Financial Results
First Quarter 2022

May 5, 2022

We provide comprehensive mobility solutions.

NEW FLYER | ALEXANDER DENNIS | MCI | ARBOC SPECIALTY VEHICLES | PLAXTON

Infrastructure Solutions	Parts, Publication, Training and Service
NFI Infrastructure Solutions™	nfi.parts® AD24
Connected Vehicles and Diagnostics	**Financing**
NFI Connect™	NFI Financial Solutions™

VIC VEHICLE INNOVATION CENTER

Notes to readers

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 53-WEEKS ENDED APRIL 3, 2022

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 condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week period ended April 3, 2022.

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

Period from January 3, 2022 to January 1, 2023 ("Fiscal 2022")				**Period from December 28, 2020 to January 2, 2022 ("Fiscal 2021")**			
	Period End Date		# of Calendar Weeks		Period End Date		# of Calendar Weeks
Quarter 1	April 3, 2022	("2022 Q1")	13	Quarter 1	March 28, 2021	("2021 Q1")	13
Quarter 2	July 3, 2022	("2022 Q2")	13	Quarter 2	June 27, 2021	("2021 Q2")	13
Quarter 3	October 2, 2022	("2022 Q3")	13	Quarter 3	September 26, 2021	("2021 Q3")	13
Quarter 4	January 1, 2023	("2022 Q4")	13	Quarter 4	January 2, 2022	("2021 Q4")	14
Fiscal year	January 1, 2023		52	Fiscal year	January 2, 2022		53

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 EBITDA, NOPAT, Invested Capital, ROIC, Free Cash Flow, Free Cash Flow per Share, Adjusted Net Earnings (Loss), Adjusted Net Earnings (Loss) per Share, Liquidity, Working Capital Days, Payout Ratio 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. Dividends paid from Free Cash Flow are not assured, and the actual amount of dividends received by holders of common shares ("Shares") will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings, such as the Annual Information Form, available on SEDAR at www.sedar.com.

Buses manufactured by New Flyer and ADL's single and double deck buses are classified as "transit buses". ARBOC manufactures body on-chassis or "cutaway" and "medium-duty" buses that service transit, paratransit, and shuttle applications. Collectively, transit buses, medium-duty buses and cutaways, are referred to as "buses". A "motor coach" or "coach" is a 35-foot to 45-foot over-the-highway bus typically used for intercity transportation and travel over longer distances than heavy-duty transit buses, and is typically characterized by (i) 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". One equivalent unit (or "EU") represents one production "slot", being one 30-foot, 35-foot, 40-foot, 45-foot heavy-duty transit bus, one double deck bus, one medium-duty bus, one cutaway bus or one motor coach, whereas one articulated transit bus represents two equivalent units. An articulated transit bus is an extra-long transit bus (approximately 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

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

Leading the ZEvolution.™

NFI is leading zero-emission electric mobility.

65M+
Electric service miles driven

202
ZEB EUs delivered in 2022 Q1

31%
of total deliveries in 2022 Q1 were ZEB EUs

2,234
ZEB EUs delivered since 2015

43%
of North American Public Bid Universe is ZEBs

1,496
ZEBs in backlog

17%
of total backlog is ZEBs

80+
Cities have NFI ZEBs in service or on order

6
Countries have NFI ZEBs in service or on order

~8,000
EUs annual ZEB production capacity

280+
EV chargers installed via Infrastructure Solutions™ since 2018

NFI Leading the ZEvolution.™

2022 Q1 Highlights (US$)

$459.3M
Total Revenue

660
EUs Delivered

$18.0M
Gross Profit

($16.9)M
Adjusted EBITDA [1]

$28.1M
Net Loss

($40.6)M
Free Cash Flow [1]

$132.8M
Cash Flow Used In Operating Activities

$649.0M
Liquidity [2]

$0.36
Net Loss Per Share

$0.53
Adjusted Net Loss Per Share [3]

1,407 EUs
in New Orders

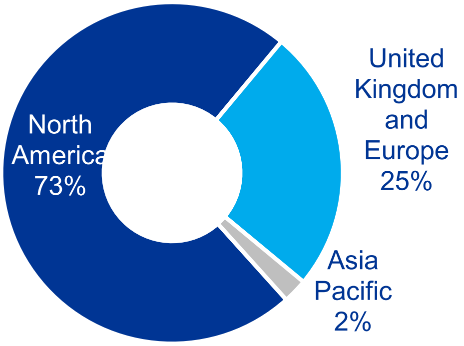
5,562 EUs
Active Bids

$15.8M
Adjusted EBITDA[1] Savings from NFI Forward

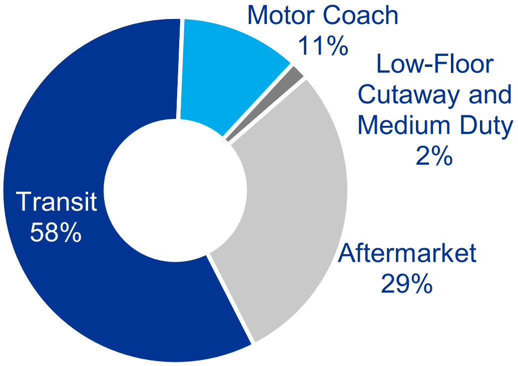
8,908 EUs
in Backlog (Value of $4.9B) [2]

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 adjusted net income, which is a non-IFRS measure. See Non-IFRS and Other Financial Measures section.

Revenue by Geography

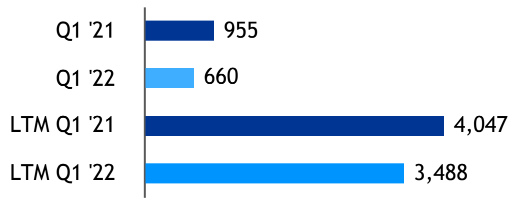


Revenue by Product

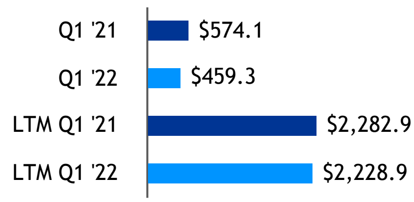


KEY PERFORMANCE INDICATORS

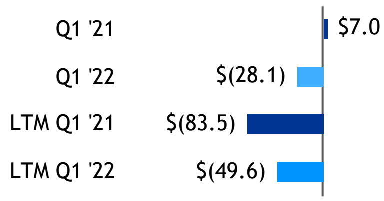
Deliveries (EUs)



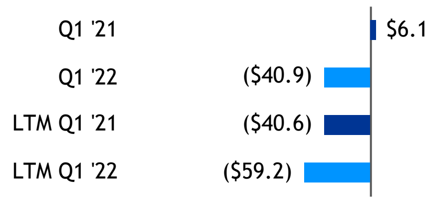
Revenue ($ millions)



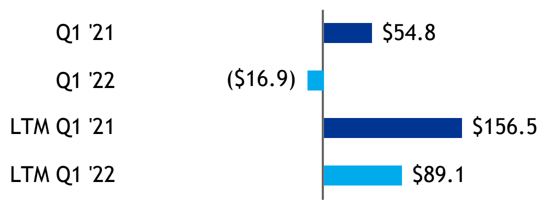
Net earnings (loss) ($ millions)



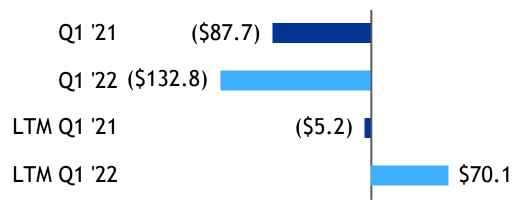
Adjusted Net Earnings (Loss)[1] ($ millions)



Adjusted EBITDA[1] ($ millions)

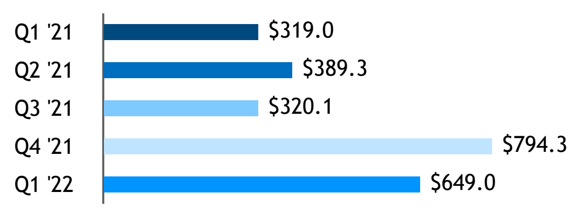


Net cash generated by (used in) operating activities ($ millions)

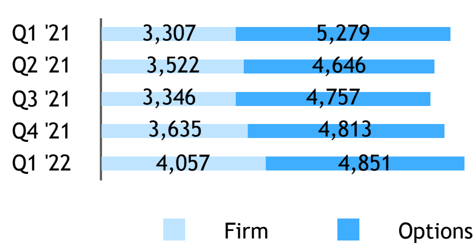


Working Capital Days[2]

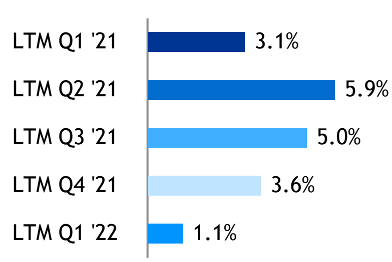
Total Liquidity[2] ($ millions)



Backlog (EUs)



ROIC[3]



Footnotes

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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 2022 Q1 financial results were significantly impacted by continued global supply chain challenges, primarily attributable to the COVID-19 pandemic. The Company reduced production rates to manage supply chain shortages, which resulted in lower new vehicle deliveries and negative impacts to financial performance metrics within the Company's Manufacturing business segment. The Company's end markets are recovering from the pandemic, which was demonstrated by order activity. The Aftermarket business segment achieved year-over-year revenue growth in North America, United Kingdom and Europe. The Company continues to generate significant savings from NFI Forward restructuring programs and as of the first quarter had achieved an annualized run rate of approximately $63 million.

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

Deliveries (unaudited, EUs)	2022 Q1	2021 Q1	% Change	2022 Q1 LTM	2021 Q1 LTM	% Change
Transit buses	505	703	*(28.2)%*	2,567	3,063	(16.2)%
Motor coaches	83	149	*(44.3)%*	612	603	*1.5 %*
Medium-duty and cutaway	72	103	*(30.1)%*	309	381	*(18.9)%*
New Vehicle Deliveries	660	955	*(30.9)%*	3,488	4,047	*(13.8)%*
Pre-owned coach	19	173	*(89.0)%*	235	413	*(43.1)%*
Zero-emission deliveries (included in the above totals)	202	94	*114.9 %*	769	341	*125.5 %*

Revenue (unaudited, dollars in millions)	2022 Q1	2021 Q1	% Change	2022 Q1 LTM	2021 Q1 LTM	% Change
Transit buses	264.7	$ 358.7	*(26.2)%*	1,335.4	$ 1,480.3	*(9.8)%*
Motor coaches	50.8	73.9	*(31.3)%*	338.5	318.2	*6.4 %*
Medium-duty and cutaway	7.9	11.2	*(29.5)%*	32.1	37.4	*(14.2)%*
Total new transit bus, coach and cutaway revenue	**$ 323.4**	**$ 443.8**	***(27.1)%***	**$ 1,706.0**	**$ 1,835.9**	***(7.1)%***
Pre-owned coach revenue	0.8	10.0	*(92.0)%*	11.4	22.5	*(49.3)%*
Infrastructure Solutions™	0.6	3.9	*(84.6)%*	14.3	18.3	*(21.9)%*
Fiberglass reinforced polymer components	1.8	1.5	*20.0 %*	5.4	5.3	*1.9 %*
Manufacturing Revenue	**$ 326.6**	**$ 459.2**	***(28.9)%***	**$ 1,737.1**	**$ 1,881.9**	***(7.7)%***
Aftermarket	132.7	114.9	*15.5 %*	491.8	401.0	*22.6 %*
Total Revenue	**$ 459.3**	**$ 574.1**	***(20.0)%***	**$ 2,228.9**	**$ 2,282.9**	***(2.4)%***
North America	334.0	471.7	*(29.2)%*	1,638.6	1,833.9	*(10.6)%*
United Kingdom and Europe	114.7	84.1	*36.4 %*	471.1	317.3	*48.5 %*
Asia Pacific	10.6	18.3	*(42.1)%*	119.4	131.6	*(9.3)%*
Other	—	—	*— %*	—	—	*— %*

Manufacturing revenue for 2022 Q1 decreased by $132.6 million, or 28.9%, compared to 2021 Q1. The decrease was primarily due to the reduction in deliveries in North America as a result of the global supply chain and logistics challenges. These challenges are largely the result of suppliers recovering from impacts of the COVID-19 pandemic, which created numerous bottlenecks and disruptions to parts availability. Pre-owned coach sales remained low as the Company previously completed a contract to sell the majority of its North American pre-owned coach fleet. Quarterly revenue of the Company's Infrastructure Solutions™ division declined by $3.3 million, primarily due to the timing of revenue recognition on open contracts. Since its inception, Infrastructure Solutions™ has been responsible for the installation of 247 plug-in and 36 on-route charger projects for 46 different customers.

With quarterly Aftermarket revenue of $132.7 million, the Company achieved 15.5% year-over-year growth. The increase was driven by increased volumes in North America, United Kingdom and Europe regions due to market recovery, and by inflationary price increases. The Company also continues to benefit from a significant, multi-year retrofit program in the Asia-Pacific region, which will continue throughout 2022, but at a lower run rate.

