objectives" and "targets" and similar expressions of future events or conditional verbs such as "may", "will", "should", "could", "would" are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events (including the temporary nature of the supply chain disruptions and operational challenges, production improvement, labour supply shortages, the recovery of the Company's markets and the expected benefits to be obtained through its "NFI Forward" initiatives) and the Company's financial and operating performance and speak only as of the date of this MD&A. By their very nature, forward-looking statements require management to make assumptions and involve significant risks and uncertainties, should not be read as guarantees of future events, performance or results, and give rise to the possibility that management's predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that the assumptions may not be correct and that the Company's future growth, financial condition, ability to generate sufficient cash flow and maintain adequate liquidity, obtain long-term credit arrangements, and the Company's strategic initiatives, objectives, plans, business prospects and opportunities, including the Company's plans and expectations relating to the duration, impact of and recovery from the COVID-19 pandemic, supply chain disruptions, operational challenges, labour supply shortages and inflationary pressures, will not occur or be achieved. There can be no assurance that the transactions comprising the Refinancing Plan will be completed on the terms disclosed or otherwise. There can be no assurance that further relief from the lenders under NFI's senior secured facilities or additional liquidity support will be available.

A number of factors that may cause actual results to differ materially from the results discussed in the forward-looking statements include: the Company's business, operating results, financial condition and liquidity may be materially adversely impacted by the ongoing COVID-19 pandemic and related supply chain and operational challenges, inflationary effects and labour supply challenges; the Company's business, operating results, financial condition and liquidity may be materially adversely impacted by the ongoing Russian invasion of Ukraine due to factors including but not limited to further supply chain disruptions, inflationary pressures and tariffs on certain raw materials and components that may be necessary for the Company's operations; funding may not continue to be available to the Company's customers at current levels or at all; the Company's business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company's products and the results of its operations; currency fluctuations could adversely affect the Company's financial results or competitive position; interest rates could change substantially, materially impacting the Company's revenue and profitability; an active, liquid trading market for the Shares and/or the Debentures may cease to exist, which may limit the ability of securityholders to trade Shares and/or Debentures; the market price for the Shares and/or the Debentures may be volatile; if securities or industry analysts do not publish research or reports about the Company and its business, if they adversely change their recommendations regarding the Shares or if the Company's results of operations do not meet their expectations, the Share price and trading volume could decline, in addition, if securities or industry analysts publish inaccurate or unfavorable research about the Company or its business, the Share price and trading volume of the Shares could decline; competition in the industry and entrance of new competitors; current requirements under U.S. "Buy America" regulations may change and/or become more onerous or suppliers' "Buy America" content

may change; failure of the Company to comply with the U.S. Disadvantaged Business Enterprise ("DBE") program requirements or the failure to have its DBE goals approved by the U.S. FTA; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; requirements under Canadian content policies may change and/or become more onerous; the Company's business may be materially impacted by climate change matters, including risks related to the transition to a lower-carbon economy; operational risk resulting from inadequate or failed internal processes, people and/or systems or from external events, including fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, floods, technology failures, processing errors, business integration, damage to physical assets, employee safety and insurance coverage; international operations subject the Company to additional risks and costs and may cause profitability to decline; compliance with international trade regulations, tariffs and duties; dependence on unique or limited sources of supply (such as engines, components containing microprocessors or, in other cases, for example, the supply of transmissions, batteries for battery-electric buses, axles or structural steel tubing) resulting in the Company's raw materials and components not being readily available from alternative sources of supply, being available only in limited supply, a particular component may be specified by a customer, the Company's products have been engineered or designed with a component unique to one supplier or a supplier may have limited or no supply of such raw materials or components or sells such raw materials or components to the Company on less than favorable commercial terms; the Company's vehicles and certain other products contain electrical components, electronics, microprocessors control modules, and other computer chips, for which there has been a surge in demand, resulting in a worldwide supply shortage of such chips in the transportation industry, and a shortage or disruption of the supply of such microchips could materially disrupt the Company's operations and its ability to deliver products to customers; dependence on supply of engines that comply with emission regulations; a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company's products; the Company's profitability can be adversely affected by increases in raw material and component costs; the Company may incur material losses and costs as a result of product warranty costs, recalls, failure to comply with motor vehicle manufacturing regulations and standards and the remediation of transit buses and motor coaches; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events, including those related to impacts of climate change, may lead to production curtailments or shutdowns; the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour; the Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage; the Company may be adversely affected by rising insurance costs; the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts; the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability and other claims; the Company may have difficulty selling pre-owned coaches and realizing expected resale values; the Company may incur costs in connection with regulations relating to axle weight restrictions and vehicle lengths; the Company may be subject to claims and liabilities under environmental, health and safety laws; dependence on management information systems and cyber security risks; the Company's ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees; the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business; the Company's risk management policies and procedures may not be fully effective in achieving their intended purposes; internal controls over financial reporting, no matter how well designed, have inherent limitations; there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products or model variants; acquisition risk; reliance on third-party manufacturers; third-party distribution/dealer agreements; availability to the Company of future financing; the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt; the Company's substantial consolidated indebtedness could negatively impact the business; the restrictive covenants in the Company's credit facilities could impact the Company's business and affect its ability to pursue its business strategies; in December 2022, the Board made the decision to suspend the payment of dividends given credit agreement constraints and to support the Company's focus on improving its liquidity and financial position and the resumption of dividend payments is not assured or guaranteed; a significant amount of the Company's cash may be distributed, which may restrict potential growth; the Company is dependent on its subsidiaries for all cash available for distributions; the Company may not be able to make principal payments on the Debentures; redemption by the Company of the Debentures for Shares will result in dilution to holders of Shares; Debentures may be redeemed by the Company prior to maturity; the Company may not be able to repurchase the Debentures upon a change of control as required by the trust indenture under which the Debentures were issued (the "Indenture"); conversion of the Debentures following certain transactions could lessen or eliminate the value of the conversion privilege associated with the Debentures; future sales or the possibility of future sales of a substantial number of Shares or Debentures may impact the price of the Shares and/or the Debentures and could result in dilution; payments to holders of the Debentures are subordinated in right of payment to existing and future Senior Indebtedness (as described under the Indenture) and will depend on the financial health of the Company and its creditworthiness; if the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected; and income and other tax risk resulting from the complexity of the Company's businesses and

operations and the income and other tax interpretations, legislation and regulations pertaining to the Company's activities being subject to continual change.

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

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

Factors relating to the Company's financial guidance and targets disclosed in this MD&A include, in addition to the factors set out above, the degree to which actual future events accord with, or vary from, the expectations of, and assumptions used by, the Company's management in preparing the financial guidance and targets and the Company's ability to successfully execute the "NFI Forward" initiatives and to generate the planned savings in the expected time frame or at all.

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

Appendix B - 2023 Second Quarter Bid Universe and Order Activity

Demand for Transit Buses and Motor Coaches

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

The Company's end markets continued to show strong order activity in the second quarter of 2023. Following large declines in the second half of 2020 as a result of the pandemic delaying orders in core markets, active bids rebounded significantly in 2021, 2022 and the first half of 2023. After three consecutive quarters of record high active bids, in 2023 Q2 active bids, at 10,054 EUs, declined by 9.1% from 2023 Q1, but increased by 32.6% year-over-year. The Company ended 2023 Q2 with 1,682 bids in process, and another 8,372 bids submitted, remaining at very strong levels. The number of bids submitted during 2023 Q2 was 170% greater than those submitted in 2022 Q2.

The forecasted five-year North American industry procurement has rebounded from the lows of the first half of 2021. As of 2023 Q2, the Total Bid Universe is at an all-time high of 31,623 EUs, the third consecutive quarter of record EUs. Year-over-year, the Total Bid Universe increased by 8.5%, or 2,476 EUs. The Company expects that the forecasted five-year North American industry procurement will remain high through 2023 as transit agencies continue to formalize their short- and long-term procurement plans linked to the multi-billion funding programs announced and/or launched by governments in Canada and the U.S.

