NFI

Financial Results
Second Quarter 2021

August 3, 2021

NOTES TO READERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED JUNE 27, 2021

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's unaudited interim condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week and 26-week periods ended June 27, 2021. 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 December 28, 2020 to January 2, 2022 ("Fiscal 2021")				**Period from December 30, 2019 to December 27, 2020 ("Fiscal 2020")**			
	Period End Date		# of Calendar Weeks		Period End Date		# of Calendar Weeks
Quarter 1	March 28, 2021	("2021 Q1")	13	Quarter 1	March 29, 2020	("2020 Q1")	13
Quarter 2	June 27, 2021	("2021 Q2")	13	Quarter 2	June 28, 2020	("2020 Q2")	13
Quarter 3	September 26, 2021	("2021 Q3")	13	Quarter 3	September 27, 2020	("2020 Q3")	13
Quarter 4	January 2, 2022	("2021 Q4")	14	Quarter 4	December 27, 2020	("2020 Q4")	13
Fiscal year	January 2, 2022		53	Fiscal year	December 27, 2020		52

Specific references and definitions are used throughout this MD&A, please see "Meaning of Certain References" and "Definitions of Adjusted EBITDA, Return-on-Invested-Capital ("ROIC"), Free Cash Flow, Adjusted Net Earnings (Loss), Adjusted Earnings (Loss) per Share, Working Capital Days and Regions including: North America, UK and Europe, Asia Pacific, and Other" in Appendix A. References to LTM mean last-twelve months ("LTM"). Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss), Adjusted Earnings (Loss) per Share and Working Capital Days are non-IFRS measures and should not be considered substitutes or alternatives for IFRS measures. These are not defined terms under IFRS and do not have standard meanings, so may not be a reliable way to compare NFI to other companies. See the heading entitled: "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss), Adjusted Earnings (Loss) Per Share, Working Capital Days, regions including: North America, UK and Europe, Asia Pacific, and Other" in Appendix A for information about these measures, including how they are calculated and the way in which they are used.

NOTES TO READERS

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

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

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

Photo credit to Danny Chan.

NFI

is leading the evolution to global zero-emission mobility

NEW FLYER

North American Market Leader in Heavy-Duty Transit Buses and Infrastructure Solutions

MCI

North American Market Leader in Motor Coaches

ALEXANDER DENNIS

PLAXTON

World Leader in Double Deck Buses; UK Market Leader in Bus and Coach

ARBOC SPECIALTY VEHICLES

North American Market Leader in Low-Floor Cutaway and Medium-Duty Shuttle Buses

nfi.parts

North American Market Leader for Bus and Motor Coach Parts Distribution

Leading the ZEvolution.™

NFI is leading zero-emission electric mobility


40+ million
Electric service miles driven

1,548
Zero-Emission Buses (“ZEBs”) delivered since 2015

83
ZEBs delivered in 2021 Q2 (8.4% of total deliveries);
177 YTD 2021

80+
Cities have NFI ZEBs in service or on order

5
Countries have NFI ZEBs in service or on order

1,311
ZEBs in backlog (16.1% of total backlog,)

200+
EV chargers installed via Infrastructure Solutions™

20% to 25%
of 2021 production is expected to be ZEBs

8,000
Annual ZEB production capacity

37.8%
of the Total Bid Universe is ZEBs
(up from 27.5% in 2021 Q1)

NFI Leading the ZEvolution.™

2021 Q2 Highlights (US$)

$582.8M
Revenue (record Aftermarket sales)

$51.9M
Adjusted EBITDA(1)

989
EUs delivered

$15.4M
Free Cash Flow (1)

1,120
EUs in New Orders

$12.6M
NFI Forward Adjusted EBITDA (1) savings

$0.04
Net Earnings per Share

$0.12
Adjusted Net Earnings per Share (1)

$389.3M
Liquidity

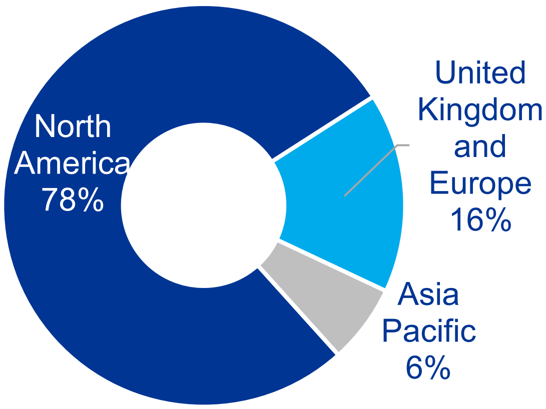
3,590
Bids in Process

8,168 EUs
In Backlog

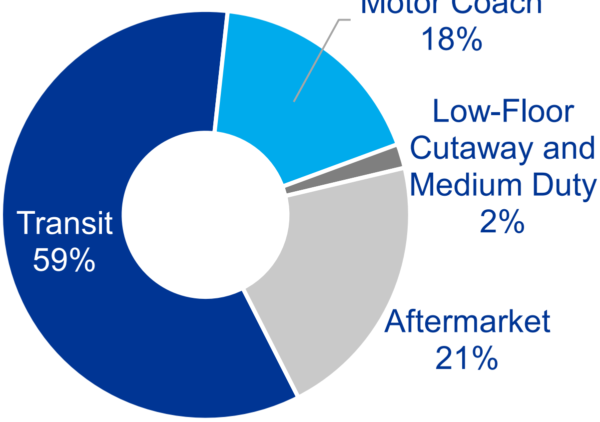
$4.3B
Value of Backlog

Footnote
(1) Non-IFRS Measure – See Appendix A

Revenue by Geography

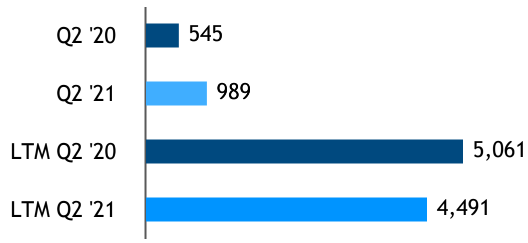


Revenue by Product

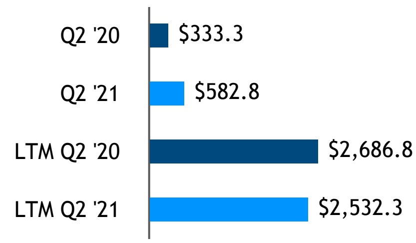


KEY PERFORMANCE INDICATORS

Deliveries (EUs)



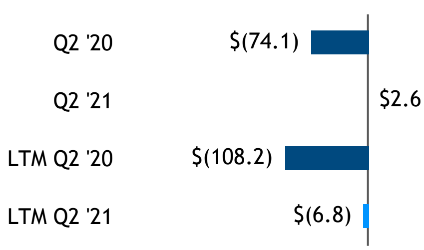
Revenue ($ millions)



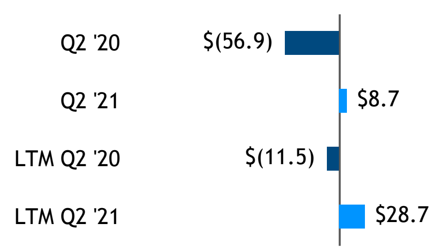
Deliveries increased by 444 units, or 81.5%, from 2020 Q2 to 2021 Q2. The increase was primarily driven by higher new vehicle deliveries as the Company had idled production for nearly two months in 2020 Q2 as a result of the COVID-10 pandemic. Pre-owned coach sales increased as the Company continued to recognize revenue for deliveries related to a 2020 Q4 contract to sell the majority of the Company's North American pre-owned coach fleet; the Company has now delivered the majority of the units associated with this contract. 2021 Q2 deliveries included 83 ZEBs, or 8.4% of total deliveries. LTM 2021 Q2 deliveries decreased from LTM 2020 Q2 due to the impacts that the ongoing COVID-19 pandemic had on production.

Total revenue increased by 74.9% from 2020 Q2 to 2021 Q2 as a result of the increase in vehicle deliveries from all product lines and record quarterly Aftermarket sales. Revenue growth was also driven by a greater number of ZEB deliveries, which have a higher selling price compared to units with traditional propulsion systems. Medium-duty and cutaway revenue increased due to both an increase in deliveries and a favorable product mix. With quarterly Aftermarket revenue of $123.5 million, the Company achieved 45.8% year-over-year growth. The increase was driven by record volumes in the Asia Pacific region and significant volume increases in North America, the UK and Europe. Quarterly Infrastructure Solutions revenue grew by 278.6%, on a year-over-year basis. The Company has completed ZEB charging infrastructure solutions projects in seven different cities in fiscal 2021 and currently has projects in progress in 20 additional cities.

Net earnings (loss) ($ millions)



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



Footnotes

1. Non-IFRS Measure - See Appendix A

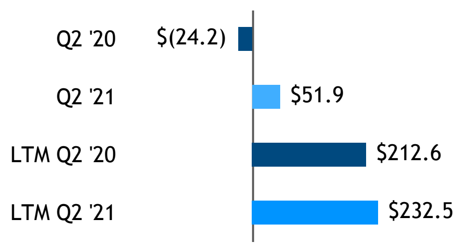
2021 Q2 net earnings of $2.6 million increased by $76.7 million from 2020 Q2 primarily due to the fact that production was idle for almost two months in the comparative period, and in addition extraordinary COVID-19 costs in 2021 Q2 were negligible as compared to almost $13 million in 2020 Q2. 2021 Q2 net earnings were positively impacted by an overall increase in sales volumes; $12.6 million in Adjusted EBITDA savings generated from the NFI Forward initiative; the receipt of Canadian Emergency Wage Subsidy ("CEWS"), Coronavirus Job Retention Scheme ("CJRS"), and Canada Emergency Rent Subsidy ("CERS") government grants of $18.0 million, to assist with the retention of skilled personnel; realized foreign exchange gains; and lower interest expense. These 2021 Q2 positive impacts were somewhat offset by higher income tax expense, and an unrealized foreign exchange loss.

The Company reported a net loss of $6.8 million for LTM 2021 Q2, as compared to a net loss of $108.2 million for LTM 2020 Q2. The year-over-year improvement was driven by lower non-recurring restructuring charges associated with the NFI Forward initiative, lower COVID-19 related costs, and lower interest expense offset by higher income tax expense. LTM 2020 Q2 included an impairment loss on goodwill, and a fair value adjustment related to the acquisition of ADL.

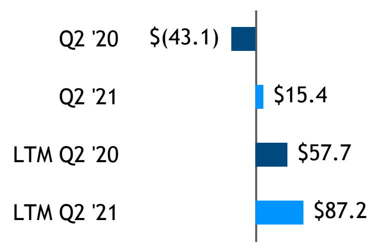
2021 Q2 Adjusted Net Earnings of $8.7 million improved by $65.6 million compared to 2020 Q2. The improvement in Adjusted Net Earnings was primarily driven by the same factors relating to net earnings adjusted for the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%.

LTM 2021 Q2 Adjusted Net Earnings of $28.7 million increased by $40.2 million from LTM 2020 Q2, as LTM 2020 Q2 included the idling of nearly all production facilities in 2020 Q2 which resulted in 2020 Q2 Adjusted Net Losses of $56.9 million.

Adjusted EBITDA[1] ($ millions)



Free Cash Flow[1] ($ millions)



Footnotes

1. Non-IFRS Measure - See Appendix A

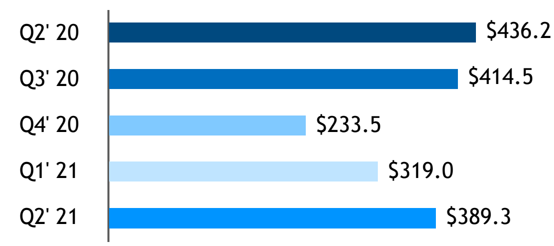
2021 Q2 Adjusted EBITDA of $51.9 million increased by $76.0 million from 2020 Q2, or 314.5%, driven by higher new vehicle deliveries, cost reductions associated with NFI Forward, record Aftermarket sales, and increased sales from the Company's Infrastructure Solutions division. In 2021 Q2, the transformational NFI Forward initiative realized Adjusted EBITDA savings of $12.6 million, and a further $0.8 million of Free Cash Flow savings related to interest expenses and leases.

On an LTM basis, Adjusted EBITDA increased by $19.9 million, or 9.4%, as NFI delivered more vehicles in LTM 2021 Q2 than LTM 2020 Q2, and from record 2021 Q2 Aftermarket sales combined with increased sales from the Company's Infrastructure Solutions division. Corporate Adjusted EBITDA increased by $9.6 million, primarily as a result of foreign exchange revaluation gains on current monetary balances. The quarter was also positively impacted by the receipt of government grants of $18.0 million, most of which was received to assist with the retention of skilled personnel.

Free Cash Flow in 2021 Q2 was $15.4 million, an increase of $58.5 million, or 135.7%, compared to 2020 Q2. Factors contributing to the year-over-year increase include the items that impacted Adjusted EBITDA, as well as lower cash interest expenses. In addition, Free Cash Flow increased due to realized NFI Forward cash savings of $13.4 million, which includes $12.6 million of Adjusted EBITDA savings and $0.8 million of additional Free Cash Flow savings. The increase in Free Cash Flow was offset by higher income taxes paid. On an LTM basis, Free Cash Flow increased by 51.1%, primarily driven by the idling of production facilities in the second quarter of 2020, which resulted in 2020 Q2 Free Cash Flow losses of $43.1 million.

Working Capital Days[1]

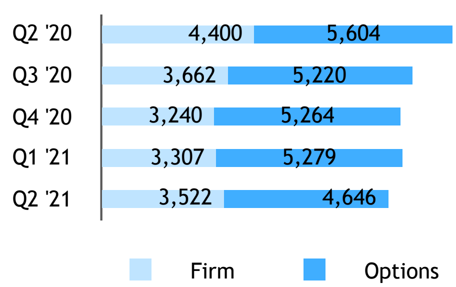
Total Liquidity ($ millions)



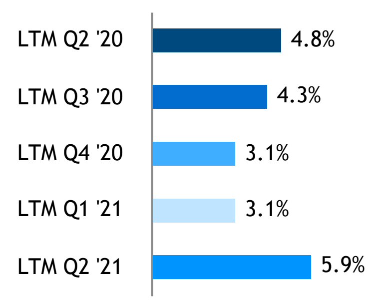
As part of the Company's increased focus on cash conversion and leverage reduction, NFI added a new external performance indicator, Working Capital Days (see definition in Appendix A), in 2021 Q1. In 2021 Q2, Working Capital Days were 62 compared to 68 at the end of 2021 Q1 and 61 for 2020 Q2. The Company is actively focused on continuing to reduce Working Capital Days, which is now included in key performance metrics for senior management. In 2021 Q2 as compared to 2021 Q1, NFI had lower accounts receivable balances due to the timing of customer receipts and higher accounts payable balances due to the timing of supplier payments and vehicle deliveries. This was somewhat offset by higher raw material inventory balances being carried due to supply chain challenges.

The Company's liquidity position, which combines cash on-hand plus available capacity under its credit facilities, was $389.3 million, as at June 27, 2021 up $70.3 million from 2021 Q1. NFI believes that its existing liquidity will allow it to pursue its operational and strategic goals, such as investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends. In addition, while the quarterly dividend payment was reduced effective 2020 Q1, the continued payment reflects the confidence of the Board of Directors (the "Board") in the Company's business while maintaining the financial flexibility required to operate during a period of continued uncertainty.

Backlog (EUs)



ROIC[1]



Footnotes

1. Non-IFRS Measure - See Appendix A

At the end of 2021 Q2, the Company's total backlog (firm and options) of 8,168 EUs (valued at $4.3 billion) has decreased slightly compared to 8,586 EUs (valued at $4.4 billion) at the end of 2021 Q1. The decrease was driven by deliveries in the quarter, cancellations, and delays in new awards within North American and UK transit operations. Backlog was also impacted by the expiry of 519 option EUs and the cancellation of 23 EUs. Nearly all of these expiries related to contracts awarded in 2016 that had not been executed within the standard five-year conversion period.

LTM 2021 Q2 ROIC increased by 1.1% from LTM 2020 Q2, due to the increase in Adjusted EBITDA and lower invested capital balances as the Company was carrying lower long-term debt balances in the second quarter of 2021.