Adjusted EBITDA[1] (unaudited, dollars in millions)	2022 Q1	2021 Q1	% Change	2022 Q1 LTM	2021 Q1 LTM	% Change
Manufacturing	(39.5)	35.8	*(210.3)%*	(23.7)	102.4	*(123.1)%*
Aftermarket	22.8	22.5	*1.3 %*	99.0	68.3	*44.9 %*
Corporate	(0.3)	(3.5)	*91.4 %*	13.8	(14.2)	*197.2 %*
Total Adjusted EBITDA[1]	**($16.9)**	**$54.8**	***(130.8)%***	**$89.1**	**$156.5**	***(43.1)%***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	(12.1)%	7.8 %	*(255.1)%*	(1.4)%	5.4 %	*(125.9)%*
Aftermarket	17.2 %	19.6 %	*(12.2)%*	20.1 %	17.0 %	*18.2 %*
Total	**(3.7)%**	**9.6 %**	***(138.5)%***	**4.1 %**	**6.9 %**	***(40.6)%***

Net Earnings (Loss) [2] (unaudited, dollars in millions, except per share amounts)	2022 Q1	2021 Q1	% Change	2022 Q1 LTM	2021 Q1 LTM	% Change
Manufacturing	(46.4)	8.4	*652.4 %*	(110.5)	(65.4)	*69.0 %*
Aftermarket	18.6	18.3	*1.6 %*	83.6	53.2	*57.1 %*
Corporate	(0.3)	(19.7)	*98.5 %*	(22.7)	(71.2)	*(68.1)%*
Net (loss) earnings	**$ (28.1)**	**$ 7.0**	***(501.4)%***	**$ (49.6)**	**$ (83.5)**	***40.6 %***
Adjusted Net (Loss) Earnings [1]	(40.9)	6.1	*(770)%*	(59.2)	(40.6)	*(45.8)%*
Net (loss) earnings per Share	$ (0.36)	$ 0.11	*(427.3)%*	$ (0.66)	$ (1.32)	*50.0 %*
Adjusted Net (Loss) Earnings per Share[1]	$ (0.53)	$ 0.09	*(688.9)%*	$ (0.81)	$ (0.64)	*(26.6)%*

[1] Non-IFRS Measure - See Non-IFRS and Other Financial Measures section.
[2] Comparative segment allocations have been restated to conform with current period presentation.

2022 Q1 Manufacturing Adjusted EBITDA decreased by $75.2 million, or (210.3%), compared to 2021 Q1. The decrease was driven by lower new vehicle deliveries, unfavourable sales mix, heightened inflation and operational inefficiencies resulting from global supply chain and logistics challenges, and escalating supply problems of critical electronic parts coming from China. Government grants, which were primarily received to assist with the retention of skilled personnel, decreased by $21.8 million in 2022 Q1 compared to the same period in 2021, as the programs were either discontinued or NFI was no longer eligible, resulting in lower Manufacturing Adjusted EBITDA. Manufacturing experienced a 2022 Q1 net loss of $46.4 million change compared to net earnings of $8.4 million in 2021 Q1. The decrease in Manufacturing net earnings was mainly attributable to the same items that impacted Manufacturing Adjusted EBITDA.

NFI continues to achieve year-over-year growth in its Aftermarket business segment. 2022 Q1 Aftermarket Adjusted EBITDA reached $22.8 million, a $0.3 million, or 1.3%, year-over-year increase. The improved results were due to increased sales volumes in North America, United Kingdom and Europe regions due to market recovery, offset by inflationary impacts to both freight and part costs, where NFI was not fully able to pass along these impacts to their customers. 2022 Q1 Aftermarket net earnings increased by $0.3 million, or 1.6%, primarily due to the same items that impacted Aftermarket Adjusted EBITDA.

2022 Q1 Corporate Adjusted EBITDA increased by $3.2 million compared to 2021 Q1, primarily as a result of foreign exchange revaluation adjustments to monetary balances. Corporate expenses included in the calculation of net earnings (loss) decreased by

$19.4 million, or 98.5%, primarily due to higher mark-to-market adjustments to the Company's interest rate swaps and the fair value adjustment to the Company's convertible debenture cash conversion option.

Free Cash Flow[1] and net cash generated by operating activities (unaudited, dollars in millions, except per share amounts)	2022 Q1	2021 Q1	% Change	2022 Q1 LTM	2021 Q1 LTM	% Change
Net cash (used in) generated by operating activities	(132.8)	(87.7)	*51.4 %*	70.1	(5.2)	*1,248.1 %*
Free Cash Flow	(40.6)	15.5	*(361.9)%*	(33.1)	28.8	*(214.9)%*
Free Cash Flow (CAD dollars)	(50.9)	19.4	*(362.4)%*	(41.8)	34.4	*(221.5)%*
Declared Dividends (CAD dollars)	4.1	15.1	*(72.8)%*	50.7	54.9	*(7.7)%*
Free Cash Flow per Share (CAD dollars) [2]	(0.66)	0.30	*(320.0)%*	(0.57)	0.54	*(205.6)%*
Dividends per Share (CAD dollars)	0.05	0.21	*(76.2)%*	0.69	0.85	*(18.8)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow) [2]	(8.1)%	77.8 %	*(110.4)%*	(121.3)%	159.6 %	*(176.0)%*

[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 2022 Q1 decreased by $56.1 million, or 361.9%, compared to 2021 Q1, mainly due to a higher Adjusted EBITDA loss and higher outflows from changes in non-cash working capital. The reduction in Free Cash Flow was partially offset by lower income tax paid and NFI Forward savings. NFI Forward generated combined Adjusted EBITDA and additional Free Cash Flow savings of approximately $19.7 million in the quarter.

Net cash used in operating activities in 2022 Q1 was $132.8 million, an increase of $45.2 million, or 51.5%, compared to 2021 Q1, mainly due to the increase in net loss for the period. The 2022 Q1 LTM net cash generated by operating activities increased by 1,248.1%, mainly due to a decrease in net losses and working capital.

	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
Working Capital Days[1]	70	69	68	62	68
Liquidity ($ million)[1]	$ 649.0	$ 794.3	$ 320.1	$ 389.3	$ 319.0
Backlog (EUs)	8,908	8,448	8,103	8,168	8,586
ROIC[1]	1.1 %	3.6 %	5.0 %	5.9 %	3.1 %

[1] Working Capital Days and Liquidity represent supplementary financial measures. ROIC represents a non-IFRS ratio. See Non-IFRS and Other Financial Measures section.

As part of the Company's increased focus on cash conversion and leverage reduction, in Fiscal 2021 NFI added a new key performance metric, "Working Capital Days"; this metric represents the number of days to convert working capital to cash. Working Capital Days is calculated by the number of days in a year divided by the working capital turnover ratio (total sales for the last twelve months divided by average working capital for the last thirteen months). The Company is actively focused on reducing Working Capital Days, especially as it navigates through supply related disruption to its operations. In 2022 Q1, Working Capital Days were 70 compared to 69 at the end of 2021 Q4 and 68 at the end of 2021 Q1. The slight increase in Working Capital Days in 2022 Q1 is attributable to supply chain challenges, leading to lower sales, and was offset by a decrease in average working capital balances.

During the quarter the Company entered into an agreement with a Canadian banking partner to sell, without credit recourse, eligible receivables in order to decrease the time from sale to cash conversion. During the quarter, trade receivables of $1.6 million were sold under the arrangement.

The Company's liquidity position, which combines cash on-hand plus available capacity under its credit facilities, was strong, at $649.0 million as at the end of 2022 Q1, down $145.3 million from the end of 2021 Q4, primarily due to an increase in long-term debt (which was used to finance growth in inventory and other working capital balances) related to supply chain disruptions, as well as a decrease in cash on-hand as a result of timing of payments.

LTM 2022 Q1 ROIC decreased by 2.5% from LTM 2021 Q4, due to the decrease in Adjusted EBITDA offset by a lower invested capital base. The decrease in invested capital is primarily due to repayments of long-term debt and fair market value adjustments to the interest rate swaps that reduced the associated liability, partially offset by the issuance of new shares and convertible debentures (the "Debentures") which occurred in the last twelve months.

2022 Q1 HIGHLIGHTS

The first quarter of 2022 was a representation of the broader operating environment, with significant increases in demand metrics, including increases in new orders, backlog and bid activity, offset by supply chain disruptions and heightened inflation. Manufacturing operations saw heightened inflation and operational inefficiencies resulting from global supply chain and logistics challenges (largely the result of the ongoing COVID-19 pandemic), which created bottlenecks and significant disruptions to NFI's operations. In response to these issues, NFI continued to maintain reduced new vehicle input rates, primarily by adjusting production rates to accommodate available parts.

While the supply chain challenges had a significant impact on Manufacturing segment results, NFI continued to see very strong levels of demand for its products driven by record government investments in public transit and the drive for zero-emission transportation. In addition, NFI's Aftermarket segment continued to generate revenue growth, even as it navigated through supply-related challenges.

The supply chain disruption and uncertainty have been especially challenging to NFI and others in the bus and motor vehicle industries. The majority of NFI's transit and coach customer orders are highly customized, with significant specification input from customers. In addition, production is typically subject to local content rules, such as Buy America provisions or local manufacturing requirements. These various factors limit the Company's ability to use alternative sources of supply and require dedicated manufacturing facilities for different product types by region.

NFI’s customers continued to be very accommodating to both the realities of the pandemic and supply chain issues that have adjusted our production and delivery plans. NFI is continuously communicating with its customers to discuss schedule changes and coordinate delivery schedules based on supply availability.

Strong Market Demand and Increasing Procurements

During the first quarter of 2022 the Company continued to see strong metrics that measure future demand and activity. In 2022 Q1, NFI recorded 1,407 EUs in new orders, an increase of 16.1% from 2021 Q1. NFI also saw active bids within North America increase by 21.3% year-over-year. The Company's 2022 Q1 Book-to-Bill ratio was 164.4%, a 44.2% year-over-year increase.

The Total Public Bid Universe for North America was 26,371 EUs, up 12.8% year-over-year (see Appendix B). There were 1,496 ZEBs in the backlog, representing approximately 16.8% of the total backlog. As at 2022 Q1, 11,190 units, or 42.5%, of the Total Bid Universe is ZEBs, an increase of 74.2% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

Given the highly customized nature of NFI's products, there is a 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 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.

Focus on Balance Sheet and Financial Flexibility

NFI continues to focus on deleveraging and strengthening the Company's balance sheet.

As of April 3, 2022, NFI's liquidity was $649.0 million and its leverage ratio was 8.99x. The Company's heightened leverage was driven by lower trailing twelve month Adjusted EBITDA in its Manufacturing segment resulting from supply chain impacts, COVID-19 disruption, and heightened inflation. As part of the Company's efforts to improve working capital days, NFI entered into an accounts receivable financing program with a Canadian banking partner that allows NFI to finance up to $75 million of its receivables. This program is expected to improve the Company's cash conversion cycle and provide interest savings.

NFI continues to advance negotiations with its banking partners and expects to obtain covenant amendments on its credit facilities. Discussions have been supportive, and detailed plans are being evaluated that would see new covenant levels appropriate for NFI’s updated financial projections.

NFI’s liquidity position is currently over $600 million as of April 28, 2022. The need for covenant amendments is primarily being driven by lower trailing Adjusted EBITDA combined with the Company's anticipated financial performance and debt profile. As a result, the issue is primarily driven by lower current and historical Adjusted EBITDA, rather than a liquidity or cash consumption related challenge.

NFI believes that its current liquidity is adequate to support the Company’s operations as it works through the current supply chain disruption, including planned temporary heightened investments in work-in-process inventory for vehicles being built that are awaiting module installation.

Management believes that, with the anticipated covenant relief, the Company's cash position and capacity under its existing credit 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, dividend payments and other operational needs. See “Forward-Looking Statements”.

Zero-Emission Mobility—The *ZE*volution™

In 2022 Q1, NFI received orders for 222 EUs of battery-electric, zero-emission vehicles, which equates to 15.8% of all new firm and option orders for the quarter. This is a decrease of 251 EUs from 2021 Q4 largely due to timing. As at the end of 2022 Q1, 1,192 EUs of new firm and option orders were pending from customers, 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 increase of 238.6% was a significant jump from the 352 EUs of pending new firm and option orders as of the end of 2021 Q4, which illustrates the extremely high volume of sales activity in 2022 Q1.

In 2022 Q1, the Company received ZEB orders from customers in Hong Kong, the United Kingdom, the United States, and Canada.

A few notable announcements in the quarter include the following:

- First order for the battery-electric J4500 CHARGE™ coach in Canada.
- Order for 165 low-emission hybrid-electric buses for Mississauga, Ontario’s MiWay (Mississauga Transit), and another for up to 340 low-emission hybrid-electric buses for the Southeastern Pennsylvania Transportation Authority (“SEPTA”) in Philadelphia.
- An order for 60 additional ZEBs from NFI for New York City’s MTA (the New York City Transit Authority together with the MTA Bus Company).
- Order for 130 BYD ADL battery-electric double deck buses to EV fleet and battery storage specialist Zenobē and National Express, which includes Zenobē providing Electric-Transportation-as-a-Service to National Express and ADL supporting these vehicles with spare parts over a period of 16 years.
- Order for 10 double-deck Enviro500EVs from the Kowloon Motor Bus Company (1933) Limited (KMB) in Hong Kong, marking ADL’s first electric double-deck order in the region, continuing a long tradition of innovation for the Hong Kong bus market.
- Successful proposals for 137 ZEBs with ADL as the intended supplier through Phase 1 of the Scottish Zero Emission Bus Challenge Fund (“ScotZEB”).
- NFI was selected by the Pinellas Suncoast Transit Authority (“PSTA”) as an approved supplier of electric transit buses and charging and associated equipment for the Purchase Schedule for the State of Florida (the “Schedule”). The Schedule, facilitated through PSTA, simplifies the procurement process of zero-emission, battery-electric heavy-duty transit buses, coaches, and associated charging infrastructure for any transit authority, or any city, county, or state government agency within the State of Florida for up to five years.
- Subsequent to quarter-end, NFI announced that it had received an order for up to 733 EUs in hybrid-electric buses from the Toronto Transit Commission.

NFI joined two important industry associations in the first quarter: the newly formed Hydrogen Fuel Cell Bus Council, a first-of-its-kind national coalition of public transit agencies, manufacturers, and suppliers working together to advance the U.S. hydrogen fuel cell-electric bus economy and its applications in public transit; and the Information Technology for Public Transportation (ITxPT) Association, a non-profit association in which members collaborate to develop open architecture, data accessibility, and interoperability between IT systems, based on standards and best practices.

NFI is committed to advancing diversity, equity, and inclusion in public transit. During the quarter, New Flyer signed onto the American Public Transportation Association’s (APTA) Racial Equity Commitment Program, a two-year pilot program that provides signatories with a tangible roadmap to advance racial equity; and, together with AROW Global Corp., awarded the inaugural New Mobility Bursary, a $10,000 bursary awarded through NFI’s Vehicle Innovation Center (VIC) to support underserved, underrepresented, or disadvantaged individuals intending to pursue careers in the new mobility era.

