NFI

Financial Results
Third Quarter 2023

November 8, 2023

NFI's mobility solutions

Workforce Development & Training

VIC VEHICLE INNOVATION CENTER
AD24 Training Academy
NEW FLYER Institute
NFI Learning Institute
MCI | MCI Academy Training for Advancing Technology

Buses & Coaches

NEW FLYER
MCI
ALEXANDER DENNIS
ARBOC SPECIALTY VEHICLES
PLAXTON

Infrastructure Solutions

NFI Infrastructure Solutions™

NFI

Parts, Publications & Service

NFI Service
AD24
nfi.parts

Financing

NFI Financial Solutions™

Connected Vehicles & Diagnostics

NFI Connect™
CONNECT 360

Notes to readers

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS, 39-WEEKS, AND 52-WEEKS ENDED OCTOBER 1, 2023

Information in this Management’s Discussion and Analysis (“MD&A”) relating to the financial condition and results of operations of NFI Group Inc. and its subsidiaries (collectively referred to as “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 39-week period ended October 1, 2023.

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

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

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

Notes to readers

Specific references and definitions are used throughout this MD&A, please see the Non-IFRS and Other Financial Measures section. References to LTM mean last-twelve months ("LTM"). Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), Invested Capital, net operating profit after taxes ("NOPAT"), return on invested capital ("ROIC"), Free Cash Flow, Free Cash Flow per Share, Adjusted Net Loss, Adjusted Net Loss per Share, Liquidity, Working Capital Days, Payout Ratio, Book-to-Bill, Backlog, Total Leverage Ratio, Interest Coverage Ratio, Total Net Debt to Capitalization, Minimum Cumulative Adjusted EBITDA and Senior Secured Net Leverage Ratio 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. Non-IFRS measures have been denoted with an “NG”.

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

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

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

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

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

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

Leader in zero-emission transportation

140M+
Electric service miles driven

3,361
ZEB EUs delivered since 2015

238
ZEB EUs delivered in 2023 Q3

23%
of new EUs delivered in 2023 Q3 were ZEBs

52%
of North American Public Bid Universe is ZEBs

~8,000
EUs annual ZEB production capacity

3,456
ZEBs in backlog[NG]

36%
of total backlog[NG] is ZEBs

150+
Cities have NFI ZEBs in service or on order

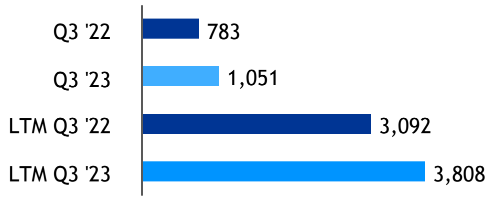
6
Countries have NFI ZEBs in service or on order

425+
EV chargers delivered via Infrastructure Solutions™ since 2018

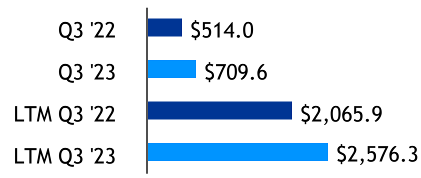
82
Megawatts charging capacity delivered via Infrastructure Solutions™ since 2018

Key Performance Indicators

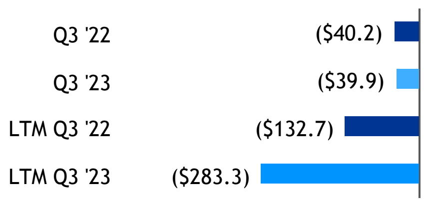
Deliveries (EUs)



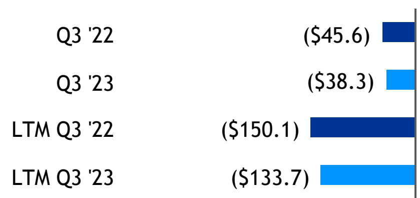
Revenue ($ millions)