2021 Q2 HIGHLIGHTS

In the second quarter of 2021, the majority of NFI's key performance metrics were positive compared to the same period in 2020 as the Company continued to recover from the continuing impacts of the COVID-19 pandemic. Nearly all of the increases in these metrics can be attributed to the fact that in 2020 Q2 NFI idled its production facilities for almost 2 months. In addition, NFI achieved record quarterly Aftermarket sales driven by Asia Pacific activity and North American, UK and Europe market recovery.

While there were strong signs of recovery across NFI's business and end markets during the second quarter, the pandemic continues to impact NFI's manufacturing segment primarily through global supply chain challenges, delays in lead times on customer orders as they continue efforts to recover to normal operations, and inflationary pressures, all of which the Company is actively working to offset. The COVID-19 pandemic led to supplier factory shutdowns, shipping and freight delays, and a shortage of semiconductor chips, and other components, which had an adverse impact on NFI’s 2021 Q2 production, specifically in North American transit and cutaways, and UK transit. Although the Company anticipates these global supply chain challenges to be transitory, they are far reaching and difficult to predict, with impacts on the automotive and transportation industry broadly. The Company does not yet have visibility as to when these supply chain challenges will end, but is taking various measures to lower costs to offset where required.

The second quarter saw a significant increase in several metrics that the Company uses to measure future demand and activity. In 2021 Q2, NFI recorded 1,120 EUs in new orders, and saw active bids within North America increase by 48.4% from 2021 Q1. In addition, the Company's book-to-bill metric for 2021 Q2 was 125.2% and the Total Bid Universe was 25,016 EUs. There were 1,311 ZEBs in the backlog as at the end of 2021 Q2, representing approximately 16.1% of the total backlog. As at 2021 Q2, 9,464 EUs, or 37.8%, of the Total Bid Universe is ZEBs.

Leading the Evolution to Zero-Emission Mobility—The *ZE*volution™

In 2021 Q2, NFI received orders for 341 EUs of battery-electric, zero-emission vehicles, from major customers in California, Scotland, England and other locations, including the UK’s largest ever electric bus order, for 195 BYD ADL electric buses from RATP Dev London. These 341 EUs of ZEBs equates to 30.4% of all new firm and option orders for the quarter.

NFI also expanded its international presence in zero-emission electric mobility:

- **New Zealand:** On April 21, 2021, NFI announced that ADL would be building two electric buses with partner Kiwi Bus Builders in New Zealand, where it had previously delivered 18 battery-electric buses.

- **UK:** On May 20, 2021, NFI announced that ADL’s electric vehicle partnership with BYD had achieved a major milestone—delivery of its 500th electric bus, with an additional 500 EV buses on order across the UK.

Subsequent to quarter end, in July 2021 NFI announced entry into two new markets for its battery-electric products:

- **Ireland:** NFI, via the BYD ADL electric vehicle partnership, signed a framework agreement with the National Transport Authority of Ireland ("NTA") for the potential purchase of up to 200 battery-electric single deck buses, Ireland’s largest ever zero-emission bus order. The agreement has started with an initial firm order for 45 buses, with delivery commencing in 2022.

- **Australia:** NFI entered the Australian market through a supply agreement between ADL and Nexport, an Australian owned supplier and producer of transit buses. Nexport will assemble bodies from the ADL Enviro family on BYD chassis for the local Australian transit market, and Nexport will also lead the customer sales and service relationship.

In total, NFI's electric vehicle products are now on order or in service in five countries.

The Company also announced that NFI subsidiaries New Flyer and MCI have collectively been named ZEB partners of choice by a total of nine major transit agencies across the U.S. for their successful project awards from the Federal Transit Administration’s (“FTA”) 2021 Low or No Emission (“Low-No”) Grant Program. Following the FTA Notice of Funding Opportunity published February 11, 2021, with grant awards announced June 25, 2021, NFI supported the successful applications for over $40 million in grants awarded to nine U.S. public transit agencies and was specifically the named partner for the agency receiving the largest award in 2021 of $7.4 million for 10 ZEBs. Grant funds will support the procurement of ZEB’s and the associated charging infrastructure from NFI. In addition, at least $60 million of Low-No awards were made to additional U.S. public transit agencies that have not yet named a specific ZEB partner and where NFI will now compete for the contracts.

Leading in Electric Innovation

In addition to the four new zero-emission products launched in 2021 Q1, NFI launched three new battery-electric, zero-emission products in 2021 Q2, including the following:

- The MCI J4500 CHARGE™, the first battery-electric zero-emission luxury coach in the North American market, with a range of more than 200 miles.
- The MCI D45 CRT LE CHARGE™, a battery-electric zero-emission commuter coach, launched alongside a new D series of coaches.
- ADL's Enviro500EV CHARGE electric double-deck bus, providing capacity for up to 82 seated passengers.

Each of these three products have been designed for the North American market and are expected to contribute to NFI growing its market share and competitive position within zero-emission transportation which management expects will contribute to positive revenue growth and net earnings performance in the future.

Environmental, Social & Governance ("ESG")

On April 22, 2021, to coincide with, and in celebration of, Earth Day, NFI announced that its electric vehicles had completed over 40 million electric vehicle miles, and that the Company had installed over 200 EV chargers.

On May 27, 2021, NFI released its ESG Report for 2020. Highlights include updated performance indicators, a matrix outlining NFI's ESG priorities for 2021, and case studies outlining some of the specific projects and initiatives the Company undertook in 2020. The Report focuses on the three main components of NFI's Sustainability Pledge: "Better Product. Better Workplace. Better World", which guides the Company's daily actions and long-term planning. The ESG Report also introduces NFI's four pillar approach, including vehicles; infrastructure; smart, connected technology; and workforce development, directly supporting the evolution of zero-emission technology, the need for equitable access to mobility, and the people development that will drive a more sustainable future.

Strengthening the Balance Sheet and Financial Flexibility

During the quarter, NFI continued to focus on strengthening its balance sheet by increasing liquidity and decreasing leverage. As of June 27, 2021, NFI's liquidity was $389.3 million and its leverage ratio was 4.37. The Company generated Free Cash Flow of $15.4 million. The Company's increased focus on working capital management was also evident during the quarter as NFI lowered its Working Capital Days from 68 in 2021 Q1 to 62 in 2021 Q2.

NFI also returned capital to shareholders in the quarter through its quarterly dividend of C$0.2125 per share (LTM rate of C$0.85 per share). The Board expects to maintain dividends on a quarterly basis, although such dividends are not assured.

NFI Forward One-Year Update

On July 20, 2021, the Company provided an update on the first full year of "NFI Forward", the Company's transformational cost reduction 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.

Launched in July 2020 in response to the impacts of the global COVID-19 pandemic, NFI Forward included a number of major initiatives targeted to drive savings of approximately $65 million in annual overhead and SG&A expenses by the end of 2023 from 2019 levels, plus an additional $10 million in annualized Free Cash Flow generation. In January 2021, NFI increased the total expected SG&A and overhead savings to $67 million in annual Adjusted EBITDA savings by the end of 2023, and management continues to expect NFI Forward will deliver these anticipated results.

In 2021 Q2, NFI Forward realized Adjusted EBITDA savings of $12.6 million and $0.8 million of additional Free Cash Flow savings. Since inception to the end of 2021 Q2, NFI Forward has cumulatively generated $41.5 million in Adjusted EBITDA savings and an additional $2.5 million of Free Cash Flow savings.

Over the past year, the following NFI Forward activities have been completed:

- the streamlining of administrative and back-office functions, including Human Resources, Finance and Treasury, into an integrated shared services model;
- the combination of New Flyer® and MCI® into one consolidated North American operating business, while retaining both market-leading transit bus and motor coach brands;
- the rationalization of Alexander Dennis Inc.'s ("ADI") North American parts business into the NFI Parts™ business, reducing the number of North American parts stocking locations from 22 to seven;
- cessation of chassis manufacturing at Alexander Dennis Limited's ("ADL") Guildford facility; and
- the integration of all Winnipeg-based fiberglass facilities into one facility.

NFI Forward projects currently in process include:

- the integration of the ADI's North American manufacturing locations into NFI's existing facilities, which includes closing the ADI North American manufacturing locations, including the facilities in Vaughan, Ontario (to close in October 2021); and Nappanee and Peru, Indiana (to close in 2022 Q1). Future manufacturing of ADL double deck buses in North America will be carried out at existing NFI manufacturing locations, while certain finance, sales, commercial operations, procurement and service personnel will remain as part of NFI's North American Bus and Coach business to support existing customers;

- continuing to develop the Company-wide strategic sourcing program with specific focus on ZEB components to leverage purchasing scale and optimize product designs across vehicle models and supply chains;
- increasing dual production line capabilities for heavy-duty transit buses and motor coaches within select New Flyer and MCI facilities;
- expanding in sourcing of production components through NFI's KMG parts manufacturing facility; and
- launching an acetone recycling program within NFI's fiberglass reinforced polymer components business to reduce waste and emissions.

FINANCIAL RESULTS

NFI's 2021 Q2 financial results are significantly improved from 2020 Q2. The Company achieved record revenue and Adjusted EBITDA in its Aftermarket business segment and achieved significant year-over-year improvements in its Manufacturing business segment. While the Company's end-markets continue to recover, the COVID-19 pandemic related supply chain challenges have slowed the progress of the Company's Manufacturing business segment and, as a result, the Company has maintained lower production rates set following the onset of the pandemic in 2020. The Company continues to generate significant savings from the NFI Forward initiatives.

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

Deliveries (unaudited, EUs)	2021 Q2	2020 Q2	% Change	2021 Q2 LTM	2020 Q2 LTM	% Change
Transit buses	685	420	63.1 %	3,328	3,777	(11.9)%
Motor coaches	193	52	271.2 %	744	886	(16.0)%
Medium-duty and cutaway	111	73	52.1 %	419	398	5.3 %
New Vehicle Deliveries	989	545	81.5 %	4,491	5,061	(11.3)%
Pre-owned coach	142	23	517.4 %	532	406	31.0 %

Revenue (unaudited, dollars in millions)	2021 Q2	2020 Q2	% Change	2021 Q2 LTM	2020 Q2 LTM	% Change
Transit buses	$ 338.8	$ 209.2	62.0 %	$ 1,609.9	$ 1,700.8	(5.3)%
Motor coaches	96.2	29.8	222.8 %	384.6	452.8	(15.1)%
Medium-duty and cutaway	11.1	6.5	70.8 %	42.0	54.0	(22.2)%
Total new transit bus, coach and cutaway revenue	**$ 446.1**	**$ 245.5**	**81.7 %**	**$ 2,036.5**	**$ 2,207.6**	**(7.8)%**
Pre-owned coach revenue	6.8	0.8	750.0 %	28.4	31.9	(11.0)%
Infrastructure solutions	5.3	1.4	278.6 %	22.1	15.6	41.7 %
Fiberglass reinforced polymer components	1.1	0.9	22.2 %	5.5	5.1	7.8 %
Manufacturing Revenue	**$ 459.3**	**$ 248.6**	**84.8 %**	**$ 2,092.5**	**$ 2,260.2**	**(7.4)%**
Aftermarket	123.5	84.7	45.8 %	439.8	426.6	3.1 %
Total Revenue	**$ 582.8**	**$ 333.3**	**74.9 %**	**$ 2,532.3**	**$ 2,686.8**	**(5.8)%**
North America	452.2	288.5	56.7 %	1,997.6	2,196.2	(9.0)%
United Kingdom and Europe	93.7	33.1	183.1 %	378.0	414.3	(8.8)%
Asia Pacific	36.9	11.7	215.4 %	156.8	76.3	105.5 %
Other	—	—	— %	—	—	— %

Manufacturing revenue for 2021 Q2 increased by $210.7 million, or 84.8%, compared to 2020 Q2. The increase was primarily driven by higher new vehicle deliveries, as the Company had idle production for nearly two months in 2020 Q2 as a result of the COVID-19 pandemic. Revenue growth was also driven by a greater number of ZEB deliveries, which have a higher selling price compared to units with traditional propulsion systems. Pre-owned coach sales increased as the Company continued to recognize revenue for deliveries related to a 2020 Q4 contract to sell the majority of the Company's North American pre-owned coach fleet. The Company has now delivered the majority of the units associated with this contract. Quarterly revenue of the Company's Infrastructure Solutions division grew by 278.6%, on a year-over-year basis. The Company has completed ZEB charging infrastructure solutions projects in seven different cities in fiscal 2021 and currently has projects in-progress in a further 20 different cities. Medium-duty and cutaway revenue increased due to both an increase in deliveries and a favorable product mix.

Revenue from Aftermarket operations reached a record level in 2021 Q2. With quarterly Aftermarket revenue of $123.5 million, the Company achieved 45.8% year-over-year growth. The increase was driven by record volumes in the Asia Pacific region and significant volume increases in North America, the UK and Europe.

Adjusted EBITDA[1] (unaudited, dollars in millions)	2021 Q2	2020 Q2	% Change	2021 Q2 LTM	2020 Q2 LTM	% Change
Manufacturing	21.3	(32.4)	*165.7 %*	156.0	150.3	*3.8 %*
Aftermarket	25.0	12.1	*106.6 %*	81.2	67.8	*19.8 %*
Corporate	5.6	(3.9)	*243.6 %*	(4.7)	(5.5)	*14.5 %*
Total Adjusted EBITDA	**$51.9**	**($24.2)**	***314.5 %***	**$232.5**	**$212.6**	***9.4 %***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	4.6 %	(13.0)%	*135.4 %*	7.5 %	6.6 %	*13.6 %*
Aftermarket	20.2 %	14.3 %	*41.3 %*	18.5 %	15.9 %	*16.4 %*
Total	**8.9 %**	**(7.0)%**	***227.1 %***	**9.2 %**	**7.9 %**	***16.5 %***

Net Earnings (Loss) [2] (unaudited, dollars in millions, except per share amounts)	2021 Q2	2020 Q2	% Change	2021 Q2 LTM	2020 Q2 LTM	% Change
Manufacturing	(7.6)	(60.8)	*87.5 %*	(11.5)	(75.3)	*84.7 %*
Aftermarket	21.5	8.2	*162.2 %*	65.8	55.4	*18.8 %*
Corporate	(11.4)	(21.4)	*46.7 %*	(61.1)	(88.3)	*30.8 %*
Net earnings (Loss)	**$ 2.6**	**$ (74.1)**	***103.5 %***	**$ (6.8)**	**$ (108.2)**	***93.7 %***
Goodwill impairment	—	—	*N/A*	—	50.8	*(100.0)%*
Extraordinary COVID-19 costs (tax effected)	0.2	12.1	*(98.3)%*	20.9	12.1	*72.7 %*
Non-recurring restructuring costs (tax effected)	0.1	0.7	*(85.7)%*	19.4	1.0	*1,840.0 %*
Adjusted Net Earnings (Loss)[1]	8.7	(56.9)	*115.3 %*	28.7	(11.5)	*349.6 %*
Net earnings (Loss) Per Share	$ 0.04	(1.18)	*103.4 %*	(0.12)	(1.74)	*93.1 %*
Adjusted Earnings (Loss) Per Share[1]	$ 0.12	$ (0.91)	*113.2 %*	$ 0.43	$ (0.18)	*338.9 %*

[1] Non-IFRS Measure - See Appendix A for details.
[2] Comparative segment allocations have been restated to conform with current period presentation.

2021 Q2 Manufacturing Adjusted EBITDA increased by $53.7 million, or 165.7%, compared to 2020 Q2. The increase was driven by higher new vehicle deliveries and cost reductions associated with NFI Forward. The Company realized total Manufacturing Segment cost savings of $11.8 million through NFI Forward initiatives in the quarter. The quarter was also positively impacted by the receipt of government grants of $18.0 million, most of which was received to assist with the retention of skilled personnel. Manufacturing 2021 Q2 net earnings increased by $53.2 million, primarily due to the items that impacted Adjusted EBITDA, in addition to extraordinary COVID-19 related costs incurred in 2020 Q2. The increase in Manufacturing net earnings was partially offset by the Company incurring tax expense in 2021 Q2 compared to a significant tax recovery in 2020 Q2.