NFI Forward Update

In the quarter, NFI continued to realize savings from “NFI Forward”, the Company’s transformational cost reduction and sourcing initiative, which is expected to lower NFI’s overhead and selling general and administrative (“SG&A”) expenses by 8% to 10%, respectively, from 2019 levels, and to provide direct material savings from input cost reductions and an estimated $10 million in annualized Free Cash Flow generation.

In 2022 Q1, NFI Forward realized Adjusted EBITDA savings of approximately $15.8 million and $3.9 million of additional Free Cash Flow savings, which equates to an annualized run rate of approximately $63 million of Adjusted EBITDA savings. Since inception, the Company has invested $12.1 million of the proposed total investment of $15 million to $20 million (anticipated to be incurred to 2023) into NFI Forward projects.

OUTLOOK

As a result of continuing and escalating supply chain disruptions, customers delaying their order approvals in 2021, and not receiving any Canadian or UK government wage subsidy support in 2022 (compared to the $56.4 million of wage subsidy grants received during Fiscal 2021), NFI started 2022 with expectations that it would see significant year-over-year declines in revenue, Adjusted EBITDA and net income in the first half of 2022, with year-over-year improvement in the second half. To date in 2022, supply chain disruptions have exacerbated and continue to negatively impact manufacturing productivity and vehicle production schedule performance. Aftermarket results, on the other hand, show strength and increasing demand, even in the face of supply challenges.

In response to the continuing and escalating supply chain disruptions, management has lowered NFI's 2022 production rates to limit the build-up of work-in-process inventory and to focus on cost reduction and cash generation efforts across the business, including reductions in overhead, general expenses, and lower capital expenditures. Given NFI's expectations that supply impacts continue to be temporary and based on the strong signs of market recovery in all of NFI's end markets (discussed below), cost and capital reductions will be balanced with the ability to continue to secure new orders, invest in new product development, and deliver on existing customer orders.

NFI was recently notified by the Company's primary North American multiplexing control module supplier that it will be unable to provide consistent module supply in the second and third quarters of 2022 due to microprocessor shortages. The control module is a critical component for vehicle operations, and this shortage will impair NFI's production of North American transit buses. NFI is working with alternative suppliers and other microprocessor sources to address this disruption and assist in production recovery plans. The Company has seen some success from those efforts, but anticipates that it will need to lower production at select facilities and build and hold a number of vehicles in inventory in the second and third quarters. This is expected to grow inventory by as much as $200 million on a temporary basis until modules can be installed and vehicles can be safely delivered to customers.

This module disruption will not impact NFI's North American aftermarket parts businesses or its international operations.

Similar to the entire global manufacturing industry, NFI is experiencing significantly increased inflation on supplier pricing and wages, and through raw material commodities purchased directly by NFI. The Company embedded an anticipated level of inflation assumptions into its 2022 bidding and budget projections; however, inflation for certain components has now exceeded those projections. A certain number of contracts have been repriced, and a number of contracts have clauses where a government purchase price index ("PPI") will be applied. Generally, when an option contract is exercised from NFI's North American backlog, a PPI adjustment is recorded to reflect the higher input costs of a new vehicle. For those contracts where these clauses are not being applied, NFI is seeking price increases and surcharges through negotiations with customers. Notwithstanding these various mitigation measures, management expects that NFI's financial performance will be adversely affected by inflation in 2022.

While these issues are anticipated to be near-term headwinds, NFI's longer-term outlook remains strong based on its backlog and broader market conditions. NFI has received significant new orders over the past twelve months that support the Company's plan to increase headcount, and ramp-up production late in 2022 and into 2023. The Company anticipates that it will be able to source the labour required to drive higher production and volume deliveries in 2023. These new orders, combined with existing backlog, other recent bid activity, and continuing growth in government investments in transportation, are expected to drive significant revenue and Adjusted EBITDA growth for NFI from 2023 to 2025.

Market Recovery Post-COVID-19 Pandemic

The Company's bus and coach product lines (New Flyer, ARBOC, MCI and ADL) are primarily used for public transit, which remains a critical method of transportation and economic enablement for users in cities around the world. Within North American and UK heavy-duty transit and public coach markets, near- and longer-term demand has started to return, supported by the demand for transit agency and operators' capital fleet investments and dedicated government funding. 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 and procurements. In addition to funding, ridership has started to recover, with APTA reporting a more than 60% increase in average weekly transit ridership in the U.S. for the first 13 weeks of 2022 (as compared to the first 13 weeks of 2021).

NFI is encouraged by the high volume of active competitions for bus and motor coach procurements during the first quarter of 2022 in both North American and international markets. The Company's North American active bids remained high quarter-over-quarter at 4,757 EUs, a year-over-year increase of 21.3%. This bid activity is expected to drive backlog growth throughout 2022 and into 2023, and revenue growth in the fourth quarter of 2022 and into 2023. Bids submitted in 2022 Q1 remained high, at 4,757 EUs, a year-over-year increase of 55.8% and management expects active bids will continue to remain high as markets recover from the COVID-19 pandemic and announced government funding reaches transit agencies.

Specifically, NFI is seeing increasing numbers of bids for zero-emission buses and coaches, with individual order sizes for those vehicle types starting to increase. In addition, coach operators in the U.S. and Canada have started expressing positive sentiments to acquire new coaches as travel restrictions are being lifted and tourism and travel activity is recovering. NFI idled production of private motor coaches in North America in 2020 and 2021 as a response to the pandemic, but the Company restarted private coach production in January 2022 at a reduced rate, with an expectation to ramp up production slowly based on increased demand as these operators begin to recover.

NFI's overall end market recovery will be dependent upon several factors, including inflation rates, COVID-19 case rates, the remaining impact of the pandemic, future mutations of the virus, travel restrictions, economic reopening, labor availability, reliability of component parts, government funding and green fleet investments. These factors will differ by business, product type and geography. It is also important to note that there are significant lead times between when NFI receives an order and when a vehicle enters production.

Strong Government Support for Recovery and Zero-Emission Transition

In each of NFI's end markets, government support for public transit vehicles is 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 investments in zero-emission vehicles and infrastructure.

As the market leader in North American transit and coach operations 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 the Company's core markets.

The Company also continues to grow its Infrastructure Solutions™ business. Since its inception, Infrastructure Solutions™ has been responsible for the installation of 247 plug-in and 36 on-route charger projects for 46 different customers. Currently, Infrastructure Solutions™ has projects-in-progress with 18 customers, which will add 1 on-route and 106 plug-in chargers in 2022 and 2023.

United States - Historic Investments in Transit

On November 15, 2021 the Infrastructure Investment and Jobs Act ("IIJA"), the successor to the Fixing America's Surface Transportation Act ("FAST Act"), was signed into law by the President of the United States.

The IIJA is a $1.2 trillion bipartisan infrastructure bill that provides reauthorization of the surface transportation programs in addition to increased funding for transit, specifically the purchase of low-or zero-emission vehicles. The IIJA provides $86.9 billion in funding for the Federal Transit Administration ("FTA") over five years, and also authorizes an additional $21.2 billion in supplemental appropriations from general revenues, for a total of $108 billion. 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. The IIJA highlighted a maintenance backlog of more than 24,000 aged buses and over 200 stations for upgrade and replacement.

Under the IIJA, baseline transit funding levels have increased by 43% over the FAST Act, and when combined with supplemental appropriations, the IIJA provides up to a 63% increase for transit, with bus specific programs seeing significant multi-billion dollar increases and a focus on low- and zero-emission bus purchases.

In March 2022, the FTA published a combined Notice of Funding Opportunity for the Low or No Emission ("Low-No") Grant Program with approximately $1.2 billion in competitive grants available in Fiscal 2022, an increase of 495% from 2021. In 2021, NFI subsidiaries supported over $40 million in grants awarded to nine U.S. public transit agencies for their successful project awards from the 2021 Low-No Grant Program, and was specifically named the partner for the agency receiving the largest award in 2021 of $7.4 million for 10 ZEBs.

Canada - Dedicated Annual Funding

In October 2020, the Canadian federal government announced C$1.5 billion in financing through the Canada Infrastructure Bank ("CIB") to support the adoption of ZEBs and charging infrastructure; the financing is expected to be delivered over a 24- to 36-month period. The CIB financing has started to be used to fund procurements in Canada, with large announcements made in Ottawa and Brampton in Ontario, and in Edmonton, Alberta.

The Canadian government followed this with a landmark announcement in February 2021 that will result in C$14.9 billion being invested in Canadian public transit, C$2.75 billion of which is to be dedicated to zero-emission. The program includes C$5.9 billion in dedicated project funds starting in 2021, and ongoing funding of C$3 billion per year beginning in 2026-2027.

The proposed Canadian "Budget 2022", announced April 7, 2022, includes a total of C$900 million in new funding for charging infrastructure, including C$500 million through the CIB.

United Kingdom - Support for the Transition to Zero-Emission

The UK government's Ten Point Plan for a Green Industrial Revolution, announced November 18, 2020, is a follow-up to the government's original plan to invest £5 billion for buses, cycling and walking, and continued to highlight the government's commitment to introduce 4,000 more British-built zero-emission buses through various funding schemes. In 2021, £270 million was available under the UK's Zero Emission Bus Regional Areas ("ZEBRA") scheme.

In 2021, the Scottish Government awarded £40.5 million in funding to bus operators through a second round of the Scottish Ultra-Low Emission Bus Scheme ("SULEBS"). In February 2022, £62 million was awarded in funding to bus operators through Phase 1 of the ScotZEB. The ScotZEB fund is designed to encourage the market to implement new and innovative ways to finance and deploy zero-emission buses. ADL was the successful proponent on over 300 battery-electric buses through these programs.

Other International Markets

NFI's international expansion through ADL continued in 2021, with plans for further growth in new and existing markets going forward. This includes New Zealand, Australia, Hong Kong, Singapore and Germany where multi-year, multi-million dollar funding investments are being made by governments with commitments to deliver 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.

NFI Forward

Management continues to expect that the aggregate programs of the Company's transformational NFI Forward initiative will generate at least $67 million in annual Adjusted EBITDA savings through overhead and SG&A reductions and sourcing initiatives by the end of 2023 when compared to 2019 levels. In addition, NFI Forward is expected to generate approximately $10 million in annualized Free Cash Flow generation, driven by interest savings and lower lease payments. The combined programs are expected to deliver an 8% to 10% reduction in both manufacturing overhead and SG&A expenses, based on 2019 production rates, with investments of approximately $15 million to $20 million (some of which have already been made) required to deliver these savings. The achievement of these goals is subject to the risks and other factors described in Forward-Looking Statements.

In addition to the focus on cost savings and additional Free Cash Flow generation, management is also prioritizing working capital improvements through the NFI Forward initiative and other strategic projects aimed at improving supplier payment terms, accounts payable turns and inventory turnover, with specific focus on private vehicle inventory.

The majority of NFI Forward initiatives are either complete or in the later stages of completion, and NFI Forward has reached an annualized run rate of approximately $63 million in Adjusted EBITDA savings as of the end of 2022 Q1.

The Company had planned to announce details of "NFI Forward 2.0" this quarter, but, given the current supply chain environment, management has focused its efforts on production and delivery. The Company has started projects under this initiative, including the closure of a Delaware Aftermarket parts distribution facility. NFI will continue to advance further facility consolidations and footprint optimization as part of NFI Forward 2.0 and provide full details at a later date.

Financial Guidance and Targets

Reflecting challenging year-to-date results and expected supply chain disruptions through the third quarter, combined with a lower than previously planned increase in production rates in the second half, NFI is lowering its 2022 financial guidance for revenue and Adjusted EBITDA and adjusting the expected seasonality. Anticipated guidance is as follows:

Fiscal 2022 Financial Guidance	
Revenue	$2.3 billion to $2.6 billion
ZEB (electric) as a percentage of manufacturing sales	20% to 25%
Adjusted EBITDA[1]	$15 million to $45 million
Cash Capital Expenditures – including NFI Forward	$25 million to $35 million
Seasonality	Anticipate negative Adjusted EBITDA in the first three quarters with positive Adjusted EBITDA in the fourth quarter

1. Non-IFRS Measure.

The above table outlines guidance ranges for selected Fiscal 2022 consolidated financial metrics. These ranges take into consideration management's current outlook combined with year-to-date results and are based on the assumptions set out below. The purpose of the financial guidance is to assist investors, shareholders, and others in understanding management's expectations for the Company's financial performance in Fiscal 2022. The information may not be appropriate for other purposes. Information about guidance, including the various assumptions underlying it, is forward-looking and should be read in conjunction with the section "Forward-Looking Statements" and the related disclosure and information about various assumptions, factors, and risks that may cause actual future financial and operating results to differ from management's current expectations.

The guidance provided above for Fiscal 2022 is driven by numerous expectations and assumptions including, but not limited to, the following:

a. **Revenue:** Anticipated year-over-year revenue growth of up to 11% to be driven by a higher volume of ZEB sales and product mix. Guidance range lowered to reflect changes to planned vehicle production rates and delivery schedules.

b. **ZEB Sales:** Expected growth in the percentage of ZEB sales is based on the Company's backlog and expected new orders driven by increased market demand for zero-emission vehicles.

c. **Adjusted EBITDA**: Adjusted EBITDA is expected to decrease year-over-year, as the Company does not expect to receive any government wage subsidies in 2022 (the Company received $56.4 million in government wage subsidies in Fiscal 2021). In addition, Adjusted EBITDA is expected to be depressed due to operational inefficiencies resulting from ongoing supply chain disruptions lowering production rates, with more pronounced impact in the first three quarters of 2022. In addition, there are expected to be ongoing inflationary pressures on components and raw materials, and lost time related to the ongoing global pandemic. Finally, NFI now expects that production rates will be lower than originally planned in the second half of 2022 due to ongoing supply chain disruption. Offsetting these items is an expected positive contribution of savings generated through the NFI Forward initiative, which is now expected to generate approximately $63 million of annualized savings.

NFI's revised guidance for 2022 is subject to the risk of extended duration of the current disruptions and the risk of additional supply disruptions affecting other components.

Russia's Invasion of Ukraine and COVID-19 Lockdowns

The revised guidance does not reflect potential escalated impact on supply chains or other factors arising directly or indirectly as a result of the Russian invasion of Ukraine, or disruption from COVID-19 related lockdowns in China and other jurisdictions. 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 general industry-wide price increases for components and raw materials used in vehicle production, as well as increases in the cost of labor and potential reductions in the supply of labor. NFI is following the developments in Ukraine and China closely, but rapid and unpredictable changes may occur. See "Forward Looking Statements".