As at 2023 Q2, a record 16,855 EUs, or 53.3%, of the Total Bid Universe are ZEBs, an increase of 12.7% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

The Bid Universe EUs fluctuate significantly from quarter-to-quarter based on public tender activity procurement and award processes.

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)[1]	Total Bid Universe (EUs)
2022 Q2	4,477	3,105	7,582	21,565	29,147
2022 Q3	2,881	7,226	10,107	20,377	30,484
2022 Q4	5,169	5,338	10,507	20,277	30,784
2023 Q1	2,833	8,233	11,066	20,103	31,169
2023 Q2	**1,682**	**8,372**	**10,054**	**21,569**	**31,623**

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

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

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

AD does not currently have a Bid Universe metric for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe; however, AD does maintain a sales pipeline. Management does not currently believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2019, and was expected to increase in 2020 before it was hit disproportionately hard by the COVID-19 pandemic, with bus ridership down by nearly 80% at its worst point in 2020. While management saw signs of recovery in 2021 and 2022, supply chain challenges have continued to disrupt the market. Throughout 2023, management expects stronger recovery based on customers' fleet recovery plans and an aging UK vehicle fleet. Governments continue to focus on the green recovery and government funding is starting to materialize. This funding, plus future investments under plans to expand transport service in communities outside of London is expected to contribute to market growth in 2023 and beyond. Alexander Dennis has seen the benefits of this anticipated recovery as it has essentially sold the majority of its UK

production slots for 2023, although at slightly lower production rates. Alexander Dennis continues to grow its installed fleet in Europe with multi-year contracts in Ireland and Germany. The European market is highly fragmented with numerous players providing niche opportunities for AD in the future.

In Asia Pacific, the Hong Kong market is highly cyclical, and, following busier periods in 2015 through 2018, the market has declined as anticipated. As in other regions, Hong Kong was also impacted by the COVID-19 pandemic, but AD remains the leader in double-deck buses and retains deep customer relationships in Hong Kong. Management saw some recovery in 2022 and continues to expect the Hong Kong market to see stable annual deliveries and a slow recovery through 2023. In 2023 Q2, Alexander Dennis delivered its first battery-electric buses to key customers in Hong Kong. New Zealand and Singapore remain highly cyclical markets with more predictable purchasing expectations based on vehicle age; Alexander Dennis continues to see significant opportunities in both markets and is also pursuing additional expansion programs in South Africa and the Middle-East region.

Order activity

New orders (firm and options) during 2023 Q2 totaled 917 EUs, a 32.0% decrease from 2022 Q2. The timing of new orders can vary based on transit agency procurement processes, with the fourth quarter typically being a busier period tied to agency and operator approval meetings. On an LTM basis new firm and option orders for 2023 Q2 LTM were 5,821 EUs, an increase of 13.1% from 2022 Q2 LTM. The Company was successful at converting 289 EUs of options to firm orders during 2023 Q2, an increase from the 44 EUs converted in 2023 Q1 and from the 85 EUs converted in 2022 Q2; option conversions vary quarter-to-quarter. These 289 EUs of option conversions contributed to the 668 EUs converted to firm orders for the 2023 Q2 LTM period. Option conversion declines in 2021, 2022, and the first two quarters of 2023 were primarily related to older contracts and changes in customers' expected fleet replacement plans. Further details are provided below under the "Options" section.

In 2023 Q2, the Company received orders for 90 EUs of battery-electric, zero-emission vehicles, a decrease from the 1,091 EUs of ZEB orders in 2023 Q1, when the Company contracted several large scale, multi-year orders. These 90 EUs of ZEBs equate to 9.8% of all new firm and option orders for the quarter. The second quarter of 2023 was a slower period for order activity, following higher order levels in 2022 Q4 and 2023 Q1.

719 EUs of new firm and option orders were pending from customers at the end of 2023 Q2, where approval of the award to the Company had been made by the customer’s board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog. This was up from the 425 EUs of pending new firm and option orders as of the end of 2023 Q1. The Company anticipates that the majority of the units currently in bid award pending will convert into backlog during 2023 Q3.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2022 Q2	1,348	5,147	85	734
2022 Q3	453	4,815	217	797
2022 Q4	2,578	5,786	118	638
2023 Q1	1,873	6,252	44	464
2023 Q2	**917**	**5,821**	**289**	**668**

Options

In 2023 Q2, 229 options expired, as compared to 142 options in 2023 Q1, and as compared to 1 option that expired in 2022 Q2. Option expiries can vary significantly quarter-to-quarter. Certain agencies are letting a portion of older options expire as they re-evaluate their longer-term fleet planning decisions with an increased focus on the procurement of ZEBs rather than traditional internal combustion engine propulsion. In certain cases, customers have issued new procurements to replace the expired options. NFI replenished a significant amount of expired options through new orders in 2022 and the first half of 2023; on an LTM basis, 5,821 EUs in new firm and option orders were added to backlog. Overall demand remains at record levels and will support future option orders.

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

	2018	2019	2020	2021	2022	2023 YTD	2024	2025	2026	2027	2028	Total
A) Options Expired (EUs)	741	512	1,202	819	1,920	371						5,565
B) Options Exercised (EUs)	1,795	1,518	953	1,110	638	333						6,347
C) Current Options by year of expiry (EUs)						354	284	489	1,469	1,487	631	4,714
D) Conversion rate % = B / (A+B)	**71 %**	**75 %**	**44 %**	**58 %**	**25 %**							

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

In addition to contracts for identified public customers, the Company has increased its focus on purchasing schedules (state and national contracts, cooperative agency purchasing agreements) with the objective of having multiple available schedules, from which customers within a prescribed region or from defined list, can purchase. The Company is currently named on over 25 of these purchasing schedules, either directly or through its dealers. These schedules are not recorded in backlog as they do not have defined quantities allocated to the Company or any other original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order. The Company has received more than 1,100 vehicle awards from these schedules since the start of 2018, showing their growing use by transit agencies as a procurement alternative in North America.

The Company's 2023 Q2 Book-to-Bill[1] ratio (defined as new firm orders and exercised options divided by new deliveries) was 121.9%, a decrease from 158.4% in 2022 Q2. This decrease in Book-to-Bill was driven by higher deliveries and lower total new orders when compared to the same period last year. 2023 Q2 LTM Book-to-Bill was 124.5%, a decrease from 130.9% for 2022 Q2 LTM.

Backlog

The Company's total backlog consists of buses sold primarily to U.S. and Canadian public customers and private operators in the UK and Internationally. The majority of the backlog relates to New Flyer transit buses for public customers with some of the backlog consisting of units from MCI, AD, and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as options in the NFI backlog, but are converted to firm backlog when vehicles are ordered by the dealer.

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas, diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses, represent approximately 65.3% of the total backlog as of the end of 2023 Q2, down slightly from 67.4% as of the end of 2023 Q1. As at the end of 2023 Q2, there were 3,491 EUs of ZEBs in the backlog, representing 35.6% of the total backlog, down slightly from the record of 36.4% as at the end of 2023 Q1.