2021 Q2 Aftermarket Adjusted EBITDA reached a record level of $25.0 million, a $12.9 million, or 106.6%, year-over-year increase. The record results were due to increased sales volumes, a favourable product mix and NFI Forward cost reductions. The Company realized total Aftermarket Segment costs savings of $0.8 million through NFI Forward in the quarter. 2021 Q2 net earnings increased by $13.4 million, or 162.2%, primarily due to the same items that impacted Adjusted EBITDA, in addition to lower depreciation expense in 2021 Q2 and extraordinary COVID-19 related costs incurred in 2020 Q2.

2021 Q2 Corporate Adjusted EBITDA increased by $9.6 million compared to 2020 Q2, primarily as a result of foreign exchange revaluation gains on current monetary balances. Corporate expenses included in the calculation of net earnings decreased by $10.1 million, or 46.7%, primarily due to foreign exchange revaluation gains on current monetary balances and favourable mark-to-market adjustments to the Company's interest rate swaps.

Free Cash Flow[1] (unaudited, dollars in millions, except per share amounts)	2021 Q2	2020 Q2	% Change	2021 Q2 LTM	2020 Q2 LTM	% Change
Free Cash Flow	$ 15.4	$ (43.1)	*135.7 %*	$ 87.2	$ 57.7	*51.1 %*
Free Cash Flow (CAD dollars)	18.9	(58.9)	*132.1 %*	112.2	74.8	*50.0 %*
Declared Dividends (CAD dollars)	15.1	13.3	*13.5 %*	56.7	79.7	*(28.9)%*
Free Cash Flow per Share (CAD dollars)	$ 0.27	$ (0.94)	*128.7 %*	$ 1.72	$ 1.20	*43.3 %*
Dividends per Share (CAD dollars)	$ 0.21	$ 0.21	*— %*	$ 0.85	$ 1.28	*(33.6)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow)	79.9 %	(22.6)%	*453.5 %*	50.5 %	106.6 %	*(52.6)%*

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

Free Cash Flow in 2021 Q2 increased by $58.5 million, or 135.7%, compared to 2020 Q2, mainly due to higher Adjusted EBITDA, as well as lower cash interest expenses and realized NFI Forward cash savings of $13.4 million. NFI Forward cash savings include $12.6 million of Adjusted EBITDA savings and $0.8 million of additional Free Cash Flow savings. The additional NFI Forward Free Cash Flow savings primarily relate to lower principal and interest lease payments, which are not reflected in Adjusted EBITDA. The increase in Free Cash Flow was offset by higher income taxes paid.

OUTLOOK

Management continues to expect that 2021 will be a transition year as NFI's end markets are expected to be impacted by the COVID-19 pandemic throughout the remainder of the year. The second quarter saw strong recovery in bidding activity which management expects will drive delivery and backlog growth in 2022 and beyond.

As previously discussed, the second quarter of 2021 was impacted by global supply chain challenges resulting from the COVID-19 pandemic which had an adverse impact on NFI's 2021 Q2 production, and is expected to continue through the rest of 2021. Although the Company anticipates these global supply chain challenges to be transitory, they are far reaching and very difficult to predict, impacting the automotive and transportation industry broadly. The Company does not yet have visibility as to when these supply chain challenges will end.

NFI's overall end market recovery will be dependent upon several factors, including government funding and green fleet investments, COVID-19 case rates, vaccine distribution and uptake, the length of the pandemic, mutations of the virus, travel restrictions, and economic reopening activity. These factors will differ by product and geography. In addition, the previously discussed global supply chain challenges, are expected to have an adverse impact on NFI's remaining 2021 production schedule and parts sales.

Active Sales & Procurement Activity

The Company's vehicle product lines (New Flyer, ARBOC, MCI public motor coach, and ADL) are primarily used for public transit, which remains a critical method of transportation for millions of users in the Company's markets and is an economic enabler in cities. Within North American and UK heavy-duty transit and public coach businesses, near- and longer-term demand is expected to return, although the duration of the recovery from COVID-19 may affect vehicle awards and delivery timing in the near-term. Management believes a significant recovery is taking shape as the Company's North American and International sales teams saw an increase in the volume of new bids and overall procurements during the second quarter of 2021. After reaching record highs in the first half of 2020, followed by consecutive quarter-over-quarter declines in the second half of 2020, the Company's Active Bids in 2021 Q2 increased by 48.4% from 2021 Q1, and 68.8% from 2020 Q4. Active Bids are now approaching the record highs seen in 2020, and the Company's North American bid universe has improved by 7.0%. Management also believes that advancements in COVID-19 vaccines and the continuation of vaccine rollouts are positive signs for continued market recovery.

NFI is also seeing increasing numbers of bids for zero-emission buses and coaches in numerous markets, with individual order sizes for those vehicle types starting to increase. In addition, private coach operators in the U.S. and Canada have begun to express positive sentiments as travel restrictions are being lifted and tourism and travel activity is recovering. While NFI halted production of private motor coaches in North America during the pandemic, it is evaluating a potential restart of private coach production for later in 2021 or early 2022 based on these latest positive signs from customers.

The Company expects to see improvements in its financial results in 2022 and beyond as markets recover, the Company capitalizes on government investments (see notes below), and as the NFI Forward initiative continues to deliver improvements to operating metrics.

Unprecedented Government Support for Recovery and Zero-Emission Transition

In each of NFI's end markets, government support for zero-emission 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 for long-term fleet investments and the transition to zero-emission, battery-electric vehicles.

The Company continues to see long-term, milestone, multi-year funding commitments in the U.S., Canada and the UK, as governments recognize the importance of equitable, accessible, and sustainable transit—namely, zero-emission mobility.

United States

In the United States, the Fixing America's Surface Transportation Act ("FAST Act"), which is the primary federal funding mechanism, was extended for one year on October 1, 2020, with dedicated funding of $1.2 billion for bus appropriations. The proposed successor to the FAST Act in the House is the Investing in a New Vision for the Environment and Surface Transportation in America Act ("INVEST in America Act"), a $760 billion surface transportation reauthorization and water infrastructure bill, of which $109 billion is proposed for transit, which equates to a five-fold increase in funding for zero-emission buses over the FAST Act.

The Senate's proposed successor to the FAST Act is the Infrastructure Investment and Jobs Act, a $1.2 trillion bipartisan infrastructure bill that provides reauthorization of the surface transportation bill in addition to increased funding for transit, specifically the purchase of low-or zero-emission vehicles. This bill provides $106.9 billion for transit over five years, with a 172% increase to federal bus funding programs. The bipartisan infrastructure bill also provides an increase of $5.25 billion to the Low or No

Emission Vehicle Grant Program. As of the date of the release of this MD&A, the bipartisan infrastructure bill had been endorsed by the White House and was still being negotiated in the Senate. If an infrastructure bill is passed by the Senate, the legislation then moves for consideration by the House.

President Biden's FY22 Budget request includes $88 billion to the U.S. Department of Transportation, of which $13.5 billion is said to be for transit. As part of President Biden's $2.3 trillion American Jobs Plan, an eight-year investment package introduced in March 2021, included a goal of replacing 50,000 diesel school and transit buses with ZEBs. These proposed investments under the American Jobs Plan are in addition to annual appropriations. Further, a number of ZEB tax credits for transit agency procurements have been proposed.

The House passed a package of multiple appropriations bills, including a transportation appropriations bill that provides approximately $107 billion in funding to the U.S. Department of Transportation. This funding includes $464 million for the Bus and Bus Facilities formula program, $492 million for the Bus and Bus Facilities discretionary program, $295 million for the Low or No Emission Vehicle grant program, and $5 million for zero-emission fleet transition planning grants, in addition to others that apply to transit. The Senate has not yet produced a transportation appropriations bill. The passage of a fiscal year 2022 appropriations bill or continuing resolution to maintain existing funding levels is required by September 30, 2021.

The Coronavirus Economic Relief for Transportation Services ("CERTS") program, established by the Consolidated Appropriations Act of 2021, was created to support transportation service providers affected by the COVID-19 pandemic, including private sector motor coach operators. The CERTS application program opened late June 2021. Under the program, the U.S. Treasury will provide up to $2 billion in grants to eligible companies that certify they have experienced an annual revenue loss of 25 percent or more as a direct or indirect result of COVID-19. Although the CERTS program is not applicable to capital purchases of new coaches or transit buses, the funds will be eligible for certain payroll, operations, equipment maintenance, and interest on regularly scheduled debt service. Because of this, CERTS is an important program to provide needed support to private motor coach operators across America as they continue to recover from the COVID-19 pandemic.

Canada

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, Edmonton and Brampton.

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 transit. The program includes $5.9 billion in dedicated project funds starting in 2021, and ongoing permanent funding of C$3 billion per year beginning in 2026-2027.

United Kingdom

The UK, despite numerous headwinds faced in 2020, saw an increase in government support and more subsidies available to bus operators than ever before. 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 into service.

In March 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 ("SULEB"). Successful SULEB proposals for 172 zero-emission buses were made with ADL as the intended supplier. This is in addition to successful proposals for 35 zero-emission buses as part of the first round of funding in September 2020. As a follow-up and to replace previous funding streams, in July 2021 the Scottish Government announced the first £50 million phase of a new Scottish Zero Emission Bus Challenge Fund (ScotZEB). The fund is designed to encourage the market to implement new and innovative ways to finance and deploy zero emission buses.

Other Markets

The New Zealand government provided an election pledge that only zero-emission buses will be purchased by 2025, and that they will target decarbonizing their entire public transit fleet by 2035. ADL's partnership with BYD has a solid position in the New Zealand market and management expects it will be a beneficiary of this transition.

The Hong Kong government continues to advance trials and applications for electric commercial vehicles which may provide opportunities for ADL given its strong relationships with the largest commercial operators in the market.

As previously mentioned, subsequent to the end of the second quarter, NFI announced that it had entered two new markets for its battery-electric vehicles. NFI's electric vehicle products are now on order or in service in five countries.

Although the proposed legislation, government plans and announcements are encouraging for the future of public transit, management does not yet know how, when or if the proposals and funds will materialize and the expected impact on financial performance. NFI will continue to monitor and provide updates as appropriate through its quarterly and regular disclosures. Management anticipates significant opportunities for NFI to grow revenue from increased market demand for its products with strong underlying financial support from government bodies.

NFI is Leading the *ZE*volution™

As the market leader in North American transit and coach operations and the UK's leading provider of zero-emission buses through the ADL BYD partnership, 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.

NFI is the market leader in North America and the UK for ZEBs and is expected to be a significant beneficiary from the increased adoption of ZEBs. Currently, ZEBs make up 16.1% of NFI's backlog, and 37.8% of the Company's total North American bid universe.

NFI has the largest transit vehicle and motor coach production capacity in North America and the UK, and can manufacture ZEBs at all of its vehicle facilities. NFI has electric vehicles in service with 15 of the top 25 transit agencies in North America, and the Company's battery-electric and fuel-cell electric vehicles have completed over five million miles of zero-emission service in North America, and more than 36 million zero-emission miles in the UK, for a total of over 40 million electric miles. The Company also continues to grow its Infrastructure Solutions™ business, and, in April 2021, NFI announced a milestone of over 200 electric vehicle chargers installed to date. The Company has delivered more ZEBs than any competitor in the UK. Management anticipates that, based on the Company's leadership position, product offering, experience and customer relationships, NFI is well positioned to capitalize on the long-term transition to ZEBs in both core and new markets.

Financial Guidance

Management reaffirms its 2021 financial guidance expectations from January 11, 2021 and affirmed on May 6, 2021 for revenue, adjusted EBITDA and Cash Capital expenditures, as well as the updated tax guidance and expected quarterly seasonality based on year-to-date results and expectations for the remainder of 2021 as follows:

2021 Financial Guidance	
Revenue	$2.8 billion to $2.9 billion
ZEB (electric) as a percentage of manufacturing sales	20% to 25%
Adjusted EBITDA[1]	$220 million to $240 million
Cash Capital Expenditures – including NFI Forward	$50 million
Adjusted Effective Tax Rate ("ETR")	Variable tax of 21%-23% of pre-tax earnings and fixed tax (annual) of $18 million to $22 million

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

Management notes that the tax impact of currency and non-monetary foreign exchange gains and losses can fluctuate and have a material impact on quarterly and annual tax rates.

Management cautions readers that NFI's quarterly and annual results have an element of seasonality due to the nature of each unique market segment and the varied annual production and vacation schedule of each production facility. With the acquisition of ADL, this has become even more pronounced, with the third and fourth quarters now generally being periods with higher delivery volumes. As a result of the ongoing COVID-19 pandemic, however, management anticipates changes to seasonality in 2021. Management expects the following seasonality on a year-over-year basis as compared to the same period in 2020: revenue and Adjusted EBITDA for 2021 Q3 will be down and similar in profile to 2021 Q2; while Revenue and Adjusted EBITDA for 2021 Q4 will be higher. Management also reminds readers that, for 2021, NFI's first, second and third quarters are 13-week periods, while the fourth quarter is a 14-week period, making a 53-week fiscal year.

NFI Forward Outlook

Management continues to expect that the aggregate programs of NFI Forward will generate at least $67.0 million in annual Adjusted EBITDA savings by the end of 2023 from 2019 levels, plus an additional $10.0 million in annualized Free Cash Flow generation, driven by interest savings and lower lease payments. NFI Forward is expected to deliver an 8% to 10% reduction in both manufacturing overhead and SG&A expenses, based on 2019 production rates, with investments of approximately $15 million to $20 million required to deliver these savings.

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.

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
2021						
	Q2	$ 582,794	$ 26,674	$ 2,587	$ 51,856	$ 0.04
	Q1	574,119	26,918	7,033	54,840	0.10
	Total	**$ 1,156,913**	**$ 53,592**	**$ 9,620**	**$ 106,696**	**$ 0.14**
2020						
	Q4	$ 711,523	$ 32,531	$ 8,465	$ 64,956	$ 0.14
	Q3	663,934	(16,453)	(24,912)	60,883	(0.40)
	Q2	333,334	(72,001)	(74,050)	(24,227)	(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)**
2019						
	Q4	$ 917,741	$ 69,958	$ 34,127	$ 103,875	$ 0.55
	Q3	725,347	25,200	(1,085)	76,868	(0.02)
	Q2	683,353	37,000	8,507	81,122	0.14
	Q1	566,995	40,906	16,149	60,302	0.26
	Total	**$ 2,893,436**	**$ 173,064**	**$ 57,698**	**$ 322,167**	**$ 0.93**

COMPARISON OF SECOND QUARTER 2021 RESULTS

(U.S. dollars in thousands)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020	52-Weeks Ended June 27, 2021	52-Weeks Ended June 28, 2020
Statement of Earnings Data						
Revenue						
North America	$ 361,859	$ 217,371	$ 749,793	$ 731,159	$ 1,669,778	$ 1,848,607
United Kingdom and Europe	73,366	23,093	137,671	104,098	302,489	350,027
Asia Pacific	24,065	8,135	31,022	8,397	120,294	61,602
Other	—	—	—	—	—	—
Manufacturing operations	459,290	248,599	918,486	843,654	2,092,561	2,260,236
North America	90,314	71,237	174,120	164,122	327,773	347,587
United Kingdom and Europe	20,373	9,978	40,191	28,291	75,496	64,263
Asia Pacific	12,817	3,520	24,116	7,651	36,540	14,720
Other	—	—	—	—	—	—
Aftermarket operations	123,504	84,735	238,427	200,064	439,809	426,570
Total revenue	$ 582,794	$ 333,334	$ 1,156,913	$ 1,043,718	$ 2,532,370	$ 2,686,806
Earnings (loss) from operations	$ 26,674	$ (72,001)	$ 53,592	$ (97,407)	$ 69,668	$ (2,249)
Earnings (loss) before interest and income taxes	$ 24,557	$ (70,067)	$ 49,301	$ (95,593)	$ 72,669	$ (3,747)
Net earnings (loss)	$ 2,587	$ (74,050)	$ 9,620	$ (141,289)	$ (6,827)	$ (108,247)
Adjusted EBITDA[1]	$ 51,856	$ (24,227)	$ 106,696	$ 31,844	$ 232,534	$ 212,587
Cash capital expenditures	$ 9,558	$ 4,056	$ 15,257	$ 11,629	$ 29,331	$ 31,946

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

RECONCILIATION OF NET EARNINGS (LOSS) TO ADJUSTED EBITDA

Management believes that Adjusted EBITDA is an important measure in evaluating the historical operating performance of the Company. However, Adjusted EBITDA is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with IFRS as an indicator of the Company's performance, or cash flows from operating activities determined in accordance with IFRS as a measure of liquidity and cash flow. The Company defines and has computed Adjusted EBITDA as described under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings per Share and Working Capital Days" in Appendix A. The following tables reconcile net earnings or losses to Adjusted EBITDA based on the historical Financial Statements of the Company for the periods indicated.