Management also reaffirms its 2025 longer-term targets, originally announced in January 2021. NFI remains committed to its goals of delivering $3.9 billion to $4.1 billion in revenue, Adjusted EBITDA of $400 million to $450 million, with approximately 40% of vehicle sales coming from zero-emission vehicles, and ROIC of higher than 12% in Fiscal 2025. These targets are driven by several factors and expectations, including the recovery of the current supply chain disruptions and other COVID-19-related impacts, a higher percentage of ZEB sales (which provide a higher revenue and dollar margin benefit), the mitigation of inflationary pressures, end markets recovery to pre-pandemic levels, realization of NFI Forward benefits driving volume leverage, growth of cutaway and medium-duty products, aftermarket expansion, and continuous improvement initiatives.

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
2022						
	Q1	459,330	(41,763)	(28,068)	(16,942)	(0.36)
	Total	**459,330**	**(41,763)**	**(28,068)**	**(16,942)**	**(0.36)**
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	54,840	0.10
	Total	**2,343,794**	**46,011**	**(14,485)**	**164,180**	**(0.21)**
2020						
	Q4	711,523	32,531	8,465	64,956	0.14
	Q3	663,934	(16,453)	(24,912)	60,885	(0.40)
	Q2	333,334	(72,001)	(74,050)	(24,229)	(1.18)
	Q1	710,384	(25,406)	(67,239)	56,071	(1.08)
	Total	**2,419,175**	**(81,329)**	**(157,736)**	**157,683**	**(2.52)**

COMPARISON OF FIRST QUARTER 2022 RESULTS

(U.S. dollars in thousands)	2022 Q1	2021 Q1
Statement of Earnings Data		
Revenue		
North America	236,928	387,934
United Kingdom and Europe	89,718	64,305
Asia Pacific	(11)	6,957
Other	—	—
Manufacturing operations	326,635	459,196
North America	97,105	83,806
United Kingdom and Europe	24,980	19,818
Asia Pacific	10,610	11,299
Other	—	—
Aftermarket operations	132,695	114,923
Total revenue	$ 459,330	$ 574,119
(Loss) earnings from operations	$ (41,763)	$ 26,916
(Loss) earnings before interest and income taxes	$ (46,157)	$ 24,742
Net (loss) earnings	$ (28,068)	$ 7,033
Adjusted EBITDA[1]	$ (16,942)	$ 54,840
Cash capital expenditures	$ 6,208	$ 5,699

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

Results of Operations

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

Revenue

(U.S. dollars in thousands)	2022 Q1	2021 Q1
Manufacturing Revenue	326,635	459,196
Aftermarket Revenue	132,695	114,923
Total Revenue	459,330	574,119
(Loss) earnings from Operations	(41,763)	26,916
(Loss) earnings before interest and income taxes	(46,157)	24,742
(Loss) earnings before income tax expense	(36,813)	14,619
Net (loss) earnings	(28,068)	7,033

Manufacturing revenue for 2022 Q1 decreased by $132.6 million, or 28.9%, compared to 2021 Q1. The decline is primarily as a result of the reduction in deliveries resulting from global supply chain and logistics challenges, which are largely the result of the ongoing COVID-19 pandemic, which created numerous bottlenecks and disruptions to parts availability.

Aftermarket revenue for 2022 Q1 increased by $17.8 million, or 15.5%, compared to 2021 Q1. The increase was driven by increased volumes in North America, United Kingdom and Europe regions due to market recovery, surcharges and inflationary price increases, including increased freight costs.

Cost of sales

(U.S. dollars in thousands)	2022 Q1	2021 Q1
Manufacturing		
Direct cost of sales	281,466	358,138
Depreciation and amortization	20,747	21,938
Other overhead	42,078	27,736
Manufacturing cost of sales	344,291	407,812
As percent of Manufacturing Sales	105.4 %	88.8 %
Aftermarket		
Direct cost of sales	94,404	77,847
Depreciation and amortization	2,603	2,626
Aftermarket cost of sales	97,008	80,473
As percent of Aftermarket Sales	73.1 %	70.0 %
Total Cost of Sales	441,299	488,285
As percent of Sales	96.1 %	85.0 %

The consolidated cost of sales for 2022 Q1 decreased by $47.0 million, or 9.6%, compared to 2021 Q1.

Cost of sales from Manufacturing operations in 2022 Q1 was $344.3 million (105.4% of Manufacturing operations revenue) compared to $407.8 million (88.8% of Manufacturing operations revenue) in 2021 Q1, a decrease of $63.5 million, or 15.6%. Cost of sales increased as a percentage of revenue in 2022 Q1, mainly due to operational inefficiencies resulting from supply shortages, increasing inflation and COVID-19 impacts. Government grants programs, which were primarily received to assist with the retention of skilled personnel, ended and therefore resulted in no amounts being recorded in 2022 Q1 compared to the significant support received in the same period in 2021, resulting in lower cost of sales as a percentage of revenue in the prior quarter.

Cost of sales from Aftermarket operations in 2022 Q1 was $97.0 million (73.1% of Aftermarket revenue) compared to $80.5 million (70.0% of Aftermarket revenue) in 2021 Q1, an increase of 3.1% as a percentage of revenue. Cost of sales increased as a percentage of revenue primarily due to product mix and the effects of inflation, including freight that were not fully transferred to the end customer.

Gross Margins

(U.S. dollars in thousands)		
	2022 Q1	**2021 Q1**
Manufacturing	(17,657)	51,384
Aftermarket	35,689	34,450
Total Gross Margins	18,032	85,834
As a percentage of sales		
Manufacturing	(5.4)%	11.2 %
Aftermarket	26.9 %	30.0 %
	3.9 %	15.0 %

Manufacturing gross margin for 2022 Q1 of ($17.7) million ((5.4%) of Manufacturing revenue), decreased by $69.0 million compared to $51.4 million (11.2% of revenue) for 2021 Q1.

Manufacturing gross margin decreased as a percentage of revenue in 2022 Q1, mainly due to heightened inflation and operational inefficiencies resulting from global supply chain and logistics challenges, and escalating supply problems of critical electronic parts coming from China. Combined with low production volumes, resulting in the company absorbing more fixed overhead on a per unit basis. At the end of 2021, the Company was no longer eligible for government grants, which were primarily received to assist with the retention of skilled personnel. This resulted in no amounts being recorded in 2022 Q1 compared to the significant support received in the same period also contribution to a lower gross margin percentage.

Aftermarket gross margins for 2022 Q1 of $35.7 million (26.9% of Aftermarket revenue) increased by $1.2 million, or 3.6%, compared to 2021 Q1 gross margins of $34.5 million (30.0% of Aftermarket revenue). Gross margins were higher due to a favorable product mix. The decrease in gross margins as a percentage of revenue for both periods is mainly due to product mix and the effects of inflation as increases to labour, freight and product costs were not fully transferred to the end customer.

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

(U.S. dollars in thousands)		
	2022 Q1	**2021 Q1**
Selling expenses	5,702	6,083
General and administrative expenses	51,203	50,931
Other costs	2,823	254
Total SG&A	59,728	57,268

The consolidated SG&A for 2022 Q1 of $59.7 million (13.0% of consolidated revenue) increased by $2.4 million, or 4.3%, compared to $57.3 million (10.0% of consolidated revenue) in 2021 Q1.

The increase in 2022 Q1 was mostly due to government grants of $2.4 million offsetting the 2021 Q1 amounts. As at the end of 2021, the Company was no longer eligible for government grants, which were primarily received to assist with the retention of skilled personnel. This resulted in no amounts being recorded in 2022 Q1 compared to the significant support received in the same period in 2021, resulting in higher SG&A as a percentage of revenue.

Government Grants

The Company recorded government grants during the year on a net basis to the following categories:

(U.S. dollars in thousands)	**2022 Q1**	**2021 Q1**
Cost of sales	—	19,400
Selling, general and administration costs and other operating expenses	—	2,400
Total government grants	—	21,800

Realized foreign exchange loss/gain

In 2022 Q1, the Company recorded a realized foreign exchange loss $0.1 million compared to a gain of $1.7 million in 2021 Q1.

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

Earnings (loss) from operations

Consolidated losses from operations in 2022 Q1 were $41.8 million ((9.1%) of consolidated revenue) compared to earnings of $26.9 million (4.7% of consolidated revenue) in 2021 Q1, a decrease of $68.7 million or 255.4%.

2022 Q1 losses from operations attributable to the Manufacturing Segment were $55.5 million ((17.0%) of Manufacturing revenue) compared to earnings of $15.6 million (3.4% of Manufacturing revenue) in 2021 Q1, a decrease of $71.1 million, or (454.8)%. The decrease as a percentage of revenue in 2022 Q1 was primarily attributable to lower new vehicle deliveries, heightened inflation and operational inefficiencies resulting from global supply chain and logistics challenges, which are largely the result of the ongoing COVID-19 pandemic.

Earnings from operations related to Aftermarket operations in 2022 Q1 were $18.6 million (13.9% of Aftermarket revenue) compared to $18.3 million (16.0% of Aftermarket revenue) in 2021 Q1. Earnings from Aftermarket operations were 1.4% higher due to higher sales volumes, a favorable product mix and NFI Forward savings.

Unrealized foreign exchange gain/loss

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

(U.S. dollars in thousands)	2022 Q1	2021 Q1
Unrealized loss on forward foreign exchanges contracts	(2,452)	(3,324)
Unrealized gain (loss) on other long-term monetary assets/liabilities	(2,316)	795
	(4,768)	(2,529)

At April 3, 2022, the Company had $152.1 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, and GBP). The related asset of $0.8 million (January 2, 2022: $0.4 million asset) is recorded on the unaudited interim condensed consolidated statement 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 2022 Q1, the Company recorded an EBIT of ($46.2) million compared to EBIT of $24.7 million in 2021 Q1.

Interest and finance costs

The interest and finance charges for 2022 Q1 of ($9.3) million decreased by $19.5 million compared 2021 Q1. The quarterly decrease is primarily due to a higher fair market value gain on the adjustment to the Company's interest rate swaps and the fair market value gain on the adjustment for the cash conversion option from the convertible debentures. The Company had a fair market value gain on the interest rate swap of $22.5 million in 2022 Q1 compared to a gain of $7.7 million in 2021 Q1, and a fair market value gain on the cash conversion option of $5.4 million in 2022 Q1 compared to $nil in 2021 Q1.

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 $560.0 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 Company has a second interest rate swap on $200 million of its long-term debt on which the Company will pay 0.243% plus an applicable margin and matures in July 2025. 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.

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

EBT for 2022 Q1 of ($36.8) million decreased by $51.4 million compared to EBT of $14.6 million in 2021 Q1. The primary drivers of the changes to EBT are addressed in the Earnings (loss) from Operations, EBIT, and interest and finance costs sections above.

Income tax expense

The income tax recovery for 2022 Q1 is ($8.7) million, compared to a $7.6 million expense in 2021 Q1. The recovery is higher due mostly to lower earnings before tax, combined with a reduction in the U.S. base erosion and anti-abuse tax ("BEAT"), and foreign tax credit write-off when compared to 2021.

The effective tax rate ("ETR") for 2022 Q1 was 23.8%, compared to 51.9% in 2021 Q1. The 2021 Q1 ETR was impacted by BEAT, and a write-off of unapplied foreign tax credits. Due to reduced retained earnings before tax, 2022 Q1 ETR was not impacted by BEAT and the foreign tax credit write-off.

Net loss

The Company reported net losses of $28.1 million in 2022 Q1, a decrease of $35.1 million, or 499.1%, compared to net earnings of $7.0 million in 2021 Q1. The decrease is a result of the items discussed above and lower government subsidies including CJRS and CEWS.

Net loss (U.S. dollars in millions, except per Share figures)	**2022 Q1**	**2021 Q1**
(Loss) earnings from operations	(41.8)	26.9
Gain on disposition of property, plant and equipment	0.4	0.4
Unrealized foreign exchange loss on monetary items	(4.8)	(2.5)
Interest and finance costs	9.3	(10.1)
Income tax recovery (expense)	8.7	(7.6)
Net (loss) earnings	(28.1)	7.0
Net (loss) earnings per Share (basic)	(0.36)	0.11
Net (loss) earnings per Share (fully diluted)	(0.36)	0.11

The Company recorded net loss per Share for 2022 Q1 of $0.36 compared to net earnings per Share of $0.11 in 2021 Q1. The per share amount decreased as a result of decreased earnings during the period, offset by increased Shares outstanding as discussed below.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)	**2022 Q1**	**2021 Q1**
Cash (used in) generated by operating activities before non-cash working capital items and interest and income taxes paid	(17,965)	54,343
Interest paid	(14,538)	(18,654)
Income taxes paid	884	(9,131)
Cash flow used by changes in working capital	(101,209)	(114,223)
Cash flow used by operating activities	(132,828)	(87,665)
Cash flow from financing activities	82,576	58,840
Cash flow used in investing activities	(1,026)	(3,848)

Cash flows from operating activities

The 2022 Q1 net operating cash used of $132.8 million is comprised of $31.6 million of net cash loss and $101.2 million of cash used by working capital. The 2021 Q1 net operating cash outflow of $87.7 million is comprised of $26.6 million of net cash earnings and $114.2 million of cash used by working capital.

Cash flow from financing activities

The cash inflow of $82.6 million during 2022 Q1 is comprised mainly of proceeds of revolving credit facilities of $89.5 million and proceeds from short-term debt of $1.2 million, which was partially offset by dividend payments of $3.3 million and lease obligation payments of $4.8 million.

Cash flow from investing activities

(U.S. dollars in thousands)	2022 Q1	2021 Q1
Acquisition of intangible assets	$ (1,315)	$ —
Proceeds from disposition of property, plant and equipment	1,085	2,314
Long-term restricted deposits	5,412	(463)
Acquisition of property, plant and equipment	(6,208)	(5,699)
Cash used in investing activities	$ (1,026)	$ (3,848)

Cash used in investing activities was lower in 2022 Q1, primarily due to investments in long-term restricted deposits being released during the quarter which were held to facilitate payments relating to a customer contract which was settled during the quarter.