Footnotes

1. Represents a supplementary financial measure. See Non-IFRS and Other Financial Measures section.

	2023 Q2			2023 Q1			2022 Q2		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	4,910	5,161	10,071	4,576	4,610	9,186	4,057	4,851	8,908
New orders	846	71	917	1,136	737	1,873	805	543	1,348
Options exercised	289	(289)	—	44	(44)	—	85	(85)	—
Shipments[1]	(931)	—	(931)	(792)	—	(792)	(562)	—	(562)
Cancelled/expired	(25)	(229)	(254)	(54)	(142)	(196)	(19)	(1)	(20)
End of period	**5,089**	**4,714**	**9,803**	**4,910**	**5,161**	**10,071**	**4,366**	**5,308**	**9,674**
Consisting of:									
Heavy-duty transit buses	4,175	4,407	8,582	3,994	4,887	8,881	3,296	5,036	8,332
Motor coaches	341	307	648	323	274	597	395	272	667
Cutaway and medium-duty buses	573	—	573	593	—	593	675	—	675
Total Backlog	**5,089**	**4,714**	**9,803**	**4,910**	**5,161**	**10,071**	**4,366**	**5,308**	**9,674**

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

At the end of 2023 Q2, the Company's total backlog (firm and options) of 9,803 EUs decreased slightly compared to 10,071 units as of the end of 2023 Q1, but retained a total dollar value of $6.7 billion[2]. The decrease was driven by higher options exercised and a slightly lower level of new awards in the quarter, offset by higher deliveries and higher option expiries. 719 EUs of new firm and option orders were in bid award pending at the end of 2023 Q2, up from 425 as of the end of 2023 Q1.

The average price of an EU in backlog is now $681.5 thousand, a 20.0% increase from 2022 Q2.

The summary of the values is provided below.

	2023 Q2		2023 Q1		2022 Q2	
		EUs		EUs		EUs
Total firm orders	$ 2,993.9	5,089	$ 2,849.1	4,910	$ 2,375.6	4,366
Total options	3,687.3	4,714	3,892.2	5,161	3,119.1	5,308
Total backlog[2]	**$ 6,681.2**	**9,803**	**$ 6,741.3**	**10,071**	**$ 5,494.7**	**9,674**

2. Represents a supplementary financial measure. See Non-IFRS and Other Financial Measures section.

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

July 2, 2023

TABLE OF CONTENTS

	Page
Unaudited Interim Condensed Consolidated Statements of Net Loss and Total Comprehensive Loss	3
Unaudited Interim Condensed Consolidated Statements of Financial Position	4
Unaudited Interim Condensed Consolidated Statements of Changes in Equity	5
Unaudited Interim Condensed Consolidated Statements of Cash Flows	6
Notes to the Unaudited Interim Condensed Consolidated Financial Statements	7-21

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS
13-weeks and 26-weeks ended July 2, 2023 ("2023 Q2" and "2023 Q2 YTD", respectively) and 13-weeks and 26-weeks ended July 3, 2022 ("2022 Q2" and "2022 Q2 YTD", respectively)
(in thousands of U.S. dollars except per share figures)

	2023 Q2	2022 Q2 restated (note 2.6)	2023 Q2 YTD	2022 Q2 YTD restated (note 2.6)
Revenue (note 16)	$ 659,569	$ 397,952	$ 1,183,980	$ 857,282
Cost of sales (note 4)	611,677	395,577	1,099,851	836,876
Gross profit	47,892	2,375	84,129	20,406
Sales, general and administration costs and other operating expenses	61,902	65,377	119,659	124,823
Foreign exchange (gain) loss	(2,713)	495	(2,484)	561
Loss from operations	(11,297)	(63,497)	(33,046)	(104,978)
(Loss) Gain on disposition of property, plant and equipment and right-of-use asset	(969)	58	(952)	431
Unrealized foreign exchange loss on monetary items	(4,471)	(1,045)	(4,047)	(5,813)
Loss before interest and income taxes	(16,737)	(64,484)	(38,045)	(110,360)
Interest and finance costs				
Interest on long-term debt	22,438	11,007	41,181	21,361
Interest on convertible debt	3,622	3,371	6,242	6,785
Interest on senior unsecured debt	1,777	—	3,884	—
Accretion in carrying value of long-term debt (note 10)	1,290	458	2,657	816
Accretion in carrying value of convertible debt (note 11)	1,868	1,897	3,708	3,781
Accretion in carrying value of senior unsecured debt (note 6)	180	—	324	—
Interest expense on lease liability	1,639	1,381	3,143	2,867
Other interest and bank charges	636	2,791	1,582	3,838
Fair market value loss (gain) on interest rate swap	2,008	(5,811)	7,554	(28,323)
Fair market value loss (gain) on cash conversion option (note 15)	4,512	(5,974)	1,913	(11,340)
	39,970	9,120	72,188	(215)
Loss before income tax expense	(56,707)	(73,604)	(110,233)	(110,145)
Income tax recovery (note 9)	(8,606)	(17,595)	(16,168)	(26,340)
Net loss for the period	$ (48,101)	$ (56,009)	$ (94,065)	$ (83,805)
Other comprehensive loss				
Actuarial gain on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	3,306	11,927	349	27,170
Unrealized foreign exchange gain (loss) on translation of foreign operations - this item will not be reclassified subsequently to profit or loss	5,158	(18,395)	9,700	(24,058)
Net gain (loss) on equity hedge of restricted share plan	156	(301)	271	(301)
Total comprehensive loss for the period	(39,481)	(62,778)	(83,745)	(80,994)
Net loss per share (basic) (note 13)	$ (0.62)	$ (0.73)	$ (1.22)	$ (1.09)
Net loss per share (diluted) (note 13)	$ (0.62)	$ (0.73)	$ (1.22)	$ (1.09)

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at July 2, 2023
(in thousands of U.S. dollars)

		July 2, 2023		January 1, 2023 restated (note 2.6)
Assets				
Current				
Cash	$	57,488	$	49,987
Accounts receivable (note 3, 15d)		481,578		354,826
Inventories (note 4)		838,003		732,096
Income tax receivable		19,598		40,142
Derivative financial instruments (note 15a, b)		20,247		1,720
Prepaid expenses and deposits		24,052		23,452
		1,440,966		1,202,223
Property, plant and equipment		188,536		195,783
Right-of-use asset		101,262		107,631
Derivative financial instruments (note 15a, b)		—		27,800
Goodwill and intangible assets		985,834		986,421
Accrued benefit asset		5,366		14,747
Other long-term assets (note 5)		49,328		32,126
Deferred tax assets		32,772		17,665
	$	2,804,064	$	2,584,396
Liabilities				
Current				
Accounts payable and accrued liabilities		554,663		453,793
Derivative financial instruments (note 15a, b)		3,610		2,837
Senior unsecured debt (note 6)		87,363		—
Current portion of long-term debt (note 10)		50,651		17,901
Current portion of long-term liabilities (note 7)		233,984		167,251
		930,271		641,782
Accrued benefit liability		3,141		2,927
Obligations under leases		106,934		114,044
Deferred compensation obligation		2,693		1,497
Deferred revenue		24,674		20,776
Provisions (note 8)		72,792		67,576
Deferred tax liabilities		51,169		56,914
Derivative financial instruments (note 11, 15a, b)		7,215		6,067
Long-term debt (note 10)		884,954		878,725
Convertible debentures (note 11)		225,081		216,513
	$	2,308,924	$	2,006,821
Commitments and contingencies (note 17)				
Shareholders' equity				
Share capital (note 12)		988,360		988,218
Stock option and restricted share unit reserve		12,453		11,285
Accumulated other comprehensive income (loss)		7,341		(2,979)
Deficit		(513,014)		(418,949)
	$	495,140	$	577,575
	$	2,804,064	$	2,584,396