(U.S. dollars in thousands)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020	52-Weeks Ended June 27, 2021	52-Weeks Ended June 28, 2020
Net earnings (loss)	$ 2,587	$ (74,050)	$ 9,620	$ (141,289)	$ (6,827)	$ (108,245)
Addback[1]						
Income taxes	8,040	(12,907)	15,626	(8,329)	25,599	20,144
Interest expense[18]	13,930	16,890	24,055	54,025	53,899	84,355
Amortization	23,503	28,146	48,067	58,286	100,565	121,476
(Gain) loss on disposition of property, plant and equipment	10	229	(345)	392	(793)	351
Fair value adjustment for total return swap[11]	(264)	(275)	(702)	1,695	(2,279)	3,400
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	2,107	(2,163)	4,636	(2,206)	(2,208)	1,147
Costs associated with assessing strategic and corporate initiatives[8]	—	1,231	—	1,231	165	957
Past service costs and other pension costs (recovery)[13]	—	48	—	(415)	7	(2,016)
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[10]	—	—	—	—	—	22,314
Proportion of the total return swap realized[12]	91	(529)	538	(1,469)	1,482	(2,472)
Equity settled stock-based compensation	502	551	1,151	565	2,356	1,154
Unrecoverable insurance costs [14]	718	—	718	—	718	—
Prior year sales tax provision [15]	—	(30)	40	(86)	310	214
Extraordinary COVID-19 costs[16]	465	17,557	754	17,557	30,559	17,557
Impairment loss on goodwill[17]	—	—	—	50,790	—	50,790
Non-recurring restructuring costs[9]	167	1,075	2,538	1,097	28,981	1,462
Adjusted EBITDA[1]	$ 51,856	$ (24,227)	$ 106,696	$ 31,844	$ 232,534	$ 212,587
Adjusted EBITDA is comprised of:						
Manufacturing	$ 21,297	$ (32,356)	$ 57,167	$ 3,086	$ 156,044	$ 150,261
Aftermarket	$ 24,936	$ 12,059	$ 47,417	$ 32,996	$ 81,169	$ 67,783
Corporate	$ 5,623	$ (3,930)	$ 2,112	$ (4,238)	$ (4,679)	$ (5,457)

(Footnotes on page 21 and 22)

SUMMARY OF FREE CASH FLOW

Management uses Free Cash Flow as a non-IFRS measure to evaluate the Company's operating performance and liquidity and to assess the Company's ability to pay dividends on the Shares, service debt, and meet other payment obligations. However, Free Cash Flow is not a recognized earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS. Accordingly, Free Cash Flow 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 and has computed Free Cash Flow as described under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings per Share and Working Capital Days" in Appendix A.

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

The following is a reconciliation of net cash generated by operating activities (an IFRS measure) to Free Cash Flow (a non-IFRS measure) based on the Company's historical Financial Statements. See "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings, Adjusted Earnings per Share and Working Capital Days" in Appendix A.

(U.S. dollars in thousands, except per Share figures)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020	52-Weeks Ended June 27, 2021	52-Weeks Ended June 28, 2020
Net cash generated by operating activities	$ 91,139	$ (3,482)	$ 3,474	$ (19,865)	$ 89,400	$ 116,338
Changes in non-cash working capital items(4)	(61,841)	(55,644)	52,382	(9,435)	(6,945)	(37,017)
Interest paid(4)	14,697	15,005	33,351	30,711	65,947	59,766
Interest expense(4)	(16,518)	(14,834)	(33,196)	(29,265)	(65,766)	(59,250)
Income taxes paid(4)	6,430	547	15,561	12,448	29,806	33,224
Current income tax expense(4)	(7,818)	4,500	(20,098)	(12,441)	(34,237)	(50,377)
Repayment of obligations under lease	(3,296)	(4,481)	(10,341)	(7,555)	(21,673)	(13,568)
Cash capital expenditures	(9,558)	(4,056)	(15,257)	(11,629)	(29,331)	(31,946)
Proceeds from disposition of property, plant and equipment	704	50	3,018	150	5,633	296
Costs associated with assessing strategic and corporate initiatives(8)	—	1,231	—	1,231	165	957
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue (10)	—	—	—	—	—	22,314
Defined benefit funding(5)	388	1,522	1,437	3,042	3,902	8,033
Defined benefit expense(5)	(364)	(1,522)	(2,239)	(3,013)	(4,533)	(5,879)
Past service costs and other pension costs (recovery)(13)	—	48	—	(415)	7	(2,016)
Proportion of the total return swap realized(12)	91	(529)	538	(1,469)	1,482	(2,472)
Unrecoverable insurance costs (14)	718	—	718	—	718	—
Prior year sales tax provision (15)	—	(30)	40	(88)	313	214
Non-recurring restructuring costs(9)	167	1,075	747	1,097	21,866	1,461
Extraordinary COVID-19 costs(16)	465	17,557	754	17,557	$ 30,559	17,557
Foreign exchange gain (loss) on cash held in foreign currency(6)	(34)	(14)	(67)	33	(111)	98
Free Cash Flow(2)	$ 15,370	$ (43,057)	$ 30,822	$ (28,906)	$ 87,202	$ 57,733
U.S. exchange rate(3)	1.2294	1.3688	1.2435	1.3546	1.2870	1.2950
Free Cash Flow (C$)(2)	18,896	(58,939)	38,328	(39,157)	112,229	74,764
Free Cash Flow per Share (C$)(7)	0.2662	(0.9429)	0.5636	(0.6265)	1.7196	1.1970
Declared dividends on Shares (C$)	15,085	13,283	30,169	26,566	56,743	79,655
Declared dividends per Share (C$)(7)	$ 0.2125	$ 0.2125	$ 0.4250	$ 0.4250	$ 0.8500	$ 1.2755

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

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

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

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

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

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

(7) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2021 Q2 was 70,985,041 and 62,506,539 for 2020 Q2. The weighted average number of Shares outstanding for the 52-weeks ended June 27, 2021 and June 28, 2020 are 65,264,409 and 62,457,824, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

(8) Normalized to exclude non-recurring expenses and recoveries related to the costs of assessing strategic and corporate initiatives.

(9) Normalized to exclude non-recurring restructuring costs. Costs relate to severance costs and asset impairment associated with NFI Forward restructuring initiatives. The 2021 Q2 LTM costs include severance costs of $19.2 million, right-of-use asset impairments of $5.3 million, inventory impairments of $2.0 million, property, plant and equipment impairments of $1.7 million and other miscellaneous costs of $0.7 million. Free Cash Flow reconciling item is net of right-of-use asset and property, plant and equipment impairments.

(10) The revaluation of ADL's inventory included an adjustment of $22.3 million in 2020 Q2 LTM. These revaluation adjustments relate to purchase accounting as a result of the related acquisition.

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

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

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

(14) Normalized to exclude non-recurring costs related to an insurance event that are not recoverable.

(15) Provision for sales taxes as a result of an ongoing state sales tax review.

(16) Normalized to exclude non-recurring COVID-19 related costs. The 2021 Q2 LTM costs include asset impairments of $27.9 million and operating expenses of $2.6 million. The asset impairments were primarily attributable to pre-owned coach inventory. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.

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

(18) Includes fair market value adjustments to interest rate swaps. 2021 Q2 includes a gain of $3.8 million and 2020 Q2 includes a loss of $1.3 million.

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

Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) per Share are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Accordingly, Adjusted Net Earnings (Loss) and Adjusted 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 Earnings (Loss) per Share should not be construed as an alternative to Net Earnings, or Net Earnings per Share, determined in accordance with IFRS as indicators of the Company's performance. The Company defines and has computed Adjusted Net Earnings (Loss) and Adjusted Earnings (Loss) per Share under "Definitions of Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss), Adjusted Earnings (Loss) per Share and Working Capital Days" in Appendix A. The following tables reconcile net earnings (loss) to Adjusted Net Earnings (Loss) based on the historical Financial Statements of the Company for the periods indicated.

(U.S. dollars in thousands, except per Share figures)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020	52-Weeks Ended June 27, 2021	52-Weeks Ended June 28, 2020
Net earnings (loss)	2,587	(74,050)	9,620	(141,289)	(6,827)	(108,247)
Adjustments, net of tax [(1) (8)]						
Fair value adjustments of total return swap[(5)]	(120)	(189)	(319)	1,170	(1,408)	2,207
Unrealized foreign exchange (gain) loss	958	(1,493)	2,109	(1,523)	(2,613)	639
Unrealized (gain) loss on interest rate swap	(1,736)	868	(5,227)	16,378	(9,406)	14,834
Impairment loss on goodwill[(11)]	—	—	—	50,790	—	50,790
Portion of the total return swap realized[(6)]	42	(365)	245	(1,014)	897	(1,619)
Costs associated with assessing strategic and corporate initiatives[(2)]	—	1,231	—	1,231	164	957
Fair value adjustment to acquired subsidiary company's inventory and deferred revenue[(4)]	—	—	—	—	—	12,331
Equity settled stock-based compensation	228	380	524	390	1,355	665
(Gain) loss on disposition of property, plant and equipment	5	158	(157)	270	(466)	246
Past service costs and other pension costs (recovery)[(7)]	—	33	—	(286)	4	(1,213)
Unrecoverable insurance costs[(14)]	327	—	327	—	327	—
Recovery on currency transactions[(9)]	—	—	—	—	—	287
Prior year sales tax provision [(10)]	—	(20)	18	(59)	204	(140)
Other tax adjustments [(13)]	6,118	3,695	6,118	3,695	6,118	3,695
Extraordinary COVID-19 costs [(12)]	212	12,114	343	12,114	20,909	12,114
Non-recurring restructuring costs [(3)]	76	742	1,155	757	19,401	968
Adjusted Net Earnings (Loss)	$ 8,697	(56,896)	$ 14,756	$ (57,376)	$ 28,659	(11,486)
Earnings (Loss) per Share (basic)	$ 0.04	$ (1.18)	$ 0.14	$ (2.26)	$ (0.12)	$ (1.74)
Earnings (Loss) per Share (fully diluted)	0.04	$ (1.18)	$ 0.14	$ (2.26)	$ (0.12)	$ (1.74)
Adjusted Earnings (Loss) per Share (basic)	$ 0.12	$ (0.91)	$ 0.21	$ (0.92)	$ 0.43	$ (0.18)
Adjusted Earnings (Loss) per Share (fully diluted)	$ 0.12	$ (0.91)	$ 0.21	$ (0.92)	$ 0.43	$ (0.18)

1. Addback items are derived from the historical Financial Statements of the Company.
2. Normalized to exclude non-recurring expenses related to the costs of assessing strategic and corporate initiatives.
3. Normalized to exclude non-recurring restructuring costs. The 2021 Q2 costs primarily relate to severance costs and asset impairments associated with the NFI Forward restructuring initiative.
4. The revaluation of ADL's inventory included an adjustment of $22.3 million in 2020 Q2 LTM. The after-tax value of the adjustment was $12.3 million. These revaluation adjustments relate to purchase accounting as a result of the related acquisition.
5. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted Net Earnings (Loss).
6. A portion of the fair value adjustment of the total return swap is excluded from Adjusted Net Earnings (Loss) to match the equivalent portion of the related deferred compensation expense recognized.

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

8. For 2021, the Company has utilized a rate of 54.5% to tax effect the adjustments. A rate of 31.0% has been used to tax effect the adjustments for all other periods.

9. Recovery of prior period banking fees related to foreign exchange transactions.

10. Provision for sales taxes as a result of an ongoing state tax review.

11. Impairment charge with respect to MCI's goodwill.

12. Normalized to exclude non-recurring COVID-19 related costs. COVID-19 costs in 2021 Q2 primarily relate to the purchase of personal protective equipment and plant sanitation activities. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be one time and non-recurring. As more information becomes available, management may change its assessment.

13. Includes the impact of changes in deferred tax balances as a result of substantively enacted tax rate changes. The 2021 Q2 balance includes the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%. The 2020 Q2 balance results from the reversal of previously enacted UK tax rate decline.

14. Normalized to exclude non-recurring costs related to an insurance event that are not recoverable.

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)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020
Manufacturing Revenue	459,290	248,599	918,486	843,654
Aftermarket Revenue	123,504	84,735	238,427	200,064
Total Revenue	$ 582,794	$ 333,334	$ 1,156,913	$ 1,043,718
Earnings (loss) from Operations	$ 26,674	$ (72,001)	$ 53,592	$ (97,407)
Earnings (loss) before interest and income taxes	24,557	(70,067)	49,301	(95,593)
Earnings (loss) before income tax expense	10,627	(86,957)	25,246	(149,618)
Net earnings (loss)	2,587	(74,050)	9,620	(141,289)

Manufacturing revenue for 2021 Q2 increased by $210.7 million, or 84.8%, compared to 2020 Q2. Manufacturing revenue for 2021 Q2 YTD increased by $74.8, or 8.9%, compared to 2020 Q2 YTD. Both quarter-to-date and year-to-date figures increased primarily as a result of the Company idling production for nearly two months in 2020 Q2, in response to COVID-19 related safety concerns and public customer order delays and private customer order deferrals, which were also both attributable to the COVID-19 pandemic. The year-to-date increase was partially offset by the higher production rates maintained in 2020 Q1 prior to the onset of the pandemic.

Revenue from Aftermarket operations reached a record level in 2021 Q2. Aftermarket revenue for 2021 Q2 increased by $38.8 million, or 45.8%, compared to 2020 Q2. Aftermarket revenue for 2021 Q2 YTD increased by $38.4 million, or 19.2%, compared to 2020 Q2 YTD. Both the quarter-to-date and year-to-date increases were driven by record volumes in the Asia Pacific region and significant volume increases in North America, the UK and Europe.

Cost of sales

(U.S. dollars in thousands)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020
Manufacturing				
Direct cost of sales	$ 358,336	$ 214,738	$ 716,474	$ 672,682
Depreciation and amortization	20,943	25,532	42,881	53,082
Other overhead	47,943	44,797	75,679	105,689
Manufacturing cost of sales	$ 427,222	$ 285,067	$ 835,034	$ 831,453
As percent of Manufacturing Sales	93.0 %	114.7 %	90.9 %	98.6 %
Aftermarket				
Direct cost of sales	$ 83,498	$ 63,032	$ 161,345	$ 140,756
Depreciation and amortization	2,560	2,614	5,186	5,203
Aftermarket cost of sales	$ 86,058	$ 65,646	$ 166,531	$ 145,959
As percent of Aftermarket Sales	69.7 %	77.5 %	69.8 %	73.0 %
Total Cost of Sales	$ 513,280	$ 350,713	$ 1,001,565	$ 977,412
As percent of Sales	88.1 %	105.2 %	86.6 %	93.6 %

The consolidated cost of sales for 2021 Q2 increased by $162.6 million, or 46.4%, compared to 2020 Q2. The consolidated cost of sales for 2021 Q2 YTD increased by $24.2 million, or 2.5%, compared to 2020 Q2 YTD.

Cost of sales from Manufacturing operations in 2021 Q2 was $427.2 million (93.0% of Manufacturing operations revenue) compared to $285.1 million (114.7% of Manufacturing operations revenue) in 2020 Q2, an increase of $142.2 million, or 49.9%. Cost of sales from Manufacturing operations in 2021 Q2 YTD was $835.0 million (90.9% of Manufacturing operations revenue) compared to $831.5 million (98.6% of Manufacturing operations revenue) in 2020 Q2 YTD. Cost of sales decreased as a percentage of revenue in both periods mainly due to higher production volumes to cover fixed costs. Cost of sales also decreased as percentage of revenue in both periods due to NFI Forward savings and government grants. NFI Forward reduced Manufacturing cost of sales by $6.4 million during the quarter and $12.1 million year-to-date.