On February 13, 2019, the Company entered into a $600 million amortizing notional interest rate swap designed to hedge floating rate exposure on the Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023 and amortizes at a rate of $20 million per annum.

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

The fair value of the interest rate swap asset of $12.6 million at April 3, 2022 (January 2, 2022: liability of $30.5 million) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded in finance costs for the reported period. The unrealized losses recorded on the instruments are a result of interest rate reductions subsequent to entering into the transactions.

Credit risk

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

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

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

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

U.S. dollars in thousands	**April 3, 2022**	January 2, 2022
Current, including holdbacks	374,218	375,056
Past due amounts but not impaired		
1 – 60 days	18,926	15,857
Greater than 60 days	5,269	5,892
Less: allowance for doubtful accounts	(220)	(270)
Total accounts receivables, net	398,193	396,535

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 April 3, 2022:

U.S. dollars in thousands	Total	2022	2023	2024	2025	2026	Post 2026
Leases	220,624	20,895	24,168	19,059	14,918	12,218	129,366
Accrued benefit liability	5,673	5,673	—	—	—	—	—
	$ 226,297	$ 26,568	$ 24,168	$ 19,059	$ 14,918	$ 12,218	$ 129,366

As at April 3, 2022, outstanding surety bonds guaranteed by the Company totaled $342.9 million (January 2, 2022: $375.9 million). The estimated maturity dates of the surety bonds outstanding at April 3, 2022 range from April 2022 to December 2026. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company has established a letter of credit sub-facility of $100.0 million (January 2, 2022: $100.0 million). As at April 3, 2022, letters of credit totaling $11.8 million (January 2, 2022: $11.8 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of £50.0 million as part of the UK Facility. As at April 3, 2022, letters of credit totaling $39.7 million were outstanding under the bi-lateral credit facility (January 2, 2022: $40.6 million). Additionally, there are $25.3 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

As at April 3, 2022, 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 April 3, 2022.

Share Option Plan

The Board adopted a Share Option Plan (the "2013 Option Plan") for NFI on March 21, 2013, under which 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	$10.20	$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	$10.57	$1.44
December 28, 2014	499,984	(252,233)	(11,368)	(236,383)	—	December 28, 2022	$13.45	$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	$26.75	$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	$42.83	$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	$40.84	$7.74
January 2, 2018	152,883	—	(29,198)	(123,685)	—	January 2, 2026	$54.00	$9.53
January 2, 2019	284,674	—	(59,186)	(169,118)	56,370	January 2, 2027	$33.43	$5.01
July 15, 2019	2,835	—	—	(1,418)	1,417	July 15, 2027	$35.98	$4.90
December 31, 2019	519,916	—	(78,772)	(220,577)	220,567	December 31, 2027	$26.81	$3.36
December 28, 2020	258,673	—	(25,279)	(58,351)	175,043	December 28, 2028	$24.70	$6.28
February 10, 2021	1,894	—	—	(474)	1,420	December 28, 2028	$28.74	$6.28
August 16, 2021	601	—	—	—	601	August 16, 2029	$30.79	$6.28
January 3, 2022	311,892	—	—	—	311,892	January 3, 2022	$20.26	$6.10
	3,511,236	(1,366,150)	(227,493)	(1,150,283)	767,310		$27.39	

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 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:

	2022 Q1		2021 Q1	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,617,759	C$28.82	1,503,117	C$29.32
Granted during the period	311,892	C$20.26	260,833	C$24.70
Expired during the period	(12,058)	C$34.94	(12,410)	C$37.17
Exercised during the period	—	C$0.00	(7,326)	C$10.20
Balance at end of period	1,917,593	C$27.39	1,744,214	C$28.65

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 11,704 director restricted Share units (“Director RSUs”), with a total value of $186 thousand, in 2022 Q1. Approximately $69 thousand of the issued Director RSUs were exercised and exchanged for 4,407 Shares.

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2021 Annual Financial Statements.

New and amended standards adopted by the Company

No new or amended standards were adopted by the Company during the period.

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 and/or non-operating items 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)	2022 Q1	2021 Q1	53-Weeks Ended April 3, 2022	52-Weeks Ended March 28, 2021
Net (loss) earnings	$ (28,068)	$ 7,033	$ (49,585)	$ (83,464)
Addback				
Income taxes	(8,745)	7,586	(6,775)	4,652
Interest expense[16]	(9,344)	10,123	19,569	56,857
Amortization	23,351	24,564	95,941	105,208
Loss (gain) on disposition of property, plant and equipment	(373)	(355)	94	(574)
Fair value adjustment for total return swap[9]	952	(438)	2,071	(2,290)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	4,768	2,529	14,030	(6,478)
Costs associated with assessing strategic and corporate initiatives[7]	—	—	(106)	1,396
Past service costs and other pension costs (recovery)[11]	—	—	—	55
Proportion of the total return swap realized[10]	(275)	447	(1,434)	862
Equity settled stock-based compensation	285	650	1,373	2,406
Unrecoverable insurance costs [12]	411	—	1,129	—
Prior year sales tax provision [13]	—	40	1,996	280
COVID-19 costs[14]	—	289	3,670	47,651
Restructuring costs [8]	96	2,372	9,192	29,891
Adjusted EBITDA	$ (16,942)	$ 54,840	$ 91,165	$ 156,452
Depreciation of property, plant and equipment and right of use assets	(15,212)	(16,364)	(63,216)	(69,110)
Tax at 31%	9,968	(11,928)	(8,664)	(27,076)
NOPAT	$ (22,186)	$ 26,548	$ 19,285	$ 60,266
Adjusted EBITDA is comprised of:				
Manufacturing	$ (39,459)	$ 35,770	$ (23,675)	$ 102,392
Aftermarket	$ 22,834	$ 22,481	$ 99,022	$ 68,292
Corporate	$ (317)	$ (3,511)	$ 17,327	$ (14,232)

(Footnotes on page 29 and 30)

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)	2022 Q1	2021 Q1	53-Weeks Ended April 3, 2022	52-Weeks Ended March 28, 2021
Net cash generated by (used in) operating activities	$ (132,828)	$ (87,665)	$ 70,070	$ (5,221)
Changes in non-cash working capital items(3)	101,209	114,223	(58,843)	(748)
Interest paid(3)	14,536	18,654	60,106	66,255
Interest expense(3)	(16,292)	(16,678)	(70,046)	(64,082)
Income taxes paid (recovered)(3)	(884)	9,131	9,535	23,923
Current income tax (expense) recovery(3)	2,613	(12,280)	(7,537)	(21,919)
Repayment of obligations under lease	(4,842)	(7,045)	(15,989)	(22,858)
Cash capital expenditures	(6,208)	(5,699)	(34,023)	(23,829)
Acquisition of intangible assets	(1,315)	—	(4,063)	—
Proceeds from disposition of property, plant and equipment	1,085	2,314	4,953	4,979
Costs associated with assessing strategic and corporate initiatives(7)	—	—	(106)	1,396
Defined benefit funding(4)	1,035	1,049	3,638	5,036
Defined benefit expense(4)	(808)	(1,875)	(5,353)	(5,691)
Past service costs and other pension costs(11)	—	—	—	55
Proportion of the total return swap realized(10)	(275)	447	(1,434)	862
Unrecoverable insurance costs (12)	411	—	1,119	—
Out of period costs(16)	1,264	—	2,498	—
Prior year sales tax provision (13)	—	40	1,996	281
Restructuring costs(8)	96	580	9,032	22,774
COVID-19 costs(14)	—	289	$ 3,682	47,651
Foreign exchange (loss) gain on cash held in foreign currency(5)	564	(33)	(2,300)	(91)
Free Cash Flow(1)	$ (40,639)	$ 15,452	$ (33,065)	$ 28,773
U.S. exchange rate(2)	1.2518	1.2576	1.2637	1.1953
Free Cash Flow (C$)(1)	(50,869)	19,432	(41,784)	34,392
Free Cash Flow per Share (C$)(6)	(0.6595)	0.2988	(0.5723)	0.5447
Declared dividends on Shares (C$)	4,096	15,084	50,657	54,941
Declared dividends per Share (C$)(6)	$ 0.0531	$ 0.2125	$ 0.6906	$ 0.8500

(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 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$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2022 Q1 was 77,135,057 and 65,036,019 for 2021 Q1. The weighted average number of Shares outstanding for the 53-weeks ended April 3, 2022 and 52-weeks ended March 28, 2021 are 73,007,524 and 63,144,784, respectively. Per Share calculations for declared dividends (C$) 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, right-of-use asset impairments and inventory impairments associated with NFI Forward 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.

(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.

(11) Costs and recoveries associated with amendments to, and closures of, the Company's pension plans.

(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 an ongoing 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. 2022 Q1 includes a gain of $22.5 million and 2021 Q1 includes a gain of $7.7 million for the interest rate swaps. 2022 Q1 includes a gain of $5.4 million and 2021 Q1 includes a gain of $nil for the cash conversion option.

(16) Includes adjustments made related to expenses that pertain to prior years. 2021 Q4 includes expenses related to amounts owed from fiscal years 2016 - 2020, and expenses related to amounts owed from fiscal years 2014 - 2020.

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 credit 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.

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 a year 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 and/or non-operational related items 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)	2022 Q1	2021 Q1	53-Weeks Ended April 3, 2022	52-Weeks Ended March 28, 2021
Net (loss) earnings	(28,068)	7,033	(49,585)	(83,464)
Adjustments, net of tax [(1) (7)]				
Fair value adjustments of total return swap[(4)]	657	(199)	1,166	(1,477)
Unrealized foreign exchange loss (gain)	3,289	1,151	7,503	(5,064)
Unrealized gain on interest rate swap	(15,533)	(3,491)	(22,580)	(6,802)
Unrealized gain on Cash Conversion Option	(3,703)	—	(8,668)	—
Portion of the total return swap realized[(5)]	(190)	203	(717)	490
Costs associated with assessing strategic and corporate initiatives[(2)]	—	—	(106)	1,396
Equity settled stock-based compensation	197	296	692	1,507
Loss (gain) on disposition of property, plant and equipment	(257)	(162)	(44)	(313)
Past service costs and other pension costs[(6)]	—	—	—	37
Unrecoverable insurance costs[(12)]	284	—	511	—
Prior year sales tax provision[(8)]	—	18	908	184
Other tax adjustments[(10)]	(180)	—	2,489	—
COVID-19 costs[(9)]	—	131	1,670	32,811
Out of period costs[(11)]	1,264	—	1,826	—
Accretion in carrying value of convertible debt and cash conversion option	1,300	—	1,574	—
Restructuring costs[(3)]	66	1,079	4,205	20,067
Adjusted Net Earnings (Loss)	$ (40,873)	6,059	$ (59,156)	(40,628)
Earnings (Loss) per Share (basic)	$ (0.36)	$ 0.11	$ (0.66)	$ (1.33)
Earnings (Loss) per Share (fully diluted)	(0.36)	$ 0.11	$ (0.66)	$ (1.33)
Adjusted Net Earnings (Loss) per Share (basic)	$ (0.53)	$ 0.09	$ (0.81)	$ (0.64)
Adjusted Net Earnings (Loss) per Share (fully diluted)	$ (0.54)	$ 0.09	$ (0.81)	$ (0.64)

1. Addback items are derived from the historical financial statements of the Company.
2. Normalized to exclude non-operating expenses related to the costs of assessing strategic and corporate initiatives.
3. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, right-of-use asset impairments and inventory impairments associated with NFI Forward restructuring initiatives.
4. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted Net Earnings (Loss).
5. A portion of the fair value adjustment of the total return swap is excluded from Adjusted Net Earnings (Loss) to match the equivalent portion of the related deferred compensation expense recognized.

6. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans.
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. Provision for sales taxes as a result of a state tax review.
9. 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.
10. 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 increase in the UK corporate tax rate from 19% to 25% in 2021 Q2. The 2020 amounts result from the reversal of previously enacted UK tax rate decline in 2020 Q2.
11. Includes adjustments made related to expenses that pertain to prior years. 2022 Q1 includes expenses related to tax amounts owed from fiscal years 2016 - 2018. 2021 Q4 includes expenses related to amounts owed from fiscal years 2016 - 2020, and expenses related to amounts owed from fiscal years 2014 - 2020.
12. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.

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)	2022 Q1	2021 Q4	2021 Q3	2021 Q2
Shareholders' Equity	850,323	871,772	787,010	814,502
Addback				
Long term debt	677,996	586,411	1,049,273	963,630
Capital leases	139,129	143,675	150,212	153,967
Convertible Debentures	229,673	225,768	—	—
Derivatives	4,806	31,883	20,920	21,609
Cash	(26,604)	(77,318)	(64,822)	(47,695)
Bank indebtedness	1,233	—	—	—
Invested Capital	1,876,556	1,782,191	1,942,593	1,906,013
Average of invested capital over the quarter	1,829,374	1,862,392	1,924,303	1,945,438

	2021 Q1	2020 Q4	2020 Q3	2020 Q2
Shareholders' Equity	824,643	620,141	602,178	627,907
Addback				
Long term debt	1,008,733	1,125,685	1,123,281	1,112,602
Capital leases	150,553	150,577	152,912	156,177
Convertible Debentures	—	—	—	—
Derivatives	23,996	29,656	35,493	40,829
Cash	(23,063)	(55,769)	(1,176)	(10,363)
Bank indebtedness	1	—	10,000	7,773
Invested Capital	1,984,863	1,870,290	1,922,688	1,934,925
Average of invested capital over the quarter	1,927,576	1,896,489	1,928,807	1,973,970

Capital Allocation Policy

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

<u>Maintaining Financial Flexibility</u>

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

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

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

On December 2, 2021, the Company amended the Credit Facility and the UK Facility (together the "amended facilities"). The amended facilities provide the Company with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. NFI has provided the lenders security on certain of its assets, including a general security agreement on NFI's personal property, but excluding security on real property. The general security agreement is in place until NFI has delivered three consecutive fiscal quarters with a total leverage ratio of less than 2.75 to 1.

The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. $11.8 million of outstanding letters-of-credit were drawn against the Credit Facility at April 3, 2022. 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 £50 million revolving UK Facility matures on December 23, 2023. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin.