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended July 2, 2023
(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, January 2, 2022 (restated) (note 2.6)	**$ 987,943**	**$ 10,105**	**$ 5,921**	**$ (133,380)**	**$ 870,589**
Net loss (restated) (note 2.6)	—	—	—	(83,805)	(83,805)
Other comprehensive income	—	—	2,811	—	2,811
Dividends declared on common shares	—	—	—	(6,450)	(6,450)
Equity transaction cost	(2)	—	—	—	(2)
Share-based compensation, net of deferred income taxes	—	582	—	—	582
Shares issued	139	(139)	—	—	—
Balance, July 3, 2022 (restated) (note 2.6)	**$ 988,080**	**$ 10,548**	**$ 8,732**	**$ (223,635)**	**$ 783,725**
Net loss (restated) (note 2.6)	—	—	—	(192,351)	(192,351)
Other comprehensive loss	—	—	(11,711)	—	(11,711)
Dividends declared on common shares	—	—	—	(2,963)	(2,963)
Equity Transaction Cost	2	—	—	—	2
Share-based compensation, net of deferred income taxes	—	873	—	—	873
Shares issued	136	(136)	—	—	—
Balance, January 1, 2023 (restated) (note 2.6)	**$ 988,218**	**$ 11,285**	**$ (2,979)**	**$ (418,949)**	**$ 577,575**
Net loss	—	—	—	(94,065)	(94,065)
Other comprehensive loss	—	—	10,320	—	10,320
Share-based compensation, net of deferred income taxes	—	1,310	—	—	1,310
Shares issued	142	(142)	—	—	—
Balance, July 2, 2023	**$ 988,360**	**$ 12,453**	**$ 7,341**	**$ (513,014)**	**$ 495,140**

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

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

13-Weeks and 26-weeks ended July 2, 2023 ("2023 Q2" and "2023 Q2 YTD, respectively) and 13-weeks and 26-weeks ended July 3, 2022 ("2022 Q2" and 2022 Q2 YTD, respectively)

(in thousands of U.S. dollars)

	2023 Q2	2022 Q2 restated (note 2.6)	2023 Q2 YTD	2022 Q2 YTD restated (note 2.6)
Operating activities				
Net loss for the period	$ (48,101)	$ (56,009)	$ (94,065)	$ (83,805)
Income tax recovery	(8,606)	(17,595)	(16,168)	(26,340)
Depreciation of plant and equipment	10,896	12,346	23,932	27,558
Amortization of intangible assets	7,835	7,936	15,700	16,075
Share-based compensation	831	243	1,240	528
Interest and finance costs recognized in profit or loss	35,459	15,102	70,276	11,126
Fair value adjustment for total return swap	(229)	124	(921)	1,076
Unrealized foreign exchange (gain) loss on monetary items	4,471	1,045	4,047	5,813
Foreign exchange gain (loss) on cash held in foreign currency	(2,405)	2,118	(2,590)	1,554
Gain (loss) on fair value adjustment for cash conversion option	4,512	(5,974)	1,913	(11,340)
Loss (gain) on disposition of property, plant and equipment	969	(58)	952	(431)
Impairment loss on property, plant and equipment	—	3,808	—	3,808
Past service cost	—	—	4,764	—
Defined benefit expense	779	1,746	1,392	2,554
Defined benefit funding	(454)	(1,261)	(1,271)	(2,296)
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	5,957	(36,429)	9,201	(54,120)
Changes in non-cash working capital items (note 14)	(11,284)	60,802	(53,028)	(40,681)
Cash (used in) generated by operating activities before interest and income taxes paid	(5,327)	24,373	(43,827)	(94,801)
Interest paid	(27,957)	(12,959)	(57,203)	(27,497)
Income taxes recovered	19,509	(2,974)	20,876	(2,090)
Net cash (used in) generated by operating activities	(13,775)	8,440	(80,154)	(124,388)
Financing activities				
Repayment of obligations under lease	(5,283)	(6,029)	(10,361)	(10,871)
Proceeds from revolving credit facilities	22,372	34,100	38,369	123,557
Share issuance	—	—	—	(2)
Proceeds from senior unsecured debt	—	—	86,996	—
Repayment of short-term debt	—	(1,233)	—	—
Dividends paid	—	(3,272)	—	(6,542)
Net cash generated by financing activities	17,089	23,566	115,004	106,142
Investing activities				
Acquisition of intangible assets	(2,583)	(2,214)	(4,044)	(3,529)
Proceeds from disposition of property, plant and equipment	66	228	205	1,313
Investment in long-term restricted deposits	—	—	(18,024)	5,412
Acquisition of property, plant and equipment	(5,089)	(4,232)	(8,076)	(10,440)
Net cash used in investing activities	(7,606)	(6,218)	(29,939)	(7,244)
Effect of foreign exchange rate on cash	2,405	(2,118)	2,590	(1,554)
(Decrease) increase in cash	(1,887)	23,670	7,501	(27,044)
Cash — beginning of period	59,375	26,604	49,987	77,318
Cash — end of period	$ 57,488	$ 50,274	$ 57,488	$ 50,274

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

1. CORPORATE INFORMATION

1.1 Corporate information

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

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on August 15, 2023.

1.2 Refinancing plan

On May 10, 2023, NFI announced it is working to complete a comprehensive refinancing plan (the "Refinancing Plan") that included amendments to its North American senior secured credit facility (the "North American Facility") and its senior secured UK credit facility (the "UK Facility"), and collectively with the North American Facility, (the "Secured Facilities"). The proposed Refinancing Plan included the extension of the maturity dates of the Secured Facilities to April 30, 2026, changes to the structure and capacity of the Secured Facilities, the implementation of new financial covenants, the extension of the maturity of two unsecured loan facilities with Export Development Canada ("EDC") and Manitoba Development Corporation ("MDC"), a $150 million equity issuance and a $200 to $250 million second lien debt financing. All elements of the Refinancing Plan are mutually conditional and were expected to be completed by June 25, 2023.

On May 11, 2023, as part of the Refinancing Plan, NFI announced a $150 million private placement of common shares (the "Coliseum Private Placement") with Coliseum Capital Management ("Coliseum"), one of NFI's largest shareholders. Under the Coliseum Private Placement, Coliseum agreed to subscribe for and purchase from the Company an aggregate of up to 24,363,702 Shares, on a private placement basis, at a subscription price of $6.1567 (approximately C$8.25) per Share (the "Subscription Price"). Closing of the Coliseum Private Placement is subject to numerous conditions, including completion of the Refinancing Plan.

On May 30, 2023, the Company announced a C$88 million (approximately $65 million) bought deal public offering of subscription receipts with a syndicate of underwriters. Each subscription receipt was to be issued for C$8.25 (approximately $6.07); on May 31, 2023, the bought deal was increased to C$108 million (approximately $80 million). On June 6, 2023 the bought deal was completed with expected gross proceeds of approximately C$125 million (approximately $92 million) from the sale of 15,102,950 subscription receipts. Each subscription receipt represents the right of the holder to receive, without payment of additional consideration or any further action on the part of the holder, one Share of NFI, upon satisfaction of certain escrow release conditions, including that other elements of the Refinancing Plan close concurrently. Reflecting the higher proceeds from the offering, the Coliseum Private Placement was lowered to approximately $133 million in total proceeds from the sale of 21,656,624 Shares. In total, NFI will receive $225 million in gross equity proceeds upon closing of the Refinancing Plan from the Coliseum Private Placement and the offering.

On June 26, 2023, NFI provided a timing update on the expected completion of the Refinancing Plan with a target completion date of August 2, 2023. On June 27, 2023, the Company announced that the Coliseum Private Placement had been approved by shareholders.

Subsequent to quarter-end, on July 25, 2023, NFI announced that it had finalized indicative terms for a $200 million second lien debt financing ("Second Lien Financing") and requested an extension of the date of completion of the required amendments and the financial covenant waivers under the Company's Secured Facilities to August 31, 2023. On July 31, 2023, NFI provided an update that it had received an extension of the date for the completion of the required amendments and financial covenant waivers under the Company's North American Facility and the extension of the maturity date and financial covenant waivers under the UK Facility to August 31, 2023.

Subsequent to quarter-end, the Company announced that as part of its Refinancing Plan it has entered into an investment agreement with a leading global asset manager (the "Investor") whereby the Investor has agreed to subscribe for and purchase from the Company an aggregate of 5,000,000 Shares, on a private placement basis, at a subscription price of C$10.10 per Share (the "Subscription Price"), for aggregate gross proceeds to NFI of C$50,496,000 (approximately $38,113,000) (the "August Private Placement").