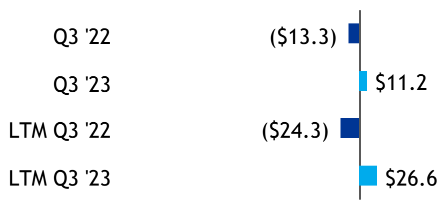
Net Loss ($ millions)



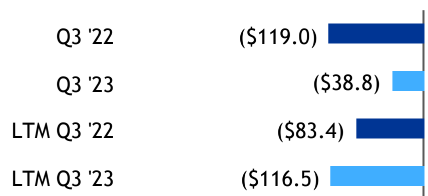
Adjusted Net Loss[1] ($ millions)



Adjusted EBITDA[1] ($ millions)

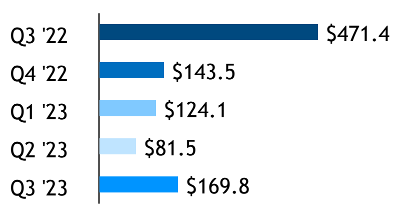


Net cash generated by (used in) operating activities ($ millions)

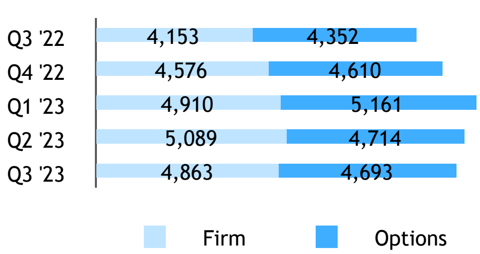


Working Capital Days[2]

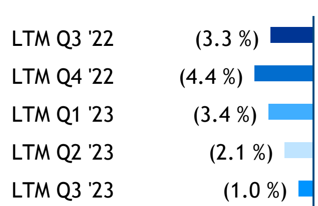
Total Liquidity[2] ($ millions)



Backlog[2] (EUs)



ROIC[3]



Footnotes

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

Financial Results

NFI's 2023 third quarter financial results saw sequential and year-over-year improvement with increases in vehicle deliveries, parts sales revenue, and gross profit. NFI's performance continues to be challenged by ongoing global supply chain challenges and associated production inefficiencies, and the impacts of heightened inflation, supplier surcharges and rapid foreign exchange movements on select legacy contracts bid in 2020 and 2021. While these challenges negatively impacted results, there was significant improvement when compared to the same period in 2022, as overall supply chains showed improvement, and there were fewer production inefficiencies, supporting stronger absorption of overheads.

The Company's end markets remain strong, with significant order and award activity, a robust North American public bid environment, and unprecedented government funding for public transit across multiple markets. The Aftermarket business segment ("Aftermarket") experienced another strong period of performance, with year-over-year revenue growth and record quarterly Adjusted EBITDA[1].

Full details of the Company's orders, deliveries, and backlog[1] information can be found in Appendix B.

Deliveries (EUs)	2023 Q3	2022 Q3	% Change	2023 Q3 LTM	2022 Q3 LTM	% Change
Transit buses	799	598	33.6 %	2,783	2,344	18.7 %
Motor coaches	156	143	9.1 %	602	547	10.1 %
Medium-duty and cutaway	96	42	128.6 %	423	201	110.4 %
New vehicle deliveries	1,051	783	34.2 %	3,808	3,092	23.2 %
Pre-owned coach	27	84	(67.9 %)	267	160	66.9 %
Zero-emission deliveries (included in the above totals)	238	104	128.8 %	964	696	38.5 %
Zero-emission deliveries as a percentage of total new vehicle deliveries	22.6 %	13.3 %	69.9 %	25.3 %	22.5 %	12.4 %