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2022 and 2023 have been relaxed. Furthermore, the total net debt to capitalization ratio will no longer be required starting in the third quarter of 2022. The company received consent from its lenders to waive compliance with the Interest Coverage Ratio for the first quarter of the year and until the period ending May 31, 2022. As the Company is currently in detailed discussions with its lenders on potential covenant amendments under its credit facilities, it is seeking a further consent from the lenders to waive compliance with the Interest Coverage Ratio for the period ending June 1, 2022 to July 3, 2022.

In 2022, the Company is required to maintain a total leverage and interest coverage ratios as follows:

	Total Leverage Ratio	Interest Coverage Ratio
January 3, 2022 - May 31, 2022	N/A	N/A
June 1, 2022 - July 3, 2022	N/A	>1.50
July 4, 2022 - October 2, 2022	<6.25	>1.50
October 3, 2022 - January 1, 2023	<5.25	>2.00
January 2, 2023 - April 2, 2023	<4.00	>2.50
April 3, 2023 and thereafter	<3.75	>3.00

The amended facilities also allow the Company to use a covenant increase option beginning in the fourth quarter of 2022 for the total leverage ratio. If the covenant increase option is used, the Company will be required to maintain a total net leverage ratio of less than 5.75 to 1 from October 3, 2022 to January 1, 2023; of less than 4.50 to 1 from January 2, 2023 to April 2, 2023; of less than 4.25 to 1 from April 3, 2023 to July 2, 2023; of less than 4.00 to 1 from July 3, 2023 to October 1, 2023; and of less than 3.75 to 1 thereafter.

If the covenant increase option is not used, the Company will also have to comply with a $50 million minimum liquidity covenant at all times until April 3, 2023. If the covenant increase option is used, the Company will have to comply with a $150 million minimum liquidity covenant at all times until October 2, 2023. The amended facilities also require the dividend payment not exceed the current level.

Due to the ongoing uncertainty created by continuing supply chain disruptions, including near-term module shortages, and related inflationary pressures, and the impact of a fire disrupting the Company's battery supplier, the Company now expects that, although its liquidity position remains strong, lower trailing Adjusted EBITDA combined with the Company's anticipated debt profile will affect the Company's ability to comply with certain financial covenants under the amended facilities (including the interest coverage ratio in the near term and the total leverage covenant beginning in the second half of 2022). Management is currently in detailed discussions with its banking partners to obtain further covenant relief for Fiscal 2023.

Management believes that, with the anticipated covenant relief, the Company's cash position and capacity under its existing credit 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, dividend payments and other operational needs. See Appendix A.

The calculation of the financial covenants are provided for information purposes below:

	April 3, 2022	January 2, 2022
Total Leverage Ratio (2022: waived [2021: must be less than 5.25])	8.99	3.79
Interest Coverage Ratio (2022: waived [2021: must be greater than 2.00])	1.16	2.28
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2020: N/A])	0.43	0.37

US dollars in thousands		**April 3, 2022**		January 2, 2022
Liquidity Position (must be greater than $50 million)	$	648,968	$	794,332

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 ADL in May 2019, but the impact of COVID-19 and the continuing supply chain disruptions has extended the expected timing of deleveraging. Management now expects to reduce the Company's total leverage to its target leverage of 2.0x to 2.5x total debt to Adjusted EBITDA by the end of 2024 as the recovery from COVID-19 continues, the anticipated supply of parts and components slowly stabilizes, the Company achieves the benefits of the NFI Forward strategic cost reduction initiatives and the Company continues to 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 ZEB, 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 longer-term transition to a more electrified fleet. New Flyer now has the capability to manufacture ZEBs at all of its North American facilities. ADL is the market leader in ZEBs with production capabilities at all of its UK facilities, MCI has invested in model upgrades to generate its first electric coach offering, which has been well received by the market and ARBOC commenced production of its medium-duty Equess CHARGE™ electric bus in the second half of 2021. NFI is planning for the roll-out of next generation battery technology through a second battery supplier referred to above for a fourth quarter 2022 launch based on projects that originally kicked off in 2020. To support customers making the transition to zero-emission fleets, NFI launched its Infrastructure Solutions™ business in 2018. Infrastructure Solutions™ has helped numerous agencies develop and launch infrastructure installation projects.

The Company has automated bus projects in development with specialized partners who have a deep understanding 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. In April 2022, NFI announced that ADL was commencing live testing of an automated bus pilot in Scotland ahead of passenger services starting later in 2022. NFI has also made numerous investments into telematics solutions to ensure customers can track detailed performance and maintenance metrics associated with their vehicles.

In addition to internal investments, business acquisitions and partnerships will be considered to further grow and diversify the business and to contribute to the long-term competitiveness and stability of the Company. Investment decisions are based on several criteria, including but not limited to: investment required to maintain or enhance operations; enhancement of cost effectiveness through vertical integration of critical supply and sub-assembly in-sourcing; and acquisitions in current or adjacent markets that are considered accretive to the business.

Return of Capital to Shareholders

The Company intends to have a Share dividend policy that is consistent with the Company's financial performance and the desire to retain certain cash flows to support the ongoing requirements of the business and to provide the financial flexibility to pursue revenue diversification and growth opportunities.

The Company's 2022 Q1 Free Cash Flow was (C$54.2) million compared to declared dividends of C$4.1 million during this period. For 2021 Q1 Free Cash Flow was C$19.4 million compared to declared dividends of C$15.1 million. This resulted in a payout ratio(1) of (8.1%) in 2022 Q1 compared to 77.8% in 2021 Q1.

The Board has declared a dividend of C$0.0531 per Share for the period January 1, 2022 to March 31, 2022 on the Shares of the Company, reflecting the view that supply and logistics disruptions impacting the Company are temporary.

Given the expected temporary nature of the supply chain disruptions, NFI's management and Board believe that there will be an opportunity for dividend increases in 2023 if the Company's financial performance improves as expected. See Forward-Looking Statements in Appendix A.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2022 Q1**	**2021 Q1**
Dividends paid	$ 3.3	$ 10.3

(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.

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

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of January 2, 2022 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 April 3, 2022 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 April 3, 2022, 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, "ADL") 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.

NFI’s common shares trade on the Toronto Stock Exchange (“TSX”) under the symbol NFI and its convertible unsecured debentures trade on the TSX under the symbol NFI.DB. As at April 3, 2022, 77,135,154 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.sedar.com.

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

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

All of the data presented in this MD&A with respect to the number of transit buses, medium-duty buses, cutaways and motor coaches in service and delivered, is measured in, or based on, “equivalent units”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 equivalent units. An articulated transit bus is an extra-long transit bus (approximately 60-feet in length), composed of two passenger compartments connected by a joint mechanism. The joint mechanism allows the vehicle to bend when the bus turns a corner, yet have a continuous interior.

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 future growth, financial performance 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 the Company's expectation of receiving further covenant relief under its senior credit facilities. 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, the recovery of the Company’s markets and the expected benefits to be obtained through its “NFI Forward” initiative) 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 performance 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 and supply chain disruptions, will not occur or be achieved. In connection with obtaining the necessary covenant under the Company's senior credit facilities, it is possible that certain other amendments could be made, including with respect to a reduction in the size of the facilities, an increase in the interest rates and other fees and additional restrictions on dividends and acquisitions. There can be no assurance that the Company will be successful in obtaining the necessary covenant relief under its senior credit facilities or that dividends will continue to be paid.

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, employee absenteeism and inflationary effects; the Company's business, operating results, financial condition and liquidity may be materially adversely impacted by the Russian invasion of Ukraine due to factors including but not limited to further supply chain issues and inflationary pressures and supply chain disruptions; 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. Federal Transit Administration; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; 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 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 and remediation of transit buses and motor coaches; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events, 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 labor disruptions and shortages of labor; 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; payment of dividends is not guaranteed; a significant amount of the Company’s cash is distributed, which may restrict potential growth; the Company is dependent on its subsidiaries for all cash available for distributions; 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 labor 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, which may also negatively impact the ability of the Company to pay dividends. There can be no assurance that the Company will be able to maintain sufficient liquidity for an extended period, obtain satisfactory covenant relief under its credit facilities, or access to additional capital or access to government financial support or as to when production operations will return to previous production rates. There is also no assurance that governments will provide 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” initiative 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 issues 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, NFI’s management in preparing the financial guidance and targets and the Company’s ability to successfully execute the “NFI Forward” initiative 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 - 2022 First Quarter 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.

NFI's end markets continued to show strong signs of recovery in the first quarter of 2022. Active bids increased significantly during the first half of 2020, followed by large declines in the second half of 2020 as a result of the pandemic delaying orders in core markets. The Company's active bids rebounded significantly in 2021, reaching 6,901 EUs in 2021 Q3, the highest levels seen since 2017 Q2. Active bids were essentially flat from 2021 Q3 to 2021 Q4 as vehicle awards were replaced by new bids, and active bids decreased by 18.7% from 2021 Q4 to 2022 Q1 as there were significant new awards in the period. Year-over-year, active bids are up 21.3%. Management expects active bids will continue to remain high throughout 2022 as markets recover from the COVID-19 pandemic and new government funding begins to reach transit agencies. In 2021 Q3, the Company submitted its highest number of bids since 2017 Q2, for 6,307 EUs; in 2022 Q1, bids submitted remained high, at 4,757 EUs, a year-over-year increase of 55.8%.

The forecasted five-year North American industry procurement has started to rebound from the lows of the first half of 2021. Year-over-year, this metric increased by 12.8%, or 2,984 EUs. NFI expects that the forecasted five-year North American industry procurement will continue to increase as transit agencies start to formalize their short- and long-term procurement plans as they recover from the COVID-19 pandemic, and as they investigate and are able to access the multi-billion funding programs announced and/or launched by governments in Canada and the U.S.

As at 2022 Q1, 11,190 units, or 42.5%, of the Total Bid Universe is ZEBs, an increase of 74.2% 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)
2021 Q1	1,532	3,053	4,585	18,802	23,387
2021 Q2	3,590	3,215	6,805	18,211	25,016
2021 Q3	594	6,307	6,901	19,954	26,855
2021 Q4	1,783	5,062	6,845	19,468	26,313
2022 Q1	**805**	**4,757**	**5,562**	**20,809**	**26,371**

(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 ADL U.S. and Canadian sales.

Procurement of heavy-duty transit buses and motor coaches by the U.S. and Canadian public sector is typically accomplished through formal multi-year contracts 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 therefore is not included in the Bid Universe metric.

ADL does not currently have a Bid Universe metric for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe. Management does not believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2019, and was expected to increase in 2020 after that period of decline. The UK market 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 Q1, supply chain challenges have continued to disrupt the market. Going forward, management expects stronger recovery based on customers' fleet recovery plans, a government focus on the green recovery, and an aging UK vehicle fleet. ADL continues to grow in Europe with multi-year contracts in Ireland and Germany. The European market is highly fragmented with numerous players providing niche opportunities for ADL 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 ADL remains the leader in double-deck buses and retains deep customer relationships in Hong Kong. Management continues to expect the market to see stable annual deliveries and a slow recovery through 2022. New Zealand and Singapore remain highly cyclical markets with more predictable purchasing expectations based on vehicle age; both markets saw increased activity in 2017, 2018 and 2019, but were impacted by the COVID-19 pandemic in 2020 and 2021. Recovery in 2022 is expected to be driven by market demand for double-deck buses to Singapore, and demand for zero-emission buses in New Zealand.

Order activity

New orders (firm and options) during 2022 Q1 totaled 1,407 EUs, an increase of 16.1% from 2021 Q1. 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. The new firm and option orders awarded to the Company for LTM 2022 Q1 were 4,919 EUs, an increase of 45.3% from LTM 2021 Q1. The Company was successful at converting 218 EUs of options to firm orders during 2022 Q1, a decrease from the 277 EUs converted in each of 2021 Q4 and 2021 Q4; option conversions tend to vary quarter-to-quarter. These 218 EUs of option conversions contributed to the 1,051 EUs converted to firm orders during LTM 2022 Q1.

In 2022 Q1, NFI received orders for 222 EUs of battery-electric, zero-emission vehicles, a decrease of 251 EUs from 2021 Q4; these 222 EUs of ZEBs equates to 15.8% of all new firm and option orders for the quarter.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2021 Q1	1,212	3,385	277	1,091
2021 Q2	1,120	6,486	402	1,476
2021 Q3	785	5,637	154	1,071
2021 Q4	1,607	4,724	277	1,110
2022 Q1	**1,407**	**4,919**	**218**	**1,051**

Options

In 2022 Q1, 284 options expired, compared to 117 options that expired in 2021 Q4, and 108 options that expired in 2021 Q1. Some agencies have been letting a portion of their 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.

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.

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
A) Options Expired (EUs)	550	331	741	512	1,202	819	284					4,439
B) Options Exercised (EUs)	2,064	1,404	1,795	1,518	953	1,110	218					9,062
C) Current Options by year of expiry (EUs)							1,927	428	258	600	1,638	4,851
D) Conversion rate % = B / (A+B)	**79 %**	**81 %**	**71 %**	**75 %**	**44 %**	**58 %**						

The Company's conversion rate can vary significantly from quarter-to-quarter and should be looked at on an annual or LTM basis. Option expirations in 2020 and 2021, and into 2022 Q1, were primarily a result of agencies allowing a portion of their options from older contracts awarded in 2016 and 2017 to expire as they re-evaluate their longer-term fleet planning decisions with an increased focus on the procurement of ZEBs.

In addition to contracts for identified public customers, the Company has increased 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 20 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 850 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 2022 Q1 Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 164.4%, a 44.2% increase from 114.0% in 2021 Q1. This significant increase in Book-to-Bill was driven by a 16.1% increase in year-over-year orders combined with lower deliveries.

In addition, 1,192 EUs of new firm and option orders were pending from customers at the end of 2022 Q1, 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 is a significant jump, an increase of 238.6% from the 352 EUs of pending new firm and option orders as of the end of 2021 Q4, which illustrates the extremely high volume of sales activity in 2022 Q1 and the receipt of some major awards within NFI's North American business.