The net proceeds from the August Private Placement will be used by the Company to repay outstanding indebtedness under NFI's existing credit facilities and for working capital and general corporate purposes. The Shares to be issued in the August Private Placement will be subject to a four-month hold period in accordance with applicable securities law rules. Completion of the August Private Placement is subject to customary conditions, approval by the Toronto Stock Exchange ("TSX"), and conditional upon the concurrent completion of the other elements of the Refinancing Plan.

Based on the expected proceeds from the August Private Placement, NFI intends to lower the gross proceeds from its proposed Second Lien Financing from $200 million to approximately $180 million.

1. CORPORATE INF**ORMATION (Continued)**

All financing transactions of the Refinancing Plan are mutually conditional and the Company expects to close all elements of the Refinancing Plan at the same time prior to August 31, 2023. Upon completion, NFI anticipates that it will have 118,921,084 Shares outstanding, will permanently reduce capacity under its Secured Facilities by $250 million and generate approximately $100 million in additional liquidity, as the Company will lower carrying balances on its Secured Facilities.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of preparation

The Statements were prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates. In preparing these Statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its audited consolidated financial statements as at and for the 52-week period ended January 1, 2023 "Fiscal 2022".

The going concern basis asserts that the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business. At July 2, 2023, as a result of ongoing supply chain disruptions, the Company expects to be unable to comply with certain of its financial covenants under the terms of its current credit facilities beginning on September 1, 2023.

These events result in a material uncertainty that may cast significant doubt as to the ability of the Company to continue as a going concern. The unaudited interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the Company was not a going concern.

The Company expects operations to continue into the long-term. The Company is taking a number of operational steps including cost savings measures to ensure adequate short-term liquidity. Additionally, the Company is continuing to work directly with suppliers and sub-suppliers to search for alternate or substitute parts where possible, increase production line parts inventories and develop longer lead times to better support new vehicle production.

On May 10, 2023, NFI announced its Refinancing Plan (see note 1.2 for full details) and has made significant advancements to the plan since that time. The Company is targeting completion of all elements of the Refinancing Plan before August 31, 2023.

In assessing whether the going concern assumption was appropriate, the Company took into account all relevant information available about the future including its backlog, demand for its products, government funding levels in its core markets and the Company's ability to raise additional capital from various sources, including capital markets.

2.3 Principles of consolidation

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

Subsidiaries

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.4 Fiscal periods

	Period from January 2, 2023 to December 31, 2023 ("Fiscal 2023")			Period from January 3, 2022 to January 1, 2023 ("Fiscal 2022")		
	Period End Date		# of Calendar Weeks	Period End Date		# of Calendar Weeks
Quarter 1	April 2, 2023	("2023 Q1")	13	April 3, 2022	("2022 Q1")	13
Quarter 2	July 2, 2023	("2023 Q2")	13	July 3, 2022	("2022 Q2")	13
Quarter 3	October 1, 2023	("2023 Q3")	13	October 2, 2022	("2022 Q3")	13
Quarter 4	December 31, 2023	("2023 Q4")	13	January 1, 2023	("2022 Q4")	13
Fiscal year	December 31, 2023		52	January 1, 2023		52

2.5 Functional and presentation currency

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

2.6 New standards adopted

IFRS 17 – Insurance Contracts

Effective January 2, 2023, the Company adopted IFRS 17, which introduced new guidance for recognition, measurement, presentation and disclosure of insurance contracts. The Company applied a full retrospective approach. The Company previously used IFRS 4, Insurance Contracts, which is no longer in effect to account for these contracts.

The IFRS 17 Standard establishes principles for the recognition, measurement, presentation and disclosure of (re)insurance contracts.

The Company has applied the measurement method for insurance contracts using a probability weighted discounted cash flow model, including a best estimate and an adjustment for non-financial risk calculated for groups of similar contracts. There is a reliance on actuarial modelling techniques and the quality of underlying data. The Company has applied the premium allocation approach. If, at initial recognition or subsequently, the fulfillment cash flows are in a net outflow, the contract is considered onerous and the excess is recognized immediately in profit. A loss recovery component is recognized immediately in profit representing amounts recoverable from reinsurers related to onerous contracts.

The adoption of the standard resulted in a decrease to net loss and retained deficit of $732 for the 2022 Q2 period, $1,607 for the 2022 fiscal period, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

The transition adjustment is as follows:

	Assets		**Liabilities**		**Shareholders' Equity**
	Accounts receivable	**Prepaid expenses and deposits**	**Accounts payable and accrued liabilities**	**Provisions**	**Retained Earnings (Deficit)**
As reported January 1, 2023	$ 366,224	$ 16,928	$ 455,368	$ 71,299	$ (419,373)
Transition adjustment	(11,398)	6,524	(1,575)	(3,723)	425
Restated January 1, 2023	$ 354,826	$ 23,452	$ 453,793	$ 67,576	$ (418,948)

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

IAS 1 - Presentation of Financial Statements:

Classification of Liabilities as Current or Non-current, which amends IAS 1, was issued January 2020 and October 2022, effective for annual reporting periods beginning on or after January 1, 2024. This clarified a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. Management assessed that this standard does not have a material impact on the consolidated financial statements and that the Company is in compliance with the required disclosures.

3. ACCOUNTS RECEIVABLE

		July 2, 2023		January 1, 2023 restated (note 2.6)
Trade, net of allowance for doubtful accounts (note 15c)	$	452,834	$	322,200
Other		28,744		32,626
	$	481,578	$	354,826

4. INVENTORIES

		July 2, 2023		January 1, 2023
Raw materials	$	322,747	$	329,388
Work in process		437,797		343,424
Finished goods		77,459		59,284
	$	838,003	$	732,096

		2023 Q2		2022 Q2		2023 Q2 YTD		2022 Q2 YTD
Cost of inventories recognized as expense and included in cost of sales	$	591,266	$	376,488	$	1,066,934	$	806,846
Write-down of inventory to net realizable value in cost of sales		1,027		4,377		1,586		7,563
Reversals of a previous write-down in inventory		—		388		—		388

5. OTHER LONG-TERM ASSETS

		July 2, 2023		January 1, 2023
Long-term restricted deposit(s)	$	43,312	$	25,351
Long-term accounts receivable		6,016		6,775
	$	49,328	$	32,126

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

6. SENIOR UNSECURED DEBT

On January 20, 2023, the Company finalized agreements with Manitoba Development Corporation ("MDC") for a C$50 million debt facility, for general corporate purposes, and with Export Development Canada ("EDC") for two credit facilities of up to $150 million, to support supply chain financing ("supply chain financing facility") for $50 million and surety and performance bonding requirements for new contracts ("bonding support facility") for up to $100 million.

6. SENIOR UNSECURED DEBT (Continued)

The MDC agreement bears interest at a rate equal to Canadian one year benchmark bond yield plus an applicable margin. The EDC agreement bears interest at a rate equal to adjusted term Secured Overnight Financing Rate ("SOFR") plus an applicable margin to those rates.

Both the MDC facility and EDC supply chain financing facility mature on January 20, 2024, with options to extend for up to an additional 24 months, subject to approval by the respective lender and the Company. The EDC bonding support facility (note 17c) has a one-year term for each new contract, subject to annual renewals.

	Face Value	Unamortized Transaction Costs	**Net Book Value July 2, 2023**	Net Book Value January 1, 2023
MDC	$ 37,750	$ 154	$ 37,596	—
EDC	50,000	233	49,767	—
	$ 87,750	$ 387	$ 87,363	—

7. CURRENT PORTION OF LONG-TERM LIABILITIES

	July 2, 2023	January 1, 2023
Deferred revenue	$ 200,683	$ 128,426
Provisions (note 8)	15,298	20,708
Deferred compensation obligation	532	536
Obligations under leases	17,471	17,581
	$ 233,984	$ 167,251

8. PROVISIONS

The Company's insurance risk retention provision is based on insurance risk which the Company has not mitigated with third party insurance.