Revenue (dollars in millions)	2023 Q3	2022 Q3	% Change	2023 Q3 LTM	2022 Q3 LTM	% Change
Transit buses	450.1	306.7	46.8 %	1,582.8	1,212.3	30.6 %
Motor coaches	96.3	76.5	25.9 %	366.9	321.0	14.3 %
Medium-duty and cutaway	12.7	4.5	182.2 %	49.1	24.4	101.2 %
Total New Vehicle Revenue	**559.1**	**387.7**	**44.2 %**	**1,998.8**	**1,557.7**	**28.3 %**
Pre-owned coach revenue	4.2	5.8	(27.6 %)	21.1	9.9	113.1 %
Infrastructure Solutions™	2.0	0.9	122.2 %	8.6	9.8	(12.2 %)
Fiberglass reinforced polymer components	1.7	1.5	13.3 %	8.3	6.1	36.1 %
Manufacturing Revenue	**567.0**	**395.9**	**43.2 %**	**2,036.8**	**1,583.5**	**28.6 %**
Aftermarket	142.6	118.1	20.7 %	539.5	482.4	11.8 %
Total Revenue	**709.6**	**514.0**	**38.1 %**	**2,576.3**	**2,065.9**	**24.7 %**
North America	572.6	397.0	44.2 %	2,010.3	1,517.1	32.5 %
United Kingdom and Europe	125.6	97.2	29.2 %	524.4	456.8	14.8 %
Asia Pacific	11.4	19.8	(42.4 %)	41.6	92.0	(54.8 %)

Manufacturing revenue for 2023 Q3 increased by $171.1 million, or 43.2%, compared to 2022 Q3. The increase was driven by higher new vehicle deliveries. While quarterly deliveries have seen improvement both year-over-year and sequentially from 2023 Q2, they have been impacted by supply chain challenges and related production inefficiencies. These challenges are largely the result of suppliers recovering from the impacts of the COVID-19 pandemic, which created numerous bottlenecks in the supply chain, disruptions to certain parts availability and overall lower supplier production levels. However, NFI has experienced significant improvement in supplier performance and on-time production during the quarter, supporting NFI's continued ramp-up in vehicle production rates.

Quarterly revenue of the Company's Infrastructure Solutions™ division increased by $1.1 million. The increase is primarily due to the timing of revenue recognition on open contracts. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 391 plug-in and 35 overhead charger projects, for 60 different customers.

Aftermarket revenue for 2023 Q3 increased by $24.5 million, or 20.7% compared to 2022 Q3. The increase is mainly related to increased volume in the North America region. Aftermarket sales prices have been impacted by heightened inflation, also contributing to the increase in revenue. The Company continues to benefit from a multi-year retrofit program in the Asia-Pacific region, which continued throughout 2023 Q3, but at a lower run rate. The 2023 Q3 LTM sales under the program were $21.8 million, a decrease of $15.9 million compared to 2022 Q3 LTM sales of $37.7 million.

Net Earnings (Loss) (dollars in millions, except per share amounts)	2023 Q3	2022 Q3	*% Change*	2023 Q3 LTM	2022 Q3 LTM	*% Change*
Manufacturing	(39.9)	(55.3)	*27.8 %*	(252.5)	(196.8)	*(28.3 %)*
Aftermarket	27.2	11.9	*128.6 %*	95.6	69.6	*37.4 %*
Corporate	(27.2)	3.3	*(924.2 %)*	(126.4)	(5.4)	*(2,240.7 %)*
Net Loss	**(39.9)**	**(40.2)**	***0.7 %***	**(283.3)**	**(132.7)**	***(113.5 %)***
Adjusted Net Loss[1]	(38.3)	(45.6)	*16.0 %*	(133.7)	(150.1)	*10.9 %*
Net Loss per Share	(0.42)	(0.53)	*20.8 %*	(3.48)	(1.74)	*(100.0 %)*
Adjusted Net Loss per Share[1]	(0.41)	(0.60)	*31.7 %*	(1.64)	(1.97)	*16.8 %*