Backlog

The Company's total backlog consists of buses sold primarily to U.S. and Canadian public customers and private operators in the UK and Europe. The majority of the backlog relates to New Flyer transit buses for public clients with some of the backlog consisting of units from MCI, ADL and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as options 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 52.5% of the total backlog as of the end of 2022 Q1, up from 47.4% as of the end of 2021 Q4. As at the end of 2022 Q1, there were 1,496 ZEBs in the backlog, representing approximately 16.8% of the total backlog, flat with 2021 Q4.

	2022 Q1			2021 Q4			2021 Q1		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	3,635	4,813	8,448	3,346	4,757	8,103	3,240	5,264	8,504
New orders	867	540	1,407	1,157	450	1,607	812	400	1,212
Options exercised	218	(218)	—	277	(277)	—	277	(277)	—
Shipments[1]	(660)	—	(660)	(1,087)	—	(1,087)	(955)	—	(955)
Cancelled/expired	(3)	(284)	(287)	(58)	(117)	(175)	(67)	(108)	(175)
End of period	**4,057**	**4,851**	**8,908**	**3,635**	**4,813**	**8,448**	**3,307**	**5,279**	**8,586**
Consisting of:									
Heavy-duty transit buses	3,018	4,577	7,595	2,726	4,515	7,241	2,471	4,767	7,238
Motor coaches	364	274	638	373	298	671	503	512	1,015
Cutaway and medium-duty buses	675	—	675	536	—	536	333	—	333
Total Backlog	**4,057**	**4,851**	**8,908**	**3,635**	**4,813**	**8,448**	**3,307**	**5,279**	**8,586**

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

At the end of 2022 Q1, the Company's total backlog (firm and options) of 8,908 EUs (valued at $4.9 billion), increased compared to 8,448 EUs (valued at $4.5 billion) at the end of 2021 Q4. The increase was driven by new awards within North American and UK transit operations, offset by higher deliveries. The summary of the values is provided below.

	2022 Q1		2021 Q4		2021 Q1	
		Equivalent Units		Equivalent Units		Equivalent Units
Total firm orders	$ 2,209.3	4,057	$ 1,981.1	3,635	$ 1,714.4	3,307
Total options	2,735.3	4,851	2,553.2	4,813	2,640.4	5,279
Total backlog	**$ 4,944.6**	**8,908**	**$ 4,534.3**	**8,448**	**$ 4,354.8**	**8,586**

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

April 3, 2022

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

13-weeks ended April 3, 2022 ("2022 Q1") and 13-weeks ended March 28, 2021 ("2021 Q1")

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

	2022 Q1	2021 Q1
Revenue (note 15)	$ 459,330	$ 574,119
Cost of sales (note 4)	441,299	488,285
Gross profit	18,031	85,834
Sales, general and administration costs and other operating expenses	59,728	57,268
Foreign exchange gain	66	1,650
(Loss) earnings from operations	(41,763)	26,916
Gain on disposition of property, plant and equipment	373	355
Unrealized foreign exchange loss on monetary items	(4,767)	(2,529)
(Loss) earnings before interest and income taxes	(46,157)	24,742
Interest and finance costs		
Interest on long-term debt	10,354	12,823
Interest on convertible debt	3,414	—
Accretion in carrying value of long-term debt (note 9)	358	1,117
Accretion in carrying value of convertible debt and cash conversion option (note 10)	1,884	—
Interest expense on lease liability	1,486	1,680
Other interest and bank charges	1,038	2,175
Fair market value gain on interest rate swap	(22,512)	(7,672)
Fair market value gain on cash conversion option	(5,366)	—
	(9,344)	10,123
(Loss) earnings before income tax expense	(36,813)	14,619
Income tax (recovery) expense (note 8)	(8,745)	7,586
Net (loss) income for the period	$ (28,068)	$ 7,033
Other comprehensive (loss) income		
Actuarial gain on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	15,243	12,983
Unrealized foreign exchange (loss) gain on translation of foreign operations - this item will not be reclassified subsequently to profit or loss	(5,663)	5,150
Total comprehensive (loss) income for the period	(18,488)	25,166
Net (loss) income per share (basic) (note 12)	$ (0.36)	$ 0.11
Net (loss) income per share (diluted) (note 12)	$ (0.36)	$ 0.11

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 April 3, 2022
(in thousands of U.S. dollars)

	April 3, 2022	January 2, 2022
Assets		
Current		
Cash	$ 26,604	$ 77,318
Accounts receivable (note 3, 14c)	398,193	396,535
Inventories (note 4)	637,974	567,698
Income tax receivable	24,903	21,396
Derivative financial instruments (note 14 a,b)	862	442
Prepaid expenses and deposits	15,785	7,549
	1,104,321	1,070,938
Property, plant and equipment	214,735	221,338
Right-of-use asset	117,404	121,761
Derivative financial instruments (note 14 a,b)	12,604	—
Goodwill and intangible assets	1,128,857	1,144,963
Accrued benefit asset	12,710	4,116
Other long-term assets (note 5)	30,843	36,504
	$ 2,621,474	$ 2,599,620
Liabilities		
Current		
Bank indebtedness	$ 1,233	$ —
Accounts payable and accrued liabilities	434,392	458,864
Income tax payable	1,804	1,104
Derivative financial instruments (note 14 a,b)	2,766	1,799
Current portion of long-term liabilities (note 6)	142,090	142,860
	582,285	604,627
Accrued benefit liability	3,739	11,211
Obligations under leases	117,740	120,414
Deferred compensation obligation	2,377	2,769
Deferred revenue	20,285	19,818
Provisions (note 7)	65,219	63,498
Deferred tax liabilities	56,331	62,806
Derivative financial instruments (note 10, 14 a,b)	15,506	30,526
Long-term debt (note 9)	677,996	586,411
Convertible debentures (note 10)	229,673	225,768
	$ 1,771,151	$ 1,727,848
Commitments and contingencies (note 16)		
Shareholders' equity		
Share capital (note 11)	988,012	987,943
Stock option and restricted share unit reserve	10,345	10,105
Accumulated other comprehensive income (loss)	15,501	5,921
Deficit	(163,535)	(132,197)
	$ 850,323	$ 871,772
	$ 2,621,474	$ 2,599,620

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 April 3, 2022

(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, December 27, 2020	**$ 681,405**	**$ 8,400**	**$ (1,113)**	**$ (68,551)**	**$ 620,141**
Net earnings	—	—	—	7,033	7,033
Other comprehensive income	—	—	18,134	—	18,134
Dividends declared on common shares	—	—	—	(11,994)	(11,994)
Equity Transaction Cost	(8,228)	—	—	—	(8,228)
Share-based compensation, net of deferred income taxes	—	707	—	—	707
Shares issued	198,922	(72)	—	—	198,850
Balance, March 28, 2021	**$ 872,099**	**$ 9,035**	**$ 17,021**	**$ (73,512)**	**$ 824,643**
Net loss	—	—	—	(21,517)	(21,517)
Other comprehensive income	—	—	(11,100)	—	(11,100)
Dividends declared on common shares	—	—	—	(37,168)	(37,168)
Equity Transaction Cost	(1,920)	—	—	—	(1,920)
Share-based compensation, net of deferred income taxes	—	1,484	—	—	1,484
Shares issued	117,764	(414)	—	—	117,350
Balance, January 2, 2022	**$ 987,943**	**$ 10,105**	**$ 5,921**	**$ (132,197)**	**$ 871,772**
Net loss	—	—	—	(28,068)	(28,068)
Other comprehensive income	—	—	9,580	—	9,580
Dividends declared on common shares	—	—	—	(3,270)	(3,270)
Equity transaction cost	(2)	—	—	—	(2)
Share-based compensation, net of deferred income taxes	—	311	—	—	311
Shares issued	71	(71)	—	—	—
Balance, April 3, 2022	**$ 988,012**	**$ 10,345**	**$ 15,501**	**$ (163,535)**	**$ 850,323**

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

13-weeks ended April 3, 2022 ("2022 Q1") and 13-weeks ended March 28, 2021 ("2021 Q1")

(in thousands of U.S. dollars)

	2022 Q1	2021 Q1
Operating activities		
Net (loss) earnings for the period	$ (28,068)	$ 7,033
Income tax (recovery) expense	(8,745)	7,586
Depreciation of plant and equipment	15,212	16,364
Amortization of intangible assets	8,139	8,200
Share-based compensation	285	650
Interest and finance costs recognized in profit or loss	(3,978)	10,123
Fair value adjustment for total return swap	952	(438)
Unrealized foreign exchange loss on monetary items	4,768	2,529
Foreign exchange (gain) loss on cash held in foreign currency	(564)	33
Gain on fair value adjustment for cash conversion option	(5,366)	—
Gain on disposition of property, plant and equipment	(373)	(355)
Impairment loss on right-of-use asset	—	1,792
Defined benefit expense	808	1,875
Defined benefit funding	(1,035)	(1,049)
Cash (used in) generated by operating activities before non-cash working capital items and interest and income taxes paid	(17,965)	54,343
Changes in non-cash working capital items (note 13)	(101,209)	(114,223)
Cash used in operating activities before interest and income taxes paid	(119,174)	(59,880)
Interest paid	(14,538)	(18,654)
Income taxes paid	884	(9,131)
Net cash used in operating activities	(132,828)	(87,665)
Financing activities		
Repayment of obligations under lease	(4,842)	(7,045)
Proceeds from (repayment of) revolving credit facilities	89,457	(114,412)
Share issuance	(2)	198,850
Equity transaction cost	—	(8,228)
Proceeds from short-term debt	1,233	—
Dividends paid	(3,270)	(10,325)
Net cash generated by financing activities	82,576	58,840
Investing activities		
Acquisition of intangible assets	(1,315)	—
Proceeds from disposition of property, plant and equipment	1,085	2,314
Investment in long-term restricted deposits	5,412	(463)
Acquisition of property, plant and equipment	(6,208)	(5,699)
Net cash used in investing activities	(1,026)	(3,848)
Effect of foreign exchange rate on cash	564	(33)
Decrease in cash	(50,714)	(32,706)
Cash — beginning of period	77,318	55,769
Cash — end of period	$ 26,604	$ 23,063

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

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

1. CORPORATE INFORMATION

NFI Group Inc. ("NFI" or the "Company") was incorporated on June 16, 2005 as New Flyer Industries Inc. under the laws of the Province of Ontario. The name of the Company was changed to "NFI Group Inc." on May 14, 2018 to better reflect the multi-platform nature of the Company's business. NFI is a leading independent global bus manufacturer providing a comprehensive suite of mass transportation solutions under brands: New Flyer® (heavy-duty transit buses), Alexander Dennis Limited (single and double-deck buses), Plaxton (motor coaches), MCI® (motor coaches), ARBOC® (low-floor cutaway and medium-duty buses) and NFI Parts™ (aftermarket parts sales). The Company's common shares (the "Shares") are listed on the Toronto Stock Exchange ("TSX") under the symbol "NFI". 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 May 4, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

2.3 Principles of consolidation

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

<u>Subsidiaries</u>

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.

2.4 Fiscal Periods

	Period from January 3, 2022 to January 1, 2023 ("Fiscal 2022")			Period from December 28, 2020 to January 2, 2022 ("Fiscal 2021")		
	Period End Date		# of Calendar Weeks	Period End Date		# of Calendar Weeks
Quarter 1	April 3, 2022	("2022 Q1")	13	March 28, 2021	("2021 Q1")	13
Quarter 2	July 3, 2022	("2022 Q2")	13	June 27, 2021	("2021 Q2")	13
Quarter 3	October 2, 2022	("2022 Q3")	13	September 26, 2021	("2021 Q3")	13
Quarter 4	January 1, 2023	("2022 Q4")	13	January 2, 2022	("2021 Q4")	14
Fiscal year	January 1, 2023		52	January 2, 2022		53

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 income (loss).

3. ACCOUNTS RECEIVABLE

		April 3, 2022		January 2, 2022
Trade, net of allowance for doubtful accounts (note 14c)	$	369,741	$	368,548
Other		28,452		27,987
	$	398,193	$	396,535

In the normal course of its business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible receivables to such financial institutions. As at April 3, 2022 trade receivables of $1.6 million were derecognized under these facilities. Accounts receivable are derecognized under this arrangement as financial assets when the rights to receive cash flows have been transferred and substantially all of the risks and rewards of the asset have been transferred.

4. INVENTORIES

		April 3, 2022		January 2, 2022
Raw materials	$	291,174	$	281,826
Work in process		298,231		246,364
Finished goods		48,569		39,508
	$	637,974	$	567,698

		2022 Q1		2021 Q1
Cost of inventories recognized as expense and included in cost of sales	$	396,853	$	463,324
Write-down of inventory to net realizable value in cost of sales		3,186		942

5. OTHER LONG-TERM ASSETS

		April 3, 2022		January 2, 2022
Long-term restricted deposit (note 16c)	$	25,300	$	30,712
Long-term accounts receivable		5,543		5,792
	$	30,843	$	36,504

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

6. CURRENT PORTION OF LONG TERM LIABILITIES

		April 3, 2022		January 2, 2022
Deferred revenue	$	105,562	$	98,408
Provisions (note 7)		14,860		20,151
Deferred compensation obligation		278		1,040
Obligations under leases		21,390		23,261
	$	142,090	$	142,860

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

7. PROVISIONS

The Company's insurance risk retention provision is based on insurance risk which the Company has chosen not to mitigate 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).

The Company generally provides its customers with a base warranty on the entire transit bus or motor coach, a corrosion warranty on the related structure and a defect warranty on batteries.

The movements in the provisions are as follows:

	Insurance Risk Retention	Restructuring	Warranty	Total
December 27, 2020	$ 23,179	3,706	$ 57,928	84,813
Additions	7,785	3,114	44,837	55,736
Amounts used/realized	(4,745)	(3,695)	(46,975)	(55,415)
Unused provision	(974)	(654)	—	(1,628)
Unwinding of discount and effect of changes in the discount rate	—	—	39	39
Exchange rate differences	(2)	14	92	104
January 2, 2022	$ 25,243	2,485	$ 55,921	$ 83,649
Additions	1,801	—	8,948	10,749
Amounts used/realized	(1,433)	(1,643)	(10,766)	(13,842)
Unused provision	—	—	—	—
Unwinding of discount and effect of changes in the discount rate	—	—	3	3
Exchange rate differences	—	—	(480)	(480)
	25,611	842	53,626	80,079
Less current portion (note 6)	—	842	14,018	14,860
April 3, 2022	$ 25,611	$ —	$ 39,608	$ 65,219

8. INCOME TAX EXPENSE

The income tax recovery for 2022 Q1 was $8.7 million compared to income tax expense of $7.6 million in 2021 Q1.