The restructuring provision consists of employee termination benefits associated with the "NFI Forward" restructuring initiative that was announced on July 27, 2020 (note 18) and costs associated with the closure and termination of the lease in respect of the Guildford, UK facility.

The Company generally provides its customers with a base warranty on the entire vehicle, a corrosion warranty on the related structure and a defect warranty on batteries.

The Company provides for onerous contracts when the unavoidable costs of meeting the contract are greater than the economic benefits expected to be received under it.

8. PROVISIONS (Continued)

	Insurance Risk Retention	Restructuring	Warranty	Onerous Contracts	Total
January 2, 2022	$ 25,243	2,485	$ 55,920	—	83,648
Net adjustments due to IFRS 17	(3,723)	—	—	—	(3,723)
Additions	6,720	7,000	53,333	3,705	70,758
Amounts used/realized	(5,690)	(2,485)	(50,027)	(1,582)	(59,784)
Unused provision	(248)	—	—	(351)	(599)
Unwinding of discount and effect of changes in the discount rate	—	—	17	—	17
Exchange rate differences	4	—	(2,050)	14	(2,032)
January 1, 2023	$ 22,306	$ 7,000	$ 57,193	$ 1,786	$ 88,285
Additions	13,954	1,398	21,016	303	36,671
Amounts used/realized	(5,735)	—	(32,110)	(543)	(38,388)
Unused provision	—	—	1,172	—	1,172
Unwinding of discount and effect of changes in the discount rate	—	—	(10)	—	(10)
Exchange rate differences	(4)	—	341	23	360
	30,521	8,398	47,602	1,569	88,090
Less current portion (note 7)	630	—	13,099	1,569	15,298
July 2, 2023	$ 29,891	$ 8,398	$ 34,503	$ —	$ 72,792

9. INCOME TAX RECOVERY

The income tax recovery for 2023 Q2 was $8.6 million compared to $17.6 million in 2022 Q2. The reduced income tax recovery is primarily due to the non-recognition of deferred tax assets associated with Canadian loss carryforwards and restricted interest in the UK.

The income tax recovery for 2023 Q2 YTD is $16.2 million, compared to $26.3 million in 2022 Q2 YTD. The decrease in the overall income tax recovery is primarily due to the non-recognition of deferred tax assets associated with Canadian loss carryforwards and restricted interest in the UK.

The Effective Tax Rate ("ETR") for 2023 Q2 was 15.2% and the ETR for 2022 Q2 was 23.9%. The ETR for 2023 Q2 YTD was 14.7% and the ETR for 2022 Q2 YTD was 23.9%. The 2023 Q2 ETR is negatively impacted by the non-recognition of deferred tax assets associated with Canadian loss carryforwards, and restricted interest in the UK.

10. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value July 2, 2023**	Net Book Value January 1, 2023
Revolving Credit Facility, Secured (“Credit Facility”)	885,000	2,409	882,591	878,725
Revolving Credit Facility, Secured ("UK Facility")	50,796	145	50,651	17,901
Government of Canada Loan	2,896	533	2,363	—
	938,692	3,087	935,605	896,626
Less current portion	50,796	145	50,651	17,901
	887,896	2,942	884,954	878,725

The Credit Facility has a total borrowing limit of $1 billion, which includes a $100 million letter-of-credit facility. At July 2, 2023, the Credit Facility included a $25 million minimum liquidity requirement. The $83.5 million of outstanding letters-of-credit were drawn against the Credit Facility at July 2, 2023. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

10. LONG-TERM DEBT (Continued)

The UK facility has a total borrowing limit of £40 million to support AD's operations in the UK. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin. The UK Facility matures on August 31, 2023.

On December 29, 2022, the Company amended the Credit Facility and the UK Facility (together the "amended facilities"). The amended facilities provide the Company with certain covenant relief until August 31, 2023 as it recovers from the impacts of COVID-19 pandemic, and the related global supply chain disruptions.

The Company entered into an agreement for up to C$10,000,000 in interest-free financing through the Government of Canada to support facility enhancements and zero-emission product growth. The financing matures on March 1, 2030.

11. CONVERTIBLE DEBENTURES

On December 2, 2021, the Company completed a public offering of C$300 million aggregate principal of convertible debentures (the "Debentures") and an additional C$38 million aggregate principal of Debentures were issued on December 14, 2021, pursuant to the partial exercise of the over-allotment option, bearing interest at a rate of 5% per annum, payable semi-annually on January 15 and July 15 commencing on July 15, 2022. The Debentures will mature on January 15, 2027 (the "Maturity Date").

The Debentures may be converted in whole or in part from time to time at the holder’s option into 30.1659 Shares for each C$1 principal amount of Debentures (“Conversion Price”), representing a Conversion Price of approximately C$33.15 per Share, prior to maturity and subject to adjustment in certain circumstances.

The Company has the option to settle the conversion in either Shares or cash (the "Cash Conversion Option"), this Cash Conversion Option was determined to be a financial liability. The fair value of the Debentures and Cash Conversion Option are classified as separate liabilities. The Debenture component will accrete to its final redemption amount of C$338 million less all conversions, at the Maturity Date at an effective interest rate over the five-year term of the Debentures.

	Face Value	Unamortized Transaction Costs	**Net Book Value July 2, 2023**	Net Book Value January 1, 2023
Convertible Debt	232,351	7,270	225,081	216,513
Cash Conversion Option	7,215	—	7,215	5,150
	239,566	7,270	232,296	221,663

12. SHARE CAPITAL

	July 2, 2023	January 1, 2023
Authorized - Unlimited		
Issued - 77,176,763 Common Shares (January 1, 2023: 77,155,016)	$ 988,360	$ 988,218

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

Shares	Number (000s)	Net Book Value
Balance – January 1, 2023	77,155	$ 988,218
Director RSUs exercised	22	142
Balance – July 2, 2023	77,177	$ 988,360

13. LOSS PER SHARE

	2023 Q2	2022 Q2 restated (note 2.6)	2023 Q2 YTD	2022 Q2 YTD restated (note 2.6)
Net loss attributable to equity holders	$ (48,101)	$ (56,009)	$ (94,065)	$ (83,805)
Weighted average number of Shares in issue	77,174,517	77,140,467	77,168,014	77,137,762
Weighted average number of Shares for diluted earnings per Share	77,174,517	77,140,467	77,168,014	77,137,762
Net loss per Share (basic)	$ (0.6233)	$ (0.7261)	$ (1.2190)	$ (1.0864)
Net loss per Share (diluted)	$ (0.6233)	$ (0.7261)	$ (1.2190)	$ (1.0864)

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

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

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2023 Q2	2022 Q2 restated (note 2.6)	2023 Q2 YTD	2022 Q2 YTD restated (note 2.6)
Accounts receivable	$ (98,178)	$ 125,538	$ (122,519)	$ 124,428
Income tax receivable	(1,679)	(183)	(1,252)	(1,961)
Inventories	9,001	(130,865)	(95,378)	(199,184)
Prepaid expenses and deposits	(4,105)	(5,562)	(457)	(13,199)
Accounts payable and accrued liabilities	52,098	40,715	91,863	17,642
Income tax payable	—	72	—	772
Deferred revenue	20,065	39,308	74,500	46,929
Provisions	10,868	122	(726)	(3,448)
Other	646	(8,343)	941	(12,660)
	$ (11,284)	$ 60,802	$ (53,028)	$ (40,681)

Included in the "other" category is $732, which represents the net impact of the adoption of IFRS 17 (note 2.6).