Government grants, which were primarily received to assist with the retention of skilled personnel, of $15.2 million and $34.6 million have been applied against Manufacturing cost of sales in the quarter-to-date and year-to-date figures respectively.

Cost of sales from Aftermarket operations in 2021 Q2 was $86.1 million (69.7% of Aftermarket revenue) compared to $65.6 million (77.5% of Aftermarket revenue) in 2020 Q2, an increase of $20.4 million, or 31.1%. Cost of sales from Aftermarket operations in 2021 Q2 YTD was $166.5 million (69.8% of Aftermarket revenue) compared to $146.0 million (73.0% of Aftermarket revenue). Cost of sales decreased as a percentage of revenue in both periods primarily due to a favourable product mix.

Gross Margins

(U.S. dollars in thousands)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020
Manufacturing	$ 32,068	$ (36,468)	$ 83,452	$ 12,201
Aftermarket	37,446	19,089	71,896	54,105
Total Gross Margins	$ 69,514	$ (17,379)	$ 155,348	$ 66,306
As a percentage of sales				
Manufacturing	7.0 %	(14.7)%	9.1 %	1.4 %
Aftermarket	30.3 %	22.5 %	30.2 %	27.0 %
	11.9 %	(5.2)%	13.4 %	6.4 %

Manufacturing gross margins for 2021 Q2 of $32.1 million (7.0% of Manufacturing revenue), increased by $68.5 million, or 187.9%, compared to $(36.5) million ((14.7)% of revenue) for 2020 Q2. Manufacturing gross margins for 2021 Q2 YTD of $83.5 million (9.1% of Manufacturing revenue), increased by $71.3 million, or 584.0%, compared to $12.2 million (1.4% of Manufacturing revenue) in 2020 Q2 YTD.

Gross margins increased as a percentage of revenue in both periods mainly due to higher production volumes to cover fixed costs. Gross margins also increased as percentage of revenue in both periods due to NFI Forward savings and government grants. NFI Forward increased Manufacturing gross margin by $6.4 million during the quarter and $12.1 million year-to-date. Government grants increased Manufacturing gross margin by $15.2 million during the quarter and $34.6 million year-to-date.

Aftermarket gross margins for 2021 Q2 of $37.4 million (30.3% of Aftermarket revenue) increased by $18.4 million, or 96.2%, compared to 2020 Q2 gross margins of $19.1 million (22.5% of Aftermarket revenue). Aftermarket gross margins for 2021 Q2 YTD of $71.9 million (30.2% of Aftermarket revenue) increased by $17.8 million, or 32.9%, compared to 2020 Q2 YTD gross margins of $54.1 million (27.0% of Aftermarket revenue). Gross margin percentage increased in both periods primarily due to a favourable product mix.

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

(U.S. dollars in thousands)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020
Selling expenses	$ 7,348	$ 3,899	$ 13,432	$ 10,426
General and administrative expenses	42,663	45,827	93,594	99,157
Other costs	(217)	2,460	37	2,060
Total SG&A	$ 49,794	$ 52,186	$ 107,063	$ 111,643

The consolidated SG&A for 2021 Q2 of $49.8 million (8.5% of consolidated revenue) decreased by $2.4 million, or 4.6%, compared to $52.2 million (15.7% of consolidated revenue) in 2020 Q2. The consolidated SG&A for 2021 Q2 YTD of $107.1 million (9.3% of consolidated revenue) decreased by $4.6 million, or 4.1%, compared to $111.6 million (10.7% of consolidated revenue) in 2021 Q2 YTD.

The quarter-to-date decrease is related to NFI Forward savings of $6.2 million and government grants of $2.8 million, which were netted against expenses in the presentation of SG&A. The quarter-to-date decrease is partially offset by reduced discretionary expenditures, in 2020 Q2, to preserve cash during the idling of production. The year-to-date decrease is related to NFI Forward Savings of $12.1 million and government grants of $5.2 million. The year-to-date decrease was partially offset by one-time, non-recurring restructuring costs incurred in 2021 Q1.

Realized foreign exchange loss/gain

In 2021 Q2, the Company recorded a realized foreign exchange gain of $7.0 million compared to a loss of $2.4 million in 2020 Q2. In 2021 Q2 YTD, the Company recorded a realized foreign exchange gain of $5.3 million compared to a loss of $1.3 million in 2020 Q2 YTD.

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

Earnings (loss) from operations

Consolidated earnings from operations in 2021 Q2 were $26.7 million (4.6% of consolidated revenue) compared to losses of $72.0 million ((21.6)% of consolidated revenue) in 2020 Q2, an increase of $98.7 million or 137.1%. Consolidated earnings from operations in 2021 Q2 YTD were $53.6 million (4.6% of consolidated revenue) compared to losses of $97.4 million ((9.3)% of consolidated revenue) in 2021 Q2 YTD.

2021 Q2 Earnings from operations related to Manufacturing operations were $0.5 million (0.1% of Manufacturing revenue) compared to losses of $77.7 million ((31.3%) of Manufacturing revenue) in 2020 Q2, an increase of $78.2 million or 100.6%. Earnings from Manufacturing operations in 2021 Q2 YTD were $16.1 million (1.8% of Manufacturing revenue) compared to losses of $121.7 million ((14.4%) of Manufacturing revenue) in 2020 Q2 YTD, an increase of $137.8 million or 113.2%. The increase as a percentage of revenue in both periods is primarily due to higher product volumes, as the Company had idled production for nearly two months in 2020 Q2. The increase as a percentage of revenue is also due to NFI Forward savings and government grants. The Company realized NFI Forward savings of $12.6 million in 2021 Q2 and $24.2 million in 2021 Q2 YTD. The Company received government grants of $18.0 million 2021 Q2 and $39.8 million in 2021 Q2 YTD. These grants were primarily received to assist with the retention of skilled personnel. The 2020 Q2 YTD figures are also lower as a result of a $50.8 million impairment charge incurred on MCI's goodwill in 2020 Q1. Both comparative periods were also negatively impacted by COVID-19 related expenses.

Earnings from operations related to Aftermarket operations in 2021 Q2 were $21.5 million (17.4% of Aftermarket revenue) compared to $8.8 million (10.4% of Aftermarket revenue) in 2020 Q2. Earnings from operations related to Aftermarket operations in 2021 Q2 YTD were $39.9 million (16.7% of Aftermarket revenue) compared to $27.2 million (13.6% of Aftermarket revenue) in 2020 Q2 YTD. Earnings from Aftermarket operations were higher in both periods due to higher sales volumes and favourable product mix.

Unrealized foreign exchange gain/loss

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

(U.S. dollars in thousands)		**2021 Q2**		**2020 Q2**		**26-Weeks Ended June 27, 2021**		**26-Weeks Ended June 28, 2020**
Unrealized gain (loss) on forward foreign exchanges contracts	$	(2,344)	$	2,743	$	(5,668)	$	4,540
Unrealized gain (loss) on other long-term monetary assets/liabilities		237		(580)		1,032		(2,334)
	$	(2,107)	$	2,163	$	(4,636)	$	2,206

At June 27, 2021, the Company had $97.2 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 $0.4 million (December 27, 2020: $4.5 million) 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 earnings (loss) and total comprehensive income (loss).

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

In 2021 Q2, the Company recorded EBIT of $24.6 million compared to EBIT loss of $70.1 million in 2020 Q2. In 2021 Q2 YTD, the Company recorded EBIT of $49.3 million compared to EBIT loss of $95.6 million in 2020 Q2 YTD. EBIT has been impacted by non-cash and non-recurring items as follows:

(U.S. dollars in thousands)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020
Non-cash and non-recurring charges:				
Costs associated with assessing strategic and corporate initiatives	$ —	$ 1,231	$ —	$ 1,231
Unrealized foreign exchange (gain) loss	2,107	(2,163)	4,636	(2,206)
Equity settled stock-based compensation	502	551	1,151	565
Loss (gain) on disposition of property, plant and equipment	10	229	(345)	392
Fair value adjustment of total return swap	(264)	(275)	(702)	1,695
Past service costs recovery	—	48	—	(415)
Extraordinary COVID-19	465	17,557	754	17,557
Prior year sales tax provision	—	(30)	40	(86)
Unrecoverable insurance costs	718	—	718	—
Impairment loss on goodwill	—	—	—	50,790
Portion of the total return swap realized	91	(529)	538	(1,469)
Non-recurring restructuring costs	167	1,075	2,538	1,097
Amortization	23,503	28,146	48,067	58,286
Total non-cash and non-recurring charges:	$ 27,299	$ 45,840	$ 57,395	$ 127,437

Interest and finance costs

The interest and finance costs for 2021 Q2 of $13.9 million decreased by $3.0 million compared 2020 Q2. The interest and finance costs for 2021 Q2 YTD of $24.1 million decreased by $30.0 million compared to 2020 Q2 YTD. The decrease in both periods is primarily due to a fair market value adjustments to the Company's interest rate swaps. The Company had a fair market value gain of $3.8 million in 2021 Q2 compared to a loss of $1.3 million in 2020 Q2. The Company had a fair market value gain of $11.5 million in 2021 Q2 YTD compared to a loss of $23.7 million in 2020 Q2 YTD. The decrease in both periods was slightly offset by higher interest on long-term debt due to higher variable interest charges on the Credit Facility and interest on the UK Facility. The UK Facility was entered in May 2020 to support ADL's operations in the UK.

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 is to not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses.

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

EBT for 2021 Q2 of $10.6 million improved by $97.6 million compared to EBT loss of $87.0 million in 2020 Q2. EBT for 2021 Q2 YTD of $25.2 million improved by $174.9 million compared to EBT loss of $149.6 million in 2020 Q2 YTD. The primary drivers of the changes to EBT are addressed in the Earnings from Operations, EBIT, and Interest and finance costs sections above.

Income tax expense

The income tax expense for 2021 Q2 is $8.0 million, compared to a $12.9 million recovery in 2020 Q2. The income tax expense for 2021 Q2 YTD is $15.6 million, compared to a $8.3 million recovery in 2020 Q2 YTD. The increase in the overall income tax expense is primarily due to higher earnings before taxes.

The ETR for 2021 Q2 was 75.6%, compared to 14.9% in 2020 Q2. The ETR for 2021 Q2 YTD was 61.9% compared to 5.6% in 2020 Q2 YTD. The ETR continues to be negatively impacted by the U.S. base erosion and anti-abuse tax ("BEAT") which is effectively a minimum tax not directly linked to earnings and a write-off of unapplied foreign tax credits, and the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%.

Net earnings (loss)

The Company reported net earnings of $2.6 million in 2021 Q2, an increase of $76.6 million, or 103.5%, compared to net losses of $74.1 million in 2020 Q2. The Company reported net earnings of $9.6 million in 2021 Q2 YTD, an increase of $150.9 million, or 106.8%, compared to net losses of $141.3 million in 2020 Q2 YTD. The increase in both periods is primarily due to the idling of production for nearly two months in 2020 Q2 as a result of the COVID-19 pandemic. The increase in both periods is also due to NFI Forward savings and government grants increasing 2021 results and restructuring charges and COVID-19 related expenses lowering 2020 results.

Net earnings (loss) (U.S. dollars in millions, except per Share figures)	**2021 Q2**	**2020 Q2**	**26-Weeks Ended June 27, 2021**	**26-Weeks Ended June 28, 2020**
Earnings (loss) from operations	$ 26.7	$ (72.0)	$ 53.6	$ (97.4)
Non-cash (loss)	(2.1)	1.9	(4.3)	1.8
Interest expense	(13.9)	(16.9)	(24.0)	(54.0)
Income tax expense	(8.1)	12.9	(15.7)	8.3
Net earnings (loss)	$ 2.6	$ (74.1)	$ 9.6	$ (141.3)
Net earnings (loss) per Share (basic)	$ 0.04	$ (1.18)	$ 0.14	$ (2.26)
Net earnings (loss) per Share (fully diluted)	$ 0.04	$ (1.18)	$ 0.14	$ (2.26)

The Company's net earnings per Share for 2021 Q2 of $0.04 increased from net losses per Share of $1.18 in 2020 Q2. The Company's net earnings per Share for 2021 Q2 YTD of $0.14 increased from net losses per Share of $2.26 in 2020 Q2 YTD. Net earnings per Share were higher in both periods due to NFI Forward savings and government grants increasing 2021 results, and the idling of production, non-recurring restructuring charges and COVID-19 related expenses decreasing 2020 results. The increase was partially offset by dilution from the Company's bought deal equity offering ("Offering") in March 2021, which NFI issued 8,446,000 common shares at a price of C$29.60 per share for gross proceeds to the Company of C$250 million.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)	**2021 Q2**	**2020 Q2**	**26-Weeks Ended June 27, 2021**	**26-Weeks Ended June 28, 2020**
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	$ 50,425	$ (43,574)	$ 104,769	$ 13,859
Interest paid	(14,697)	(15,005)	(33,351)	(30,711)
Income taxes paid	(6,430)	(547)	(15,561)	(12,448)
Net cash earnings	29,298	(59,126)	55,857	(29,300)
Cash flow generated by (used in) changes in working capital	61,841	55,644	(52,382)	9,435
Cash flow generated by (used in) operating activities	91,139	(3,482)	3,475	(19,865)
Cash flow from financing activities	(62,178)	(4,564)	(3,339)	28,951
Cash flow used in investing activities	(4,295)	(4,006)	(8,143)	(26,989)

Cash flows from operating activities

The 2021 Q2 net operating cash inflow of $91.1 million is comprised of $29.3 million of net cash earnings and $61.8 million of cash generated by working capital. The 2020 Q2 net operating cash outflow of $3.5 million is comprised of $59.1 million of net cash losses and $55.6 million of cash generated by working capital.

The 2021 Q2 YTD net operating cash inflow of $3.5 million is comprised of $55.9 million of net cash earnings and $52.4 of cash invested in working capital. The 2020 Q2 YTD net operating cash outflow of $19.9 million is comprised of net cash losses of $29.3 million and $9.4 million of cash generated by working capital.

Cash flow from financing activities

The cash outflow of $62.2 million during 2021 Q2 is comprised mainly of repayment of long-term debt of $46.5 million and dividend payments of $12.0 million. The cash outflow of $3.3 million during 2021 Q2 YTD is due to the Offering, offset by long-term debt repayments of $160.9 million, dividend payments of $22.3 million, lease obligation repayments of $10.3 million and $8.2 million of costs associated with the Offering.

Cash flow from investing activities

(U.S. dollars in thousands)	2021 Q2	2020 Q2	26-Weeks Ended June 27, 2021	26-Weeks Ended June 28, 2020
Acquisition of intangible assets	$ (604)	$ —	$ (604)	$ —
Proceeds from disposition of property, plant and equipment	704	50	3,018	150
Long-term restricted deposits	5,163	—	4,700	(15,510)
Acquisition of property, plant and equipment	(9,558)	(4,056)	(15,257)	(11,629)
Cash used in investing activities	$ (4,295)	$ (4,006)	$ (8,143)	$ (26,989)

Cash used in investing activities was higher in both the quarter-to-date and year-to-date periods, primarily due to increased investments in property, plant and equipment, partially offset by proceeds from long-term restricted deposits. Investment in property, plant and equipment and intangible assets was higher in both periods due to the Company limiting capital expenditures during the idling of production in 2020 Q2.