The Effective Tax Rate ("ETR") for 2022 Q1 was 23.8% and the ETR for 2021 Q1 was 51.9%. The 2021 Q1 ETR was negatively impacted by the base erosion and anti-abuse tax ("BEAT"), and a write-off of unapplied foreign tax credits. Due to reduced earnings before tax 2022 Q1 ETR was not impacted by BEAT and the foreign tax credit write-off.

9. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value April 3, 2022**	Net Book Value January 2, 2022
Revolving Credit Facility, Secured (“Credit Facility”)	680,000	1,859	678,141	586,649
Revolving Credit Facility, Secured ("UK Facility")	146	291	(145)	(238)
	680,146	2,150	677,996	586,411

The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. $11.8 million of outstanding letters-of-credit were drawn against the Credit Facility at April 3, 2022. 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.

9. LONG-TERM DEBT (Continued)

On May 4, 2020 NFI entered into the £50 million secured, revolving UK Facility to support ADL'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 December 23, 2023.

On December 2, 2021, the Company amended the Credit Facility and the UK Facility (together the "amended facilities"). The amended facilities provide the Company with certain relaxed financial covenants as it recovers from the impacts of the COVID-19 pandemic.

10. 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 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 April 3, 2022**	Net Book Value January 2, 2022
Convertible Debt	238,456	8,783	229,673	225,768
Cash Conversion Option	16,766	1,260	15,506	20,618
	255,222	10,043	245,179	246,386

11. SHARE CAPITAL

	April 3, 2022	January 2, 2022
Authorized - Unlimited		
Issued - 77,135,154 Common Shares (January 2, 2022: 77,130,747)	$ 988,012	$ 987,943

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 2, 2022	77,131	$ 987,943
Restricted share units exercised	4	69
Balance - April 3, 2022	77,135	$ 988,012

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

12. (LOSS) EARNINGS PER SHARE

	2022 Q1	2021 Q1
Net (loss) earnings attributable to equity holders	$ (28,068)	$ 7,033
Weighted average number of Shares in issue	77,135,057	65,036,019
Add: net incremental Shares from assumed conversion of stock options, exercise of restricted share units and Share issuance	—	253,681
Weighted average number of Shares for diluted earnings per Share	77,135,057	65,289,700
Net (loss) earnings per Share (basic)	$ (0.3639)	$ 0.1081
Net (loss) earnings per Share (diluted)	$ (0.3639)	$ 0.1077

Basic (loss) earnings 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) earnings 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 restricted share units ("RSUs") granted by the Company, as determined by the treasury stock method.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2022 Q1	2021 Q1
Accounts receivable	$ (1,111)	$ 484
Income tax receivable	(1,778)	—
Inventories	(68,319)	12,469
Prepaid expenses and deposits	(7,637)	(2,189)
Accounts payable and accrued liabilities	(23,072)	(106,440)
Income tax payable	700	—
Deferred revenue	7,621	(16,175)
Provisions	(3,570)	(2,814)
Other	(4,043)	442
	$ (101,209)	$ (114,223)

14. 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.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	April 3, 2022		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 26,604	$ 26,604
Long-term restricted deposit	Level 1	$ 25,300	$ 25,300
Foreign exchange forward contracts	Level 2	$ 862	$ 862
Derivative financial instrument assets - current		$ 862	$ 862
Interest Rate Swap	Level 2	$ 12,604	$ 12,604
Derivative financial instrument asset - long term		$ 12,604	$ 12,604
Financial liabilities recorded at fair value			
Bank Indebtedness	Level 1	$ 1,233	$ 1,233
Total return swap contracts	Level 2	$ 2,766	$ 2,766
Derivative financial instrument liabilities - current		$ 3,999	$ 3,999
Cash Conversion Option	Level 2	$ 15,506	$ 15,506
Derivative financial instrument liabilities - long term		$ 15,506	$ 15,506

	January 2, 2022		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 77,318	$ 77,318
Long-term restricted deposit	Level 1	$ 30,712	$ 30,712
Foreign exchange forward contracts	Level 2	$ 442	$ 442
Derivative financial instrument assets - current		$ 442	$ 442
Financial liabilities recorded at fair value			
Total return swap contracts	Level 2	$ 1,799	$ 1,799
Derivative financial instrument liabilities - current		$ 1,799	$ 1,799
Interest rate swap	Level 2	$ 30,526	$ 30,526
Cash Conversion Option	Level 2	$ 20,618	$ 20,618
Derivative financial instrument liabilities - long term		$ 51,144	$ 51,144

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Risk Management

The Company entered into a total return swap transaction to hedge the exposure associated with increases in value of its Shares on a portion of the outstanding performance share units ("PSUs"), RSUs and deferred share units ("DSUs"). The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at April 3, 2022, the Company held a position of 256,676 Shares at a weighted average price of C$29.04. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

At April 3, 2022, the Company had $152.1 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 April 2022 to July 2022. The related asset of $0.8 million (January 2, 2022: $0.4 million) 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 consolidated statements of net (loss) income and total comprehensive (loss) income.

(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 April 3, 2022 the Company had a cash balance of $26.6 million (January 2, 2020: $77.3 million), $1.2 million bank indebtedness, $680.0 million under the Credit Facility due in 2024 (January 2, 2022: $588.8 million), $0.1 million under the UK Facility (January 2, 2022: $nil), and $11.8 million of outstanding letters of credit (January 2,2022: $11.8 million). In addition, there are $65.1 million of the letters of credit outstanding outside of the Credit Facility. The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. The UK Facility has a total borrowing limit of £50.0 million. The liquidity position as at April 3, 2022 is $649.0 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 credit facilities. Management is currently in detailed discussions with its banking partners to obtain covenant relief extending into the first half of 2023. Management believes that, with the anticipated covenant relief, these sources of funds together with access to equity and debt markets and other borrowings will provide NFI with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as to provide for its financing requirements, capital expenditures and other needs for the foreseeable future.

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at April 3, 2022:

US dollars in thousands	Total	2022	2023	2024	2025	2026	Post 2026
Leases	220,624	20,895	24,168	19,059	14,918	12,218	129,366
Accrued benefit liability	5,673	5,673	—	—	—	—	—
	$ 226,297	$ 26,568	$ 24,168	$ 19,059	$ 14,918	$ 12,218	$ 129,366

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.

	April 3, 2022	January 2, 2022
Current, including holdbacks	$ 374,218	$ 375,056
Past due amounts but not impaired		
1 – 60 days	18,926	15,857
Greater than 60 days	5,269	5,892
Less: Allowance for doubtful accounts	(220)	(270)
Total accounts receivables, net	$ 398,193	$ 396,535

As at April 3, 2022, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

On December 2, 2021, the Company amended the Credit Facility and the UK Facility (together the "amended facilities"). The amended facilities provide the Company with certain relaxed financial covenants as it recovers from the impacts of the COVID-19 pandemic.

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2022 and 2023 have been relaxed, furthermore, the total net debt to capital ratio will no longer be required starting in the third quarter of 2022. During the quarter, the Company received consent from its lenders to waive compliance with the Interest Coverage Ratio until May 31, 2022. As the Company is currently in detailed discussions with its lenders on potential covenant amendments under its credit facilities, it is seeking a further consent from the lenders to waive compliance with the Interest Coverage Ratio for the period ending June 1, 2022 to July 3, 2022.

In 2022, the Company is required to maintain a total leverage and interest coverage ratios as follows:

	Total Leverage Ratio	Interest Coverage Ratio
January 3, 2022 - May 31, 2022	N/A	N/A
June 1, 2022 - July 3, 2022	N/A	>1.50
July 4, 2022 - October 2, 2022	<6.25	>1.50
October 3, 2022 - January 1, 2023	<5.25	>2.00
January 2, 2023 - April 2, 2023	<4.00	>2.50
April 3, 2023 and thereafter	<3.75	>3.00

The calculation of the financial covenants at April 3, 2022 are provided below. As at April 3, 2022, the Company was in compliance with the requirements under the amended facilities.

	April 3, 2022	January 2, 2022
Total Leverage Ratio (2022: waived [2021: must be less than 5.25])	8.99	3.79
Interest Coverage Ratio (2022: waived [2021: must be greater than 2.00])	1.16	2.28
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2021: 0.70:1.00])	0.43	0.37

US dollars in thousands	**April 3, 2022**	January 2, 2022
Liquidity Position (must be greater than $50 million)	$ 648,968	$ 794,332

Due to the ongoing uncertainty created by continuing supply chain disruptions, including near-term module shortages, and related inflationary pressures, and the impact of a fire disrupting the Company's battery supplier, the Company expects its ability to comply with certain financial covenants in Fiscal 2022 to be challenged (including the interest coverage ratio in the near term and the total leverage covenant beginning in the second half of 2022). Management is currently in detailed discussions with its banking partners to obtain covenant relief for Fiscal 2023.

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.

15. 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 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.

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

The Manufacturing Operations segment has recorded vendor rebates of $266 (Q1 2021: $777), which have been recognized into earnings during 2022, 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:

	2022 Q1			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 326,635	$ 132,695	—	$ 459,330
Operating costs and expenses	381,769	114,092	282	496,143
(Loss) earnings before income tax expense	(55,134)	18,603	(282)	(36,813)
Total assets	1,877,533	476,865	267,076	2,621,474
Addition of capital expenditures	6,208	—	—	6,208
Addition of goodwill and intangibles assets	1,315	—	—	1,315
Indefinite-life intangible assets	246,949	18,763	—	265,712
Goodwill	333,681	190,570	—	524,251

	2021 Q1			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 459,196	$ 114,923	—	574,119
Operating costs and expenses	443,199	96,584	19,717	559,500
Earnings (loss) before income tax expense	15,997	18,339	(19,717)	14,619
Total assets	1,934,448	500,411	264,791	2,699,650
Addition of capital expenditures	5,518	181	—	5,699
Indefinite-life intangible assets	248,934	19,080	—	268,014
Goodwill	341,738	189,391	—	531,129

The Company's revenue by geography is summarized below:

	2022 Q1	**2021 Q1**
North America	$ 334,034	$ 471,740
UK and Europe	114,697	84,123
Asia Pacific	10,599	18,256
Other	—	—
Total	$ 459,330	$ 574,119

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

15. SEGMENT INFORMATION (Continued)

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

	2022 Q1	2021 Q1
Transit buses	$ 264,714	$ 358,749
Motor coaches	50,789	73,888
Medium-duty and cutaway buses	7,945	11,202
Pre-owned coach	772	10,036
Infrastructure solutions	611	3,897
Fiberglass reinforced polymer components	1,804	1,424
Manufacturing revenue	$ 326,635	$ 459,196

16. COMMITMENTS AND CONTINGENCIES

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

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at April 3, 2022 range from April 2022 to December 2026.

At April 3, 2022, outstanding surety bonds guaranteed by the Company totaled $342.9 million (January 2, 2022: $375.9 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 2, 2022: $100.0 million). As at April 3, 2022, letters of credit totaling $11.8 million (January 2, 2022: $11.8 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of £50.0 million as part of the UK Facility. As at April 3, 2022, letters of credit totaling $39.7 million were outstanding under the bi-lateral credit facility (January 2, 2022: $40.6 million). Additionally, there are $25.3 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

As at April 3, 2022, 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.

(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 April 3, 2022, the Company had guaranteed $3.1 million of these arrangement. 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.

17. GOVERNMENT GRANTS

On March 27, 2020, the Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of wages paid to employees during the COVID-19 pandemic. As of October 2021, the Company is no longer eligible for the CEWS program.

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

17. GOVERNMENT GRANTS (Continued)

On March 26, 2020, the Coronavirus Job Retention Scheme ("CJRS") program was introduced by the Government of the United Kingdom, reimbursing employers who have been unable to maintain their workforce as a result of COVID-19's impact on operations for a portion of wages paid to furloughed employees. The CJRS program ended on September 30, 2021.

In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CEWS and CJRS has been recognized as an offset to wage expense against 'Cost of Sales' and against 'Selling, General and Administration Costs and Other Operating Expenses' on the Company's consolidated statement of net (loss) income and total comprehensive (loss) income.

On September 27, 2020, the Canada Emergency Rent Subsidy ("CERS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of their commercial rent or property expenses during the COVID-19 pandemic. The CERS program ended on October 23, 2021.

In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CERS has been recognized as an offset to rent and property expense against 'Selling, General and Administration Costs and Other Operating Expenses' on the Company's unaudited interim condensed consolidated statement of net loss and total comprehensive loss.

The claims submitted or expected to be submitted under the CEWS, CJRS and CERS programs are included on the Company's unaudited interim condensed consolidated statement of net (loss) income and total comprehensive (loss) income as follows:

	2022 Q1	**2021 Q1**
Canada Emergency Wage Subsidy (CEWS)		
Cost of sales	—	16,400
Selling, general and administration costs and other operating expenses	—	2,300
Total	—	18,700
Coronavirus Job Retention Scheme (CJRS)		
Cost of sales	—	3,000
Selling, general and administration costs and other operating expenses	—	100
Total	—	3,100
Canada Emergency Rent Subsidy (CERS)		
Selling, general and administration costs and other operating expenses	—	—
Total	—	—
Total government grants - cost of sales	—	19,400
Total government grants - selling, general and administration costs and other operating expenses	—	2,400
Total government grants	—	21,800

The government grants included in 'Accounts Receivable' on the Company's consolidated statement of financial position are as follows:

	April 3, 2022	January 2, 2022
Canada Emergency Wage Subsidy (CEWS)	—	1,183
Coronavirus Job Retention Scheme (CJRS)	—	—
Canada Emergency Rent Subsidy (CERS)	—	53
Total	—	1,236

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

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. The items included in net loss for NFI Forward are as follows:

	2022 Q1	2021 Q1
Employee termination benefits	$ 31	$ 389
Right-of-use asset impairments	—	1,661
Write-down of inventory to net realizable value	—	208
Other	52	114
Total restructuring costs	$ 83	$ 2,372