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value measurement of financial instruments

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

	July 2, 2023		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 57,488	57,488
Long-term restricted deposit	Level 1	43,312	43,312
Interest Rate Swap	Level 2	20,247	20,247
Derivative financial instrument assets - current		$ 20,247	$ 20,247
Financial liabilities recorded at fair value			
Foreign exchange forward contracts	Level 2	987	987
Equity Hedge	Level 2	2,623	2,623
Derivative financial instrument liabilities - current		$ 3,610	$ 3,610
Cash Conversion Option	Level 2	7,215	7,215
Derivative financial instrument liabilities - long term		$ 7,215	$ 7,215

	January 1, 2023		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 49,987	$ 49,987
Long-term restricted deposit	Level 1	25,351	25,351
Foreign exchange forward contracts	Level 2	1,720	1,720
Derivative financial instrument assets - current		$ 1,720	$ 1,720
Interest Rate Swap	Level 2	27,800	27,800
Derivative financial instrument assets - long term		$ 27,800	$ 27,800
Financial liabilities recorded at fair value			
Equity Hedge	Level 2	2,837	2,837
Derivative financial instrument liabilities - current		$ 2,837	$ 2,837
Cash Conversion Option	Level 2	5,150	5,150
Equity Hedge	Level 2	917	917
Derivative financial instrument liabilities - long term		$ 6,067	$ 6,067

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Risk Management

The Company entered into total return swap transactions to hedge the exposure associated with changes in value of its Shares with respect to outstanding management restricted units ("Management RSUs") and a portion of the outstanding performance share units ("PSUs"), and deferred share units ("DSUs"). The total return swaps have a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company.

The Company applies hedge accounting to the total return swaps that are intended to hedge the exposure related to the change in share price associated with Management RSUs. The Company does not apply hedge accounting to the total return swap that is intended to hedge the future cash flow associated with the PSUs and DSUs.

As at July 2, 2023, the Company held a position of 94,703 Shares at a weighted average price of C$28.68.

At July 2, 2023, the Company had $126.3 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). These foreign exchange contracts range in expiry dates from July 2023 to August 2023. The related liability of $1.0 million (January 1, 2023: $1.7 million asset) is recorded on the statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net loss and total comprehensive loss.

(c) Liquidity Management

The Company’s approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At July 2, 2023 the Company had a cash balance of $57.5 million (January 1, 2023: $50.0 million), $885.0 million drawn under the Credit Facility due in 2024 (January 1, 2023: $882 million), and $83.5 million of outstanding letters of credit (January 1,2023: $22.5 million). The liquidity position as at July 2, 2023 is $81.5 million, without consideration given to the minimum liquidity requirement under the amended facilities of $25.0 million. In addition, as at July 2, 2023 the Company had $50.8 million drawn under the UK Facility (January 1, 2023: $18.3 million), and $65.7 million of the letters of credit outstanding outside of the Credit Facility. The Credit Facility has a total borrowing limit of $1.0 billion, which includes a $100 million letter-of-credit facility. The UK Facility has a total borrowing limit of £40.0 million.

The Company's principal sources of funds are cash generated from its operating activities, share and other issuances and borrowing capacity remaining under the amended facilities.

At July 2, 2023, as a result of ongoing supply chain disruptions, the Company expects to be unable to comply with certain of its financial covenants under the terms of its amended facilities beginning on September 1, 2023.

The Company believes that through its action plan (Note 2.2) and completing its refinancing plan, it can obtain the long-term credit arrangements that provide appropriate capacity and covenants matched to the Company's anticipated financial performance and recovery. The Company believes that its cash position and capacity under its existing credit facilities, and the long-term credit arrangements it expects to achieve together with anticipated future cash flows and access to capital markets, will be sufficient to fund operations, meet financial obligations as they come due, and provide the funds necessary for capital expenditures, and other needs for the foreseeable future.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The details of the covenants under the amended facilities are as follows:

	Total Leverage Ratio	Interest Coverage Ratio	Total Net Debt to Capitalization	Minimum Cumulative Adjusted EBITDA	Minimum Liquidity
January 2, 2023 - March 31, 2023	Waived	Waived	<0.62:1.00	>($28,000)	$25,000
April 1, 2023 - April 30, 2023	Waived	Waived	<0.62:1.00	>($31,000)	$25,000
May 1, 2023 - May 31, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
June 1 - July 30, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
July 31 - August 31, 2023 (see note 19)	Waived	Waived	<0.62:1.00	>($35,000)	$5,000
September 1, 2023 - October 1, 2023	<4.50	>2.00	N/A	N/A	$25,000
October 2, 2023 - December 31, 2023	<4.00	>2.50	N/A	N/A	$25,000
January 1, 2024 and thereafter	<3.75	>3.00	N/A	N/A	$25,000

The calculation of the liquidity position, without consideration given to the minimum liquidity requirements under the amended facilities at July 2, 2023 is provided below. Calculation of the cumulative Adjusted EBITDA starts with 2023 Q1 results. The calculation is adjusted for the impact of the adoption of IFRS 16 in Fiscal 2019, per the amended facilities agreement. As at July 2, 2023, the Company was in compliance with the requirements under the amended facilities.

US dollars in thousands		**July 2, 2023**		January 1, 2023
Liquidity Position (must be greater than $25 million)	$	81,532	$	143,454
Minimum Cumulative Adjusted EBITDA (must be greater than ($35,000) [2022: N/A])	$	12,140		Waived
Net Debt to Capital Ratio (must be less than 0.62:1.00 [2022: N/A])	$	0.45		Waived

Compliance with financial covenants under the amended facilities is reported quarterly to the Board. Other than the requirements imposed by letters of credit collateral (note 5) and borrowing agreements, the Company is not subject to any externally imposed capital requirements. Capital management objectives are reviewed on an annual basis or when strategic capital transactions arise.

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at July 2, 2023:

US dollars in thousands	Total	2023	2024	2025	2026	2027	Post 2027
Leases	208,870	13,854	22,569	18,051	15,377	13,934	125,085
Accrued benefit liability	2,896	2,896	—	—	—	—	—
	$ 211,766	$ 16,750	$ 22,569	$ 18,051	$ 15,377	$ 13,934	$ 125,085

(d) Credit risk

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	July 2, 2023	January 1, 2023 **restated (note 2.6)**
Current, including holdbacks	$ 452,143	$ 333,522
Past due amounts but not impaired		
1 – 60 days	21,688	15,931
Greater than 60 days	7,922	5,480
Less: Allowance for doubtful accounts	(175)	(107)
Total accounts receivables, net	$ 481,578	$ 354,826

As at July 2, 2023, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

16. SEGMENT INFORMATION

The Company has two reportable segments which are the Company's strategic business units: Manufacturing Operations and Aftermarket Operations. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's President and CEO reviews internal management reports on a monthly basis.

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

The Manufacturing Operations segment has recorded vendor rebates of $576 (2022 Q2: $252), which have been recognized into earnings during 2023, but for which the full requirements for entitlement to these rebates have not yet been met.

The Aftermarket Operations segment derives its revenue from the sale of aftermarket parts for transit buses, coaches and medium-duty/cutaway buses, both for the Company's and third party products.