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 liability of $21.6 million at June 27, 2021 (December 27, 2020: $33.1 million liability) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded in finance costs for the reported period. The unrealized losses recorded on the instrument are a result of interest rate reductions subsequent to entering into the transaction.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management believes that the credit risk associated with accounts receivable is mitigated by the significant proportion of counterparties that are well established public transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. public sector customer payments - up to 80% of the capital cost of new transit buses, coaches or cutaways, while the remaining 20% comes from state and municipal sources. There are a few U.S. public sector customers that obtain 100% of their funding from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. Management 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 earnings (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	**June 27, 2021**	December 27, 2020
Current, including holdbacks	$ 345,214	$ 380,328
Past due amounts but not impaired		
1 – 60 days	25,973	39,988
Greater than 60 days	5,409	7,081
Less: allowance for doubtful accounts	(387)	(989)
Total accounts receivables, net	$ 376,209	$ 426,408

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 June 27, 2021:

U.S. dollars in thousands	Total	2021	2022	2023	2024	2025	Post 2025
Leases	191,378	12,928	23,428	20,008	15,215	11,177	108,622
Accrued benefit liability	2,639	2,639	—	—	—	—	—
	$ 194,017	$ 15,567	$ 23,428	$ 20,008	$ 15,215	$ 11,177	$ 108,622

As at June 27, 2021, outstanding surety bonds guaranteed by the Company amounted to $394.5 million, representing an increase compared to $357.2 million at December 27, 2020. The estimated maturity dates of the surety bonds outstanding at June 27, 2021 range from July 2021 to December 2026. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company had established a letter of credit sub-facility of $100.0 million. As at June 27, 2021, letters of credit amounting to $11.8 million (December 27, 2020: $11.8 million) remained outstanding as security for the contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of £50.0 million ($68.9 million). As at June 27, 2021, letters of credit totaling $36.1 million were outstanding under the bi-lateral credit facility. Additionally, there are $25.3 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at June 27, 2021.

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 become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date.

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(490,356)	—	—	—	March 26 2021	$10.20	$1.55
December 30, 2013	612,050	(573,668)	(9,631)	(28,751)	—	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	—	(14,331)	(103,919)	34,633	January 2, 2026	$54.00	$9.53
January 2, 2019	284,674	—	(31,404)	(126,640)	126,630	January 2, 2027	$33.43	$5.01
July 15, 2019	2,835	—	—	(709)	2,126	July 15, 2027	$35.98	$4.90
December 31, 2019	519,916	—	(36,603)	(120,834)	362,479	December 31, 2027	$26.81	$3.36
December 28, 2020	258,673	—	—	—	258,673	December 28, 2028	$24.70	$6.28
February 10, 2021	1,894	—	—	—	1,894	December 28, 2028	$28.74	$6.28
	3,198,743	(1,337,399)	(117,396)	(957,513)	786,435		$28.66	

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 become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date. No options have been issued under the 2020 option plan.

The following reconciles the Share options outstanding:

	2021 Q2		2020 Q1	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,503,117	C$29.32	1,068,906	C$30.77
Granted during the period	260,567	C$24.73	519,916	C$26.81
Expired during the period	(12,410)	C$37.17	—	C$0.00
Exercised during the period	(7,326)	C$10.20	(8,646)	C$13.45
Balance at end of period	1,743,948	$28.66	1,580,176	C$29.56

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 8,385 director restricted Share units ("Director RSUs"), with a total value of $183 thousand, in 2021 Q2. Approximately $70 thousand of the issued Director RSUs were exercised and exchanged for 3,216 shares.

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 to the 2020 Annual Financial Statements.

New and amended standards adopted by the Company

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

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

On December 23, 2020, 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. Through the amendments, 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, until April 3, 2023. The general security agreement is in place until the later of April 3, 2023 or the date on which NFI has delivered two consecutive fiscal quarters with a total leverage ratio at less than 3.75 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 June 27, 2021. 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 has a two-year term with options to extend. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin. The UK Facility matures on May 4, 2022, and as such is treated as a current portion of long-term debt on the balance sheet, but there is a mutual extension option to May 2023, and management fully anticipates to extend the facility.

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2021 and 2022 have been relaxed. During 2021, the Company received a waiver from its lenders regarding the total net leverage covenant and will instead need to comply with a total net leverage ratio that is based on a conservative financial projection for the Company's 2021 fiscal year.

Beginning in 2022, the Company will be required to maintain a total net leverage ratio at follows:

January 3, 2022 - April 3, 2022	<5.00
April 4, 2022 - July 3, 2022	<4.50
July 4, 2022 - October 2, 2022	<4.25
October 3, 2022 and thereafter	<3.75

The Company will also have to comply with a $50 million minimum liquidity covenant at all times until the total net leverage covenant is less than 3.75x, a total net debt to capitalization ratio of less than 0.70:1.00 during 2021, and an interest coverage ratio of at least 2.25x during 2021 and 3.00x beginning in the first quarter 2022. The amended facilities require the dividend payment not exceed the current level.

Management believes the Company's cash position, anticipated future revenues, liquidity from credit facilities together with access to equity markets and other borrowings capacity are sufficient to support current operations, dividends and strategic initiatives.

NFI believes that its existing liquidity combined with the additional financial flexibility provided from the Offering will allow it to pursue its operational and strategic goals, such as investments in NFI's zero-emission products and electric propulsion technology, investments required under the previously disclosed NFI Forward cost-reduction initiative and other potential growth opportunities, in addition to continuing to return capital to shareholders through dividends.

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

	June 27, 2021	December 27, 2020
Total Leverage Ratio (must be less than 6.65 [2020: 6.25])	4.37	4.90
Interest Coverage Ratio (must be greater than 2.25 [2020: 3.00])	3.63	4.11
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2020: N/A])	0.52	N/A

US dollars in thousands	**June 27, 2021**	December 27, 2020
Liquidity Position (must be greater than $50 million)	$ 389,307	$ 233,459

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 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 2023 as the recovery from COVID-19 continues, the Company achieves the benefits of the NFI Forward strategic cost reduction initiatives and a Company wide focus on reducing working capital.

Compliance with financial covenants is reviewed monthly by the executive team 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 an annual basis or when strategic capital transactions arise.

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in 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 is commencing production of its medium-duty Equess CHARGE™ electric bus in the second half of 2021, subject to completion of Altoona testing. 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 a number of autonomous 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. The Company 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 2021 Q2 Free Cash Flow was C$18.9 million compared to declared dividends of C$15.1 million during this period. For 2020 Q2 Free Cash Flow was C$(58.9) million compared to declared dividends of C$13.3 million. This resulted in a payout ratio of 79.9% in 2021 Q2 compared to (22.6)% in 2020 Q2.

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

Total Capital Distributions to Shareholders (U.S. dollars in millions)	2021 Q2	2020 Q2	2021 Q2 YTD	2020 Q2 YTD
Dividends paid	$ 12.0	$ 9.5	$ 22.3	$29.8
Total	$ 12.0	$ 9.5	$ 22.3	$ 29.8

Controls and Procedures

Internal Controls over Financial Reporting

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

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

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company's ICFR as of December 27, 2020 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 June 27, 2021, 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 June 27, 2021, were effective.

Appendix A - Meaning of Certain References

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

The common shares of NFI (“Shares”) are traded on the Toronto Stock Exchange ("TSX") under the symbol “NFI”. As at March 28, 2021, 70,981,860 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI’s annual information form, is available on SEDAR at www.sedar.com.

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

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

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

References to "Adjusted ETR" are to the effective tax rate, which is based on current tax rates in the jurisdictions in which NFI operates, anticipated financial results, the Company’s corporate structure and the assumption that there will not be significant changes in applicable tax rates in 2021, adjusted for non-recurring and discrete items.

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. 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 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, will not occur or be achieved.

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; 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 may cease to exist, which may limit the ability of shareholders to trade Shares; the market price for the Shares may be volatile; if securities or industry analysts do not publish research or reports about the Company and its business, if they adversely change their recommendations regarding the Shares or if the Company’s results of operations do not meet their expectations, the Share price and trading volume could decline; in addition, if securities or industry analysts publish inaccurate or unfavorable research about the Company or its business, the Share price and trading volume of the Shares could decline; competition in the industry and entrance of new competitors; current requirements under "Buy America" regulations may change and/or become more onerous or suppliers' "Buy America" content may change; failure of the Company to comply with the U.S. Disadvantaged Business Enterprise ("DBE") program requirements or the failure to have its DBE goals approved by the U.S. Federal Transit Administration; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; uncertainty resulting from the exit of the UK from the European Union; requirements under Canadian content policies may change and/or become more onerous; operational risk resulting from inadequate or failed internal processes, people and/or systems or from external events, including fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, floods, technology failures, processing errors, business integration, damage to physical assets, employee safety and insurance coverage; international operations subject the Company to additional risks and costs and may cause profitability to decline; compliance with international trade regulations, tariffs and duties; dependence on limited sources or unique sources of supply; a disruption of the supply of components containing microprocessors and other computer chips could materially adversely affect the production and sale of the Company's vehicles and certain other products; dependence on supply of engines that comply with emission regulations; a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company's products; the Company's profitability can be adversely affected by increases in raw material and component costs; the Company may incur material losses and costs as a result of product warranty costs, recalls and remediation of transit buses and motor coaches; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events may lead to production curtailments or shutdowns; the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour; the Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage; the Company may be adversely affected by rising insurance costs; the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts; the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability claims; the Company may have difficulty selling pre-owned coaches and realizing expected resale values; the Company may incur costs in connection with regulations relating to axle weight restrictions and vehicle lengths; the Company may be subject to claims and liabilities under environmental, health and safety laws; dependence on management information systems and cyber security risks; the Company's ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees; the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business; the Company's risk management policies and procedures may not be fully effective in achieving their intended purposes; internal controls over financial reporting, no matter how well designed, have inherent limitations; there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products or model variants; acquisition risk; reliance on third-party manufacturers; third-party distribution/dealer agreements; availability to the Company of future financing; the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt; the restrictive covenants in the 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; NFI is dependent on its subsidiaries for all cash available for distributions; future sales or the possibility of future sales of a substantial number of Shares may impact the price of the Shares and could result in dilution; if the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected; income tax risk resulting from the Company's operations being complex and income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change; investment eligibility and Canadian federal income tax risks; certain U.S. tax rules may limit the ability of NF Holdings and its U.S. subsidiaries (the "NF Group") to deduct interest expense for U.S. federal income tax purposes and may increase the NF Group's tax liability.

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; supply delays and shortages of parts and components, and shipping and freight delays, and disruption to labour supply as a result of the pandemic; the pandemic will likely adversely affect operations of customers and reduce and delay, for an unknown period, customers' purchases of the Company's products; the anticipated 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 future satisfactory covenant relief under its credit facilities, if required, 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, 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. 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 (the "Guidance") include 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 Guidance 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 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.

DEFINITIONS OF ADJUSTED EBITDA, ROIC, FREE CASH FLOW, ADJUSTED NET EARNINGS (LOSS), ADJUSTED EARNINGS (LOSS) PER SHARE, WORKING CAPITAL DAYS, REGIONS INCLUDING: NORTH AMERICA, UK AND EUROPE, ASIA PACIFIC, AND OTHER

References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization after adjusting for the effects of certain non-recurring and/or non-operations related items that do not reflect the current ongoing cash operations of the Company. These adjustments include gains or losses on disposal of property, plant and equipment, fair value adjustment for total return swap, unrealized foreign exchange losses or gains on non-current monetary items and forward foreign exchange contracts, costs associated with assessing strategic and corporate initiatives, past service costs and other pension costs or recovery, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, proportion of the total return swap realized, proportion of the total return swap realized, equity settled stock-based compensation, unrecoverable insurance costs, prior year sales tax provision, extraordinary COVID-19 costs, impairment loss on goodwill and non-recurring restructuring costs.

References to "ROIC" are to net operating profit after taxes (calculated as Adjusted EBITDA less depreciation of plant and equipment, depreciation of right-of-use assets and income taxes at a rate of 31%) divided by average invested capital for the last 12-month period (calculated as to shareholders' equity plus long-term debt, obligations under leases, other long-term liabilities and derivative financial instrument liabilities less cash).

"Free Cash Flow" means net cash generated by or used in operating activities adjusted for changes in non-cash working capital items, interest paid, interest expense, income taxes paid, current income tax expense, principal portion of finance lease payments, cash capital expenditures, proceeds from disposition of property, plant and equipment, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, defined benefit funding, defined benefit expense, past service costs and other pension costs or recovery, proportion of total return swap, unrecoverable insurance costs, prior year sales tax provision, non-recurring restructuring costs, extraordinary COVID-19 costs, foreign exchange gain or loss on cash held in foreign currency.

References to "Adjusted Net Earnings (Loss)" are to 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 including: fair value adjustments of total return swap, unrealized foreign exchange loss or gain, unrealized gain or loss on the interest rate swap, impairment loss on goodwill, portion of the total return swap realized, costs associated with assessing strategic and corporate initiatives, fair value adjustment to acquired subsidiary company's inventory and deferred revenue, equity settled stock-based compensation, gain or loss on disposal of property, plant and equipment, past service costs and other pension costs or recovery, unrecoverable insurance costs, recovery on currency transactions, prior year sales tax provision, other tax adjustments, extraordinary COVID-19 costs and non-recurring restructuring costs.

References to "Adjusted Earnings (Loss) per Share" are to Adjusted Net Earnings (Loss) divided by the average number of Shares outstanding.

References to "Working Capital Days" are to the calculated number of days to convert working capital to cash, 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).

Management believes Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss), Adjusted Earnings (Loss) per Share and Working Capital Days are useful measures in evaluating the performance of the Company. However, Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss), Adjusted Earnings (Loss) per Share and Working Capital Days are not recognized earnings or cash flow measures under IFRS and do not have standardized meanings prescribed by IFRS. Readers of this MD&A are cautioned that ROIC, Adjusted Net Earnings (Loss), Adjusted EBITDA and Working Capital days should not be construed as an alternative to net earnings or loss or cash flows from operating activities determined in accordance with IFRS as an indicator of NFI's performance, and Free Cash Flow and Working Capital Days should not be construed as an alternative to cash flows from operating, investing and financing activities determined in accordance with IFRS as a measure of liquidity and cash flows. A reconciliation of net earnings to Adjusted EBITDA, based on the Financial Statements, has been provided under the headings "Reconciliation of Net Earnings (Loss) to Adjusted EBITDA". A reconciliation of Free Cash Flow to cash flows from operations is provided under the heading "Summary of Free Cash Flow". A reconciliation of net earnings to Adjusted Net Earnings (Loss) is provided under the heading "Reconciliation of Net Earnings (Loss) to Adjusted Net Earnings (Loss)".

NFI's method of calculating Adjusted EBITDA, ROIC, Free Cash Flow, Adjusted Net Earnings (Loss), Adjusted Earnings (Loss) per Share, and Working Capital Days may differ materially from the methods used by other issuers and, accordingly, may not be comparable to similarly titled measures used by other issuers. Dividends paid from Free Cash Flow are not assured, and the actual amount of dividends received by holders of Shares will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings available on SEDAR at www.sedar.com.

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

2021 Appendix B - 2021 Second Quarter Order Activity

Demand for Transit Buses and Motor Coaches

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

NFI's end markets showed strong signs of recovery in the second quarter of 2021. After reaching highs not seen since 2017, during the first half of 2020 there were significant declines in Active Bids during 2020 Q3 and 2020 Q4 as a result of the pandemic and declining demand in the Company's core markets, the Company's Active Bids rebounded significantly in 2021 Q2 with an increase of 48.4%, or 2,220 EUs, from 2021 Q1, and 68.8% from 2020 Q4. Management expects Active Bids will continue to grow and improve throughout 2021 as markets recover from the COVID-19 pandemic and new government funding begins to reach transit agencies.

Compared to the same period in 2020, Active Bids are down by 7.4%, or 554 EUs, primarily driven by the significant highs seen in 2020 Q2 as agencies deferred bids due to the pandemic.

The forecasted five-year industry procurement was down 3.1%, or 591 EUs, quarter-over-quarter, and down 17.6%, or 3,878 EUs, from the same period in 2020. The decrease in longer-term forecasts is primarily a result of an increase in active bids, plus transit agencies and operators revisiting their capital plans as they evaluate the impact of COVID-19, new government funding announcements and their zero-emission vehicle strategy. As customers evaluate their electric vehicle transition plans, some procurements for traditional propulsion have slowed. Management anticipates that forecasted five-year industry procurement will increase as transit agencies and operators learn more about and are able to access the multi-billion funding programs announced and being launched by governments in Canada and the U.S. As at 2021 Q2, 9,464 units, or 37.8%, of the Total Bid Universe is ZEBs which supports management's expectations for an increase in demand for ZEBs in the future.