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

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

Segment information about profits and assets is as follows:

	2023 Q2			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 522,000	$ 137,569		$ 659,569
Operating costs and expenses	554,629	112,544	49,103	716,276
(Loss) earnings before income tax expense	(32,629)	25,025	(49,103)	(56,707)
Total assets	2,005,998	485,809	312,257	2,804,064
Addition of capital expenditures	4,978	111	—	5,089
Addition of goodwill and intangibles assets	2,583	—	—	2,583
Indefinite-life intangible assets	244,668	18,398	—	263,066
Goodwill	223,532	189,438	—	412,970

16. SEGMENT INFORMATION (Continued)

	2023 Q2 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 907,328	$ 276,652		$ 1,183,980
Operating costs and expenses	989,019	226,811	78,383	1,294,213
(Loss) earnings before income tax expense	(81,691)	49,841	(78,383)	(110,233)
Total assets	2,005,998	485,809	312,257	2,804,064
Addition of capital expenditures	7,899	177	—	8,076
Addition of goodwill and intangibles assets	4,044	—	—	4,044
Indefinite-life intangible assets	244,668	18,398	—	263,066
Goodwill	223,532	189,438	—	412,970

	2022 Q2 restated (note 2.6)			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 283,778	$ 114,174	—	$ 397,952
Operating costs and expenses	362,101	96,292	13,163	471,556
(Loss) earnings before income tax expense	(78,323)	17,882	(13,163)	(73,604)
Total assets	1,840,455	476,865	267,076	2,584,396
Addition of capital expenditures	959	3,273	—	4,232
Addition of goodwill and intangibles assets	2,214	—	—	2,214
Indefinite-life intangible assets	243,956	18,284	—	262,240
Goodwill	325,895	187,780	—	513,675

	2022 Q2 YTD restated (note 2.6)			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 610,413	$ 246,869	—	$ 857,282
Operating costs and expenses	743,597	210,384	13,446	967,427
(Loss) earnings before income tax expense	(133,184)	36,485	(13,446)	(110,145)
Total assets	1,840,455	476,865	267,076	2,584,396
Addition of capital expenditures	7,167	3,273	—	10,440
Addition of goodwill and intangibles assets	3,529	—	—	3,529
Indefinite-life intangible assets	243,956	18,284	—	262,240
Goodwill	325,895	187,780	—	513,675

The Company's revenue by geography is summarized below:

	2023 Q2	2022 Q2	2023 Q2 YTD	2022 Q2 YTD
North America	$ 519,626	$ 320,554	$ 934,266	$ 654,587
UK and Europe	131,321	63,772	233,585	178,470
Asia Pacific	8,622	13,626	16,129	24,225
Other	—	—	—	—
Total	$ 659,569	$ 397,952	$ 1,183,980	$ 857,282

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

16. SEGMENT INFORMATION (Continued)

	2023 Q2	2022 Q2	2023 Q2 YTD	2022 Q2 YTD
Transit buses	$ 420,590	$ 199,144	$ 690,937	$ 463,858
Motor coaches	81,048	71,259	172,839	122,048
Medium-duty and cutaway buses	9,153	6,550	23,567	14,495
Pre-owned coach	5,783	929	11,629	1,701
Infrastructure solutions	3,521	4,364	3,972	4,975
Fiberglass reinforced polymer components	1,905	1,532	4,384	3,336
Manufacturing revenue	$ 522,000	$ 283,778	$ 907,328	$ 610,413

17. COMMITMENTS AND CONTINGENCIES

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

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at July 2, 2023 range from July 2023 to December 2039.

At July 2, 2023, outstanding surety bonds guaranteed by the Company totalled $344.0 million (January 1, 2023: $375.6 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(c) The Company has a letter of credit sub-facility of $100.0 million as part of the Credit Facility (January 1, 2023: $100.0 million). As at July 2, 2023, letters of credit totaling $83.5 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility.

Included as part of the EDC facility is up to $100 million surety reinsurance support arrangement with EDC for NFI's surety and performance bonding requirements ("bonding support facility"). The bonding support facility is made up of account performance security guarantee ("PSG") up to $25 million and surety reinsurance support up to $100 million.

The PSG program is in place to cover a standby letter of credit or letter of guarantee (in each case an "LC"), required as part of a collateral package provided to support a surety facility where the new bonding capacity is a minimum of at least twice the face value of the LC. The underlying surety facility must only be supporting surety bonds required under contracts entered into by NFI, and where such Surety Bonds are bid bonds, performance bonds, regulatory bonds, license and permit bonds.

The Surety Reinsurance Support program is in place to cover surety bond(s) issued on behalf of NFI. A surety bond, required under contracts entered into by the Company, provided that such Surety Bond is a bid bond, performance bond, regulatory bond, license and permit bond. Surety reinsurance support not to exceed 75% of the surety bond amount.

As at July 2, 2023, there is $94.7 million outstanding under the bonding support facility.

As at July 2, 2023, letters of credit in the UK totaling $19.9 million were outstanding as security obligations of the Company outside of the UK facility (January 1, 2023: $18.3 million). Additionally, there are $45.8 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the Credit Facility.

As at July 2, 2023, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

17. COMMITMENTS AND CONTINGENCIES (Continued)

(d) Through the normal course of operations, the Company has guaranteed payments and residual values to third party lenders on behalf of customers. As at July 2, 2023, the Company had guaranteed $2.6 million of these arrangements. The Company has not provided for any of these costs, as it does not believe they will have to pay out on any of these arrangements.

18. RESTRUCTURING

On July 27, 2020, the Company announced "NFI Forward", a transformational restructuring initiative to generate cost savings. These cost reduction initiatives are expected to come from a reduced number of business units, facility rationalization, reduced overhead and a more efficient and integrated company.

With the majority of the original projects completed, the Company is now implementing a series of additional projects called "NFI Forward 2.0", that are expected to generate additional savings in 2023 and beyond. Within NFI Forward 2.0, the Company completed a detailed review of its remaining North American footprint with a view to match production capacity and facility investments to customer demand, local labor availability and zero-emission fleet investment plans. The items included in net loss for NFI Forward and NFI Forward 2.0 are as follows:

	2023 Q2	2022 Q2	2023 Q2 YTD	2022 Q2 YTD
Employee termination benefits	$ 1,749	$ 632	$ 1,749	$ 676
Right-of-use asset and property, plant and equipment impairments	—	3,808	—	3,808
Write-down of inventory to net realizable value	—	—	—	—
Pension liability	—	7,000	—	7,000
Other	—	1,595	51	1,647
Total restructuring costs	$ 1,749	$ 13,035	$ 1,800	$ 13,131

19. SUBSEQUENT EVENTS

Subsequent to 2023 Q2, on July 20, 2023, NFI sold it's interest rate swap contracts (valued at $20.2 million asset at the end of 2023 Q2) for total proceeds of $18.4 million. As part of the sale, NFI's equity hedge (valued at $2.6 million liability at the end of 2023 Q2) was unwound and removed from liabilities on the balance sheet. The fees to unwind this contract are approximately C$1.4 million.

The Company has determined that the above transaction is a non-adjusting subsequent event. Accordingly, the Statements have not been adjusted to reflect this subsequent event.

Subsequent to 2023 Q2 NFI received approval under the Amended Facilities to lower the minimum liquidity requirement from $25 million to $5 million, effective as of July 31, 2023 to August 31, 2023 (note 15). Post-completion of the Refinancing Plan minimum liquidity under the Secured Facilities is expected to increase to $50 million.

Subsequent to 2023 Q2, as part of the Company's Refinancing Plan it entered into an investment agreement with a leading global asset manager whereby the Investor has agreed to subscribe for and purchase from the Company, on a private placement basis, an aggregate of 5,000,000 Shares at a subscription price of C$10.10 per Share for aggregate gross proceeds to NFI of C$50,496,000 (approximately $38,113,000) (note 1.2).

All financing transactions of the Refinancing Plan, including the August Private Placement, are mutually conditional and the Company expects to close all elements of the Refinancing Plan at the same time prior to August 31, 2023.

NFI is leading the electrification of mass mobility around the world. With zero-emission buses and coaches, infrastructure, and technology, NFI meets today's urban demands for scalable smart mobility solutions. Together, NFI is enabling more livable cities through connected, clean, and sustainable transportation.

NFI has 7,700 team members in ten countries and offers the widest range of sustainable drive systems available, including zero-emission electric (trolley, battery, and fuel cell), natural gas, electric hybrid, and clean diesel.

In total, NFI supports its installed base of over 100,000 buses and coaches around the world.

NFI's common shares trade on the TSX under the symbol NFI and its convertible debentures trade on the TSX under the symbol NFI.DB.

NFI Group Inc.
711 Kernaghan Avenue
Winnipeg, Manitoba
R2C 3T4

www.nfigroup.com

MCI

nfi.parts