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)
2020 Q2	2,975	4,374	7,349	22,089	29,438
2020 Q3	1,927	4,294	6,221	19,280	25,501
2020 Q4	297	3,735	4,032	20,346	24,378
2021 Q1	1,532	3,053	4,585	18,802	23,387
2021 Q2	**3,590**	**3,215**	**6,805**	**18,211**	**25,016**

(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 remain relatively flat in 2020 prior to the occurrence of the pandemic. The UK market was hit disproportionately hard by the COVID-19 pandemic, with bus patronage down by nearly 80% at its worst point in 2020, and overall deliveries down by 24%. We have started to see recovery in 2021 due to customers' fleet recovery plans, a government focus on the green recovery, and an aging vehicle fleet.

Management has seen improvement in demand for vehicles in the UK with volumes up 162% in 2021 Q2 versus 2020 Q2 and while management expects that the numbers will continue to fall short of pre-pandemic levels throughout 2021, management expects there will be improvement in 2022. In Asia Pacific, the Hong Kong market is highly cyclical, and, following busier periods in 2015 through 2018, the market has declined as expected. 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 2021. 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 into 2021. Recovery in 2021 will 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 2021 Q2 totaled 1,120 EUs, a decrease of 7.6% from 2021 Q1 and an increase of 128.1% from 2020 Q2. The new firm and option orders awarded to the Company for LTM 2021 Q2 were 4,014 EUs, which was relatively flat with LTM 2020 Q2. The Company was successful at converting 402 EUs of options to firm orders during 2021 Q2, an increase of 45.1% from 2021 Q1 and on par with 2020 Q2. These conversions contributed to the 1,092 EUs of options converted to firm orders during LTM 2021 Q2, a decline of 31.0% from LTM 2020 Q2. These LTM declines were primarily related to the impacts of COVID-19 on order activity.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2020 Q2	491	4,031	401	1,582
2020 Q3	684	3,680	242	1,595
2020 Q4	998	3,519	171	953
2021 Q1	1,212	3,385	277	1,091
2021 Q2	**1,120**	**4,014**	**402**	**1,092**

Options

In 2021 Q2, 519 option EUs expired, compared to 108 option EUs that expired during 2021 Q1 and 492 EUs that expired in 2020 Q2. Nearly all of these expiries related to contracts awarded in 2016 that had not been executed within the standard five-year conversion period.

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	627						3,963
B) Options Exercised (EUs)	2,064	1,404	1,795	1,518	953	679						8,413
C) Current Options by year of expiry (EUs)						561	2,245	576	105	609	550	4,646
D) Conversion rate % = B / (A+B)	**79 %**	**81 %**	**71 %**	**75 %**	**44 %**							

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

In addition to contracts for identified public customers, the Company has increased 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 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 600 vehicle awards from these schedules since 2018 showing their growing use by transit agencies as a procurement avenue in North America.

The Company's LTM 2021 Q2 Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 84.6%, a decrease of 15.0% from LTM 2020 Q2 of 99.6%.

In addition, 494 EUs of new firm and option orders were pending from customers at the end of 2021 Q2, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog.

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 40.2% of the total backlog as of the end of 2021 Q2, up from 36.1% as of the end of 2021 Q1.

There were 1,311 ZEBs in the backlog as at the end of 2021 Q2, representing approximately 16.1% of the total backlog.[1]

	2021 Q2			2021 Q1			2020 Q2		
	Firm Orders	**Options**	**Total**	**Firm Orders**	**Options**	**Total**	**Firm Orders**	**Options**	**Total**
Beginning of period	3,307	5,279	8,586	3,240	5,264	8,504	4,082	6,497	10,579
New orders	832	288	1,120	812	400	1,212	491	0	491
Options exercised	402	(402)	0	277	(277)	0	401	(401)	0
Shipments(1)	(989)	—	(989)	(955)	—	(955)	(545)	—	(545)
Cancelled/expired	(30)	(519)	(549)	(67)	(108)	(175)	(29)	(492)	(521)
End of period	**3,522**	**4,646**	**8,168**	**3,307**	**5,279**	**8,586**	**4,400**	**5,604**	**10,004**
Consisting of:									
Heavy-duty transit buses	2,621	4,172	6,793	2,471	4,767	7,238	3,161	5,130	8,291
Motor coaches	405	474	879	503	512	1,015	867	474	1,341
Cutaway and medium-duty buses	496	—	496	333	—	333	372	—	372
Total Backlog	**3,522**	**4,646**	**8,168**	**3,307**	**5,279**	**8,586**	**4,400**	**5,604**	**10,004**

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

At the end of 2021 Q2, the Company's total backlog (firm and options) of 8,168 EUs (valued at $4.3 billion) decreased slightly compared to 8,586 EUs (valued at $4.4 billion) at the end of 2021 Q1. The decrease was driven by deliveries in the quarter, cancellations, and delays in new awards within North American and UK transit operations. The summary of the values is provided below.

	2021 Q2		2021 Q1		2020 Q2	
		Equivalent Units		**Equivalent Units**		**Equivalent Units**
Total firm orders	$ 1,842.7	3,522	$ 1,714.4	3,307	$ 2,032.9	4,400
Total options	2,411.8	4,646	2,640.4	5,279	2,817.9	5,604
Total backlog	**$ 4,254.5**	**8,168**	**$ 4,354.9**	**8,586**	**$ 4,850.8**	**10,004**

(1) Due to a classification error, NFI's 2021 Q1 ZEBs as a percentage of total backlog was overstated at 18.3%. The correct figure was 12.5%.

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

June 27, 2021

TABLE OF CONTENTS

NFI GROUP INC.

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

13-weeks and 26-weeks ended June 27, 2021 ("2021 Q2" and "2021 Q2 YTD", respectively) and 13-weeks and 26-weeks ended June 28, 2020 ("2020 Q2" and "2020 Q2 YTD", respectively)

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

		2021 Q2		2020 Q2		Q2 2021 YTD		Q2 2020 YTD
Revenue (note 14)	$	582,794	$	333,334	$	1,156,913	$	1,043,718
Cost of sales (note 4)		513,280		350,713		1,001,565		977,412
Gross profit		69,514		(17,379)		155,348		66,306
Sales, general and administration costs and other operating expenses		49,794		52,186		107,063		111,643
Foreign exchange (gain) loss		(6,954)		2,436		(5,307)		1,280
Impairment loss on goodwill		—		—		—		50,790
Earnings (loss) from operations		26,674		(72,001)		53,592		(97,407)
(Loss) gain on disposition of property, plant and equipment		(10)		(229)		345		(392)
Unrealized foreign exchange (loss) gain on non-current monetary items		(2,107)		2,163		(4,636)		2,206
Earnings (loss) before interest and income taxes		24,557		(70,067)		49,301		(95,593)
Interest and finance costs								
Interest on long-term debt		13,855		11,799		26,678		22,880
Accretion in carrying value of long-term debt (note 9)		1,229		798		2,347		1,024
Interest expense on lease liability		1,630		1,875		3,311		3,769
Other interest and bank charges		1,033		1,160		3,208		2,616
Fair market value (gain) loss on interest rate swap		(3,817)		1,258		(11,489)		23,736
		13,930		16,890		24,055		54,025
Earnings (loss) before income tax expense		10,627		(86,957)		25,246		(149,618)
Income tax expense (recovery) (note 8)		8,040		(12,907)		15,626		(8,329)
Net earnings (loss) for the period	$	2,587	$	(74,050)	$	9,620	$	(141,289)
Other comprehensive income (loss)								
Actuarial (loss) gain on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss		(3,147)		(8,941)		9,836		(6,683)
Unrealized foreign exchange gain (loss) on translation of foreign operations		2,484		(1,557)		7,634		(22,865)
Total comprehensive income (loss) for the period		1,924		(84,548)		27,090		(170,837)
Net earnings (loss) per share (basic) (note 11)	$	0.04	$	(1.18)	$	0.14	$	(2.26)
Net earnings (loss) per share (diluted) (note 11)	$	0.04	$	(1.18)	$	0.14	$	(2.26)

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 June 27, 2021
(in thousands of U.S. dollars)

		June 27, 2021		December 27, 2020
Assets				
Current				
Cash	$	47,695	$	55,769
Accounts receivable (note 3, 13c)		376,209		426,408
Inventories (note 4)		659,908		657,036
Income tax receivable		14,222		18,759
Derivative financial instruments (note 13 a,b)		356		4,490
Prepaid expenses and deposits		19,489		13,308
		1,117,879		1,175,770
Property, plant and equipment		231,687		232,150
Right-of-use asset		130,681		133,373
Goodwill and intangible assets		1,168,006		1,177,381
Accrued benefit asset		5,353		319
Other long-term assets (note 5)		34,757		36,922
		2,688,363		2,755,915
Liabilities				
Current				
Accounts payable and accrued liabilities	$	441,840	$	523,461
Derivative financial instruments (note 13 a,b)		386		1,078
Current portion of long-term debt (note 9)		69,650		—
Current portion of long-term liabilities (note 6)		141,397		148,610
		653,273		673,149
Accrued benefit liability		14,266		21,061
Obligations under leases		131,354		130,674
Deferred compensation obligation		5,615		3,234
Deferred revenue		16,186		15,608
Provisions (note 7)		62,128		56,605
Deferred tax liabilities		75,480		76,689
Derivative financial instruments (note 13 a,b)		21,579		33,069
Long-term debt (note 9)		893,980		1,125,685
	$	1,873,861	$	2,135,774
Commitments and contingencies (note 15)				
Shareholders' equity				
Share capital (note 10)		871,807		681,405
Stock option and restricted share unit reserve		9,532		8,400
Accumulated other comprehensive income (loss)		16,357		(1,113)
Deficit		(83,194)		(68,551)
	$	814,502	$	620,141
	$	2,688,363	$	2,755,915

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 June 27, 2021

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Retained (Deficit) Earnings	Total Shareholders' Equity
Balance, December 29, 2019	**$ 680,962**	**$ 6,828**	**$ 769**	**$ 128,639**	**$ 817,198**
Net loss	—	—	—	(141,289)	(141,289)
Other comprehensive loss	—	—	(29,548)	—	(29,548)
Dividends declared on common shares	—	—	—	(19,207)	(19,207)
Share-based compensation, net of deferred income taxes	—	658	—	—	658
Shares issued	185	(89)	—	—	96
Balance, June 28, 2020	**$ 681,147**	**$ 7,397**	**$ (28,779)**	**$ (31,857)**	**$ 627,908**
Net loss	—	—	—	(16,447)	(16,447)
Other comprehensive income	—	—	27,666	—	27,666
Dividends declared on common shares	—	—	—	(20,247)	(20,247)
Share-based compensation, net of deferred income taxes	—	1,273	—	—	1,273
Shares issued	258	(270)	—	—	(12)
Balance, December 27, 2020	**$ 681,405**	**$ 8,400**	**$ (1,113)**	**$ (68,551)**	**$ 620,141**
Net earnings	—	—	—	9,620	9,620
Other comprehensive income	—	—	17,470	—	17,470
Dividends declared on common shares	—	—	—	(24,263)	(24,263)
Equity transaction cost	(8,592)	—	—	—	(8,592)
Share-based compensation, net of deferred income taxes	—	1,275	—	—	1,275
Shares issued	198,994	(143)	—	—	198,851
Balance, June 27, 2021	**$ 871,807**	**$ 9,532**	**$ 16,357**	**$ (83,194)**	**$ 814,502**

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 and 26-weeks ended June 27, 2021 ("2021 Q2" and "2021 Q2 YTD", respectively) and 13-weeks and 26-weeks ended June 28, 2020 ("2020 Q2" and "2020 Q2 YTD", respectively)

(in thousands of U.S. dollars)

	2021 Q2	2020 Q2	2021 Q2 YTD	2020 Q2 YTD
Operating activities				
Net earnings (loss) for the period	$ 2,587	$ (74,050)	$ 9,620	$ (141,289)
Income tax expense	8,040	(12,907)	15,626	(8,329)
Depreciation of plant and equipment	15,253	17,420	31,617	35,007
Amortization of intangible assets	8,250	10,726	16,450	23,279
Share-based compensation	502	551	1,151	565
Interest and finance costs recognized in profit or loss	13,930	16,891	24,055	54,027
Fair value adjustment for total return swap	(264)	(275)	(702)	1,695
Unrealized foreign exchange loss (gain) on non-current monetary items	2,107	(2,173)	4,636	(2,216)
Foreign exchange loss (gain) on cash held in foreign currency	34	14	67	(33)
Impairment loss on goodwill	—	—	—	50,790
(Gain) loss on disposition of property, plant and equipment	10	229	(345)	392
Impairment loss on right-of-use asset	—	—	1,792	—
Defined benefit expense	364	1,522	2,239	3,013
Defined benefit funding	(388)	(1,522)	(1,437)	(3,042)
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	50,425	(43,574)	104,769	13,859
Changes in non-cash working capital items (note 12)	61,841	55,644	(52,382)	9,435
Cash generated by operating activities before interest and income taxes paid	112,266	12,070	52,387	23,294
Interest paid	(14,697)	(15,005)	(33,351)	(30,711)
Income taxes paid	(6,430)	(547)	(15,561)	(12,448)
Net cash generated by (used) in operating activities	91,139	(3,482)	3,475	(19,865)
Financing activities				
Repayment of obligations under lease	(3,296)	(4,481)	(10,341)	(7,555)
(Repayment of) proceeds from long-term debt	(46,523)	1,647	(160,935)	58,452
Share issuance	—	—	198,849	96
Equity transaction cost	(364)	—	(8,592)	—
Proceeds from short-term debt	—	7,773	—	7,773
Dividends paid	(11,995)	(9,503)	(22,320)	(29,815)
Net cash (used by) generated from financing activities	(62,178)	(4,564)	(3,339)	28,951
Investing activities				
Acquisition of intangible assets	(604)	—	(604)	—
Proceeds from disposition of property, plant and equipment	704	50	3,018	150
Investment in long-term restricted deposits	5,163	—	4,700	(15,510)
Acquisition of property, plant and equipment	(9,558)	(4,056)	(15,257)	(11,629)
Net cash used in investing activities	(4,295)	(4,006)	(8,143)	(26,989)
Effect of foreign exchange rate on cash	(34)	(14)	(67)	33
Increase (decrease) in cash	24,632	(12,066)	(8,074)	(17,870)
Cash — beginning of period	23,063	22,429	55,769	28,233
Cash — end of period	$ 47,695	$ 10,363	$ 47,695	$ 10,363

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".

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on August 3, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

2.3 Principles of consolidation

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

Subsidiaries

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

2.4 Fiscal Periods

	Period from December 28, 2020 to January 2, 2022 ("Fiscal 2021")			Period from December 30, 2019 to December 27, 2020 ("Fiscal 2020")		
	Period End Date		# of Calendar Weeks	Period End Date		# of Calendar Weeks
Quarter 1	March 28, 2021	("2021 Q1")	13	March 29, 2020	("2020 Q1")	13
Quarter 2	June 27, 2021	("2021 Q2")	13	June 28, 2020	("2020 Q2")	13
Quarter 3	September 26, 2021	("2021 Q3")	13	September 27, 2020	("2020 Q3")	13
Quarter 4	January 2, 2022	("2021 Q4")	14	December 27, 2020	("2020 Q4")	13
Fiscal year	January 2, 2022		53	December 27, 2020		52

(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 Company's consolidated financial statements are presented in U.S. dollars as this presentation is most meaningful to financial statement users. References to "$" are to U.S. dollars, references to "C$" are to Canadian dollars 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

		June 27, 2021		December 27, 2020
Trade, net of allowance for doubtful accounts	$	341,560	$	383,086
Other		34,649		43,322
	$	376,209	$	426,408

4. INVENTORIES

		June 27, 2021		December 27, 2020
Raw materials	$	305,938	$	299,476
Work in process		249,302		216,311
Finished goods		104,668		141,249
	$	659,908	$	657,036

		2021 Q2		2020 Q2		**2021 Q2 YTD**		2020 Q2 YTD
Cost of inventories recognized as expense and included in cost of sales	$	502,330	$	341,388	$	965,654	$	960,183
Write-down of inventory to net realizable value in cost of sales		1,756		18,592		2,698		20,183
Reversals of a previous write-down in inventory		—		—		—		403

5. OTHER LONG-TERM ASSETS

		June 27, 2021		December 27, 2020
Long-term restricted deposit (note 15c)	$	25,300	$	30,000
Long-term accounts receivable		8,619		5,113
Non-current asset held for sale		838		1,809
	$	34,757	$	36,922

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

The non-current asset held for sale represents a production facility and equipment available for sale. The facility and equipment are expected to be sold within twelve months. The facility and equipment are part of the manufacturing segment operations.

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

6. CURRENT PORTION OF LONG TERM LIABILITIES

	June 27, 2021	December 27, 2020
Deferred revenue	$ 99,723	$ 99,454
Provisions (note 7)	18,301	28,208
Deferred compensation obligation	760	1,045
Obligations under leases	22,613	19,903
	$ 141,397	$ 128,727

7. PROVISIONS

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

The restructuring provision consists of employee termination benefits associated with the "NFI Forward" restructuring initiative that was announced on July 27, 2020 (note 17).

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 29, 2019	$ 27,497	—	63,997	91,494
Additions	6,352	20,102	39,889	66,343
Amounts used/realized	(8,137)	(15,184)	(41,045)	(64,366)
Unused provision	(2,533)	(1,401)	(5,163)	(9,097)
Unwinding of discount and effect of changes in the discount rate	—	—	60	60
Exchange rate differences	—	189	190	379
December 27, 2020	$ 23,179	3,706	$ 57,928	$ 84,813
Additions	4,381	—	16,464	20,845
Amounts used/realized	(2,070)	(2,704)	(20,488)	(25,262)
Unused provision	—	(654)	—	(654)
Unwinding of discount and effect of changes in the discount rate	—	—	9	9
Exchange rate differences	(5)	38	645	678
	25,485	386	54,558	80,429
Less current portion	3,000	386	14,915	18,301
June 27, 2021	$ 22,485	$ —	$ 39,643	$ 62,128

8. INCOME TAX EXPENSE

The income tax expense for 2021 Q2 was $8.0 million compared to a recovery of $12.9 million in 2020 Q2. The increase in the overall income tax expense is primarily due to increased earnings before taxes.

The income tax expense for 2021 Q2 YTD was $15.6 million compared to a recovery of $8.3 million in 2020 Q2 YTD. The increase in the overall income tax expense is primarily due to increased earnings before taxes, offset by the absence of a non-deductible write-down of goodwill which negatively impacted the 2020 Q2 YTD ETR.

The Effective Tax Rate ("ETR") for 2021 Q2 was 75.6% and the ETR for 2020 Q2 was 14.9%. The ETR for 2021 Q2 YTD was 61.9% and the ETR for 2020 Q2 YTD was 5.6%. The 2021 Q2 YTD ETR is negatively impacted by the U.S. base erosion and anti-abuse tax (BEAT) (9.8%), a write-off of unapplied foreign tax credits (12.6%), and the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25% (22.4%). These detrimental items are partially offset by the impact of non-taxable foreign exchange income (11.6%).

9. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value June 27, 2021**	Net Book Value December 27, 2020
Revolving Credit Facility, Secured (“Credit Facility”)	896,100	2,120	893,980	1,060,847
Revolving Credit Facility, Secured ("UK Facility")	69,829	179	69,650	64,838
	965,929	2,299	963,630	1,125,685
Less current portion			69,650	—
			893,980	1,125,685

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 June 27, 2021. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

On May 4, 2020 NFI entered into the £50 million secured, revolving UK Facility to support ADL's operations in the UK. The facility has a two-year term with options to extend. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin. The UK Facility matures on May 4, 2022 with an extension option to May 2023.

10. SHARE CAPITAL

		June 27, 2021		December 27, 2020
Authorized - Unlimited				
Issued - 70,985,076 Common Shares (December 27, 2020: 62,524,842)	$	871,807	$	681,405

The following is a summary of changes to the issued and outstanding capital stock of common shares (the "Shares") during the period:

Shares	Number (000s)		Net Book Value
Balance - December 27, 2020	62,525	$	681,405
Stock options exercised	7		59
Restricted share units exercised	7		143
Issuance of Shares	8,446		190,200
Balance - June 27, 2021	70,985	$	871,807

On March 1, 2021, NFI closed a bought-deal equity offering with a syndicate of underwriters pursuant to which NFI issued 8,446,000 Shares at a price of C$29.60 per share for gross proceeds to the Company of C$250 million. Net proceeds of the offering were $190.2 million.

11. EARNINGS PER SHARE

		2021 Q2		2020 Q2		**2021 Q2 YTD**		2020 Q2 YTD
Net earnings (loss) attributable to equity holders	$	2,587	$	(74,050)	$	9,620	$	(141,289)
Weighted average number of Shares in issue		70,985,041		62,506,539		68,010,530		62,502,800
Add: net incremental Shares from assumed conversion of stock options, exercise of restricted share units and Share issuance		166,002		—		184,260		—
Weighted average number of Shares for diluted earnings per Share		71,151,043		62,506,539		68,194,790		62,502,800
Net earnings (loss) per Share (basic)	$	0.0364	$	(1.1847)	$	0.1414	$	(2.2605)
Net earnings (loss) per Share (diluted)	$	0.0364	$	(1.1847)	$	0.1411	$	(2.2605)

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

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

11. EARNINGS PER SHARE (Continued)

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

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	**2021 Q2**	2020 Q2	**2021 Q2 YTD**	2020 Q2 YTD
Accounts receivable	$ 49,715	$ 185,497	$ 50,199	$ 270,390
Income tax receivable	—	(3,129)	—	(1,017)
Inventories	(20,006)	19,808	(7,537)	(59,049)
Prepaid expenses and deposits	(3,992)	(4,091)	(6,181)	(5,695)
Accounts payable and accrued liabilities	24,824	(159,699)	(81,616)	(203,466)
Deferred revenue	17,021	12,371	846	14,451
Provisions	(1,581)	(284)	(4,395)	(890)
Other	(4,140)	5,171	(3,698)	(5,289)
	$ 61,841	$ 55,644	$ (52,382)	$ 9,435

13. 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)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	June 27, 2021				
	Fair value level		Carrying amount		Fair value
Financial assets recorded at fair value					
Cash	Level 1	$	47,695	$	47,695
Long-term restricted deposit	Level 1	$	25,300	$	25,300
Foreign exchange forward contracts	Level 2	$	356	$	356
Derivative financial instrument assets - current		$	356	$	356
Financial liabilities recorded at fair value					
Total return swap contracts	Level 2	$	386	$	386
Derivative financial instrument liabilities - current		$	386	$	386
Interest rate swap	Level 2	$	21,579	$	21,579
Derivative financial instrument liabilities - long term		$	21,579	$	21,579

	December 27, 2020				
	Fair value level		Carrying amount		Fair value
Financial assets recorded at fair value					
Cash	Level 1	$	55,769	$	55,769
Long-term restricted deposit	Level 1	$	30,000	$	30,000
Foreign exchange forward contracts	Level 2	$	4,490	$	4,490
Derivative financial instrument assets - current		$	4,490	$	4,490
Financial liabilities recorded at fair value					
Total return swap contracts	Level 2	$	1,078	$	1,078
Derivative financial instrument liabilities - current		$	1,078	$	1,078
Interest rate swap	Level 2	$	33,069	$	33,069
Derivative financial instrument liabilities - long term		$	33,069	$	33,069

(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, restricted share units, and deferred share units. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As at June 27, 2021 the Company held a position of 249,644 Shares at a weighted average price of C$29.85. 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 June 27, 2021, the Company had $97.2 million of foreign exchange forward contracts to buy currencies in which the Company operates with U.S. dollars, Canadian dollars, or GBP. These foreign exchange contracts range in expiry dates from July 2021 to December 2021. The related asset of $0.4 million (December 27, 2020: $4.5 million) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net earnings (loss) and total comprehensive income (loss).

(c) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At June 27, 2021, the Company had a cash balance of $47.7 million (December 27, 2020: $55.8 million), $896.1 million under the Credit Facility due in 2024 (December 27, 2020: $1.063 billion), $69.8 million under the UK Facility due in 2022 (December 27, 2020: $65.1 million), and $11.8 million of outstanding letters of credit (December 27, 2020: $11.8 million). In addition, there are $61.4 million of the letters of credit outstanding outside of the Credit Facility. The Credit Facility has a total borrowing limit

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 June 27, 2021 is $389.3 million.

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at June 27, 2021:

US dollars in thousands	Total	2021	2022	2023	2024	2025	Post 2025
Leases	191,378	12,928	23,428	20,008	15,215	11,177	108,622
Accrued benefit liability	2,639	2,639	—	—	—	—	—
	$ 194,017	$ 15,567	$ 23,428	$ 20,008	$ 15,215	$ 11,177	$ 108,622

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.

	June 27, 2021	December 27, 2020
Current, including holdbacks	$ 345,214	$ 380,328
Past due amounts but not impaired		
1 – 60 days	25,973	39,988
Greater than 60 days	5,409	7,081
Less: Allowance for doubtful accounts	(387)	(989)
Total accounts receivables, net	$ 376,209	$ 426,408

As at June 27, 2021, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

On December 23, 2020, 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.

The calculation of the financial covenants at June 27, 2021 are provided below. As at June 27, 2021, the Company was in compliance with the requirements.

	June 27, 2021	December 27, 2020
Total Leverage Ratio (must be less than 6.65 [2020: 6.25])	4.37	4.90
Interest Coverage Ratio (must be greater than 2.25 [2020: 3.00])	3.63	4.11
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2020: N/A])	0.52	N/A

US dollars in thousands	June 27, 2021	December 27, 2020
Liquidity Position (must be greater than $50 million)	$ 389,307	$ 233,459

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

14. 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.

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

14. SEGMENT INFORMATION (Continued)

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

The Manufacturing Operations segment has recorded vendor rebates of $1,344 (2020 Q2: $1,538), which have been recognized into earnings during 2021, 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.

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:

	2021 Q2			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 459,290	$ 123,504	—	$ 582,794
Operating costs and expenses	458,815	101,960	11,392	572,167
Earnings (loss) before income tax expense	475	21,544	(11,392)	10,627
Total assets	1,913,274	494,413	280,676	2,688,363
Addition of capital expenditures	9,547	11	—	9,558
Indefinite-life intangible assets	249,198	19,122	—	268,320
Goodwill	342,445	189,783	—	532,228

	2021 Q2 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 918,485	$ 238,428	—	$ 1,156,913
Operating costs and expenses	902,021	198,540	31,106	1,131,667
Earnings (loss) before income tax expense	16,464	39,888	(31,106)	25,246
Total assets	1,913,274	494,413	280,676	2,688,363
Addition of capital expenditures	15,065	192	—	15,257
Indefinite-life intangible assets	249,198	19,122	—	268,320
Goodwill	342,445	189,783	—	532,228

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

14. SEGMENT INFORMATION (Continued)

	2020 Q2			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 248,598	$ 84,736	—	333,334
Operating costs and expenses	322,270	76,580	21,441	420,291
Earnings (loss) before income tax expense	(73,672)	8,156	(21,441)	(86,957)
Total assets	1,885,561	493,837	257,939	2,637,337
Addition of capital expenditures	3,813	243	—	4,056
Addition of goodwill and intangibles assets	—	—	—	6,095
Impairment loss on goodwill	—	—	—	(50,790)
Indefinite-life intangible assets	245,021	18,454	—	263,475
Goodwill	330,432	185,768	—	516,200

	2020 Q2 YTD			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 843,654	$ 200,064	—	1,043,718
Operating costs and expenses	957,407	173,914	62,015	1,193,336
Earnings (loss) before income tax expense	(113,753)	26,150	(62,015)	(149,618)
Total assets	1,885,561	493,837	257,939	2,637,337
Addition of capital expenditures	11,123	506	—	11,629
Addition of goodwill and intangibles assets	6,095	—	—	6,095
Impairment loss on goodwill	(50,790)	—	—	(50,790)
Indefinite-life intangible assets	245,021	18,454	—	263,475
Goodwill	330,432	185,768	—	516,200

The Company's revenue by geography is summarized below:

	2021 Q2	2020 Q2	**2021 Q2 YTD**	2020 Q2 YTD
North America	$ 452,174	$ 288,164	$ 923,913	$ 894,176
UK and Europe	93,738	33,071	177,862	132,389
Asia Pacific	36,882	11,655	55,138	16,049
Other	—	444	—	1,104
Total	$ 582,794	$ 333,334	$ 1,156,913	$ 1,043,718

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

	2021 Q2	2020 Q2	**2021 Q2 YTD**	2020 Q2 YTD
Transit buses	$ 338,763	$ 209,118	$ 697,511	$ 681,050
Motor coaches	96,159	29,806	170,047	119,861
Medium-duty and cutaway buses	11,128	6,491	22,330	22,038
Pre-owned coach	6,786	824	16,822	6,831
Infrastructure solutions	5,273	1,416	9,170	11,674
Fiberglass reinforced polymer components	1,181	943	2,605	2,200
Manufacturing revenue	$ 459,290	$ 248,598	$ 918,485	$ 843,654

15. COMMITMENTS AND CONTINGENCIES

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

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at June 27, 2021 range from July 2021 to December 2026.

At June 27, 2021, outstanding surety bonds guaranteed by the Company totaled $394.5 million (December 27, 2020: $357.2 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(c) The Company has a letter of credit sub-facility of $100.0 million as part of the Credit Facility (December 27, 2020: $100.0 million). As at June 27, 2021, letters of credit totaling $11.8 million (December 27, 2020: $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 June 27, 2021, letters of credit totaling $36.1 million were outstanding under the bi-lateral credit facility (December 27, 2020: $22.1 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 June 27, 2021, 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.

16. GOVERNMENT GRANTS

On March 27, 2020, the Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of wages paid to employees during the COVID-19 pandemic.

The claims submitted or expected to be submitted under the CEWS program are $15.5 million for the second quarter and $34.2 million for the year. Claims totaling $31.0 million are included in 'Accounts Receivable' on the Company's unaudited interim condensed consolidated statement of financial position at June 27, 2021. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CEWS has been recognized as an offset to wage expense ($13.4 million in Q2 2021 and $29.8 million for Q2 2021 YTD against 'Cost of Sales' and $2.1 million in Q2 2021 and $4.4 million in Q2 2021 YTD against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's unaudited interim condensed consolidated statement of net earnings (loss) and total comprehensive income (loss). The Company will continue to evaluate its eligibility under the CEWS program in subsequent periods.

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

The claims submitted under the CJRS program are $1.7 million for the second quarter and $4.8 million for the year, $0.8 million of which is included in 'Accounts Receivable' on the Company's unaudited interim condensed consolidated statement of financial position at June 27, 2021. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the CJRS has been recognized as an offset to wage expense ($1.7 million in Q2 2021 and $4.7 million in Q2 2021 YTD against 'Cost of Sales' and $nil in Q2 2021 and $0.1 million in Q2 2021 YTD against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's unaudited interim condensed consolidated statement of net earnings (loss) and total comprehensive income (loss). The Company will continue to evaluate its eligibility under the CJRS program in subsequent periods.

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

16. GOVERNMENT GRANTS (Continued)

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 claims submitted or expected to be submitted under the CERS program are $0.7 million for the second quarter and $0.7 million for the year. Claims totaling $0.7 million are included in 'Accounts Receivable' on the Company's unaudited interim condensed consolidated statement of financial position at June 27, 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 ($0.7 million in Q2 2021 and $0.7 million for Q2 2021 YTD against 'Selling, General and Administration Costs and Other Operating Expenses') on the Company's unaudited interim condensed consolidated statement of net earnings (loss) and total comprehensive income (loss). The Company will continue to evaluate its eligibility under the CERS program in subsequent periods.

17. RESTRUCTURING

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

	Q2 2021	Q2 2021 YTD	Fiscal 2020
Employee termination benefits (note 14)	$ 97	$ 486	$ 18,701
Right-of-use asset impairments (note 6)	—	1,661	3,597
Write-down of inventory to net realizable value (note 4)	—	208	1,849
Write-down of property, plant and equipment (note 5)	—	—	1,728
Other	69	183	568
Total restructuring costs	$ 166	$ 2,538	$ 26,443

18. COMPARATIVE FIGURES

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