Adjusted EBITDA[1] (dollars in millions)	2023 Q3	2022 Q3	*% Change*	2023 Q3 LTM	2022 Q3 LTM	*% Change*
Manufacturing	(14.2)	(36.8)	*61.4 %*	(83.7)	(126.4)	*33.8 %*
Aftermarket	31.7	18.2	*74.2 %*	113.6	88.4	*28.5 %*
Corporate	(6.3)	5.3	*(218.9 %)*	(3.3)	13.6	*(124.3 %)*
Total Adjusted EBITDA[1]	**11.2**	**(13.3)**	***184.2 %***	**26.6**	**(24.3)**	***209.5 %***
Adjusted EBITDA[1] as a percentage of revenue						
Manufacturing	(2.5 %)	(9.3 %)	*73.1 %*	(4.1 %)	(8.0 %)	*48.8 %*
Aftermarket	22.2 %	15.4 %	*44.2 %*	21.1 %	18.3 %	*15.3 %*
Total	**1.6 %**	**(2.6 %)**	***161.5 %***	**1.0 %**	**(1.2 %)**	***183.3 %***

In 2023 Q3, Manufacturing Adjusted EBITDA[1] increased by $22.6 million, or 61.4%, compared to 2022 Q3. The increase was driven by higher overall deliveries, favourable sales mix, and a lower number of legacy inflation-impacted contracts. Manufacturing experienced a net loss of $39.9 million in 2023 Q3 compared to a net loss of $55.3 million in 2022 Q3. The decrease in Manufacturing net loss was mainly attributable to the same items that impacted Manufacturing Adjusted EBITDA[1]. The 2023 Q3 LTM net loss has increased primarily due to goodwill impairment of $109.3 million recognized in 2022 Q4. The increase was partially offset by improvements to net loss throughout the current fiscal year. The increase in 2023 Q3 LTM Manufacturing Adjusted EBITDA[1] is attributable to the same items that impacted quarterly increases.

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

The 2023 Q3 Aftermarket segment realized record Adjusted EBITDA[1] of $31.7 million, a $13.5 million, or 74.2%, year-over-year increase. The increase in Adjusted EBITDA[1] was primarily due to improved sales volume and favourable product mix. Dynamic pricing, reduced freight costs, and higher demand for parts has contributed to the increase in Adjusted EBITDA[1]. This increase in Aftermarket Adjusted EBITDA[1] results were partially related to a multi-year retrofit program in the Asia-Pacific region, which will continue into early 2024, but at a lower run rate as the program unwinds. The 2023 Q3 Aftermarket net earnings increased by $15.3 million, or 128.6%, primarily due to the same items that impacted Aftermarket Adjusted EBITDA[1]. Increases in net earnings and Adjusted EBITDA[1] for 2023 Q3 LTM is primarily due to the same items that impacted quarterly increases.

The 2023 Q3 Corporate Adjusted EBITDA[1] decreased by $11.6 million compared to 2022 Q3, primarily due to realized foreign exchange losses of $0.8 million incurred in 2023 Q3, compared to a realized gain of $6.3 million in 2022 Q3. Also contributing are increased operating expenses. Corporate net loss increased by $30.5 million compared to 2022 Q3, primarily due to the selling of the Company's interest rate swaps. Also contributing were increased interest on long-term debt, increased accruals for incentive compensation, and unfavourable fair value adjustments to the Company's convertible debenture cash conversion option. The 2023 Q3 LTM net loss increased due to increased interest and finance costs incurred, compared to 2022 Q3 LTM. The decrease in 2023 Q3 LTM Corporate Adjusted EBITDA[1] decreased due to the same items that impacted quarterly decreases.

Free Cash Flow[1] and net cash used in operating activities (dollars in millions, except per share amounts)	2023 Q3	2022 Q3	% Change	2023 Q3 LTM	2022 Q3 LTM	% Change
Net cash used in operating activities	(38.8)	(119.0)	*67.4 %*	(116.5)	(83.4)	*(39.7 %)*
Free Cash Flow[1]	(43.2)	(56.1)	*23.0 %*	(125.0)	(164.0)	*23.8 %*
Free Cash Flow[1] (CAD dollars)	(58.6)	(77.6)	*24.5 %*	(166.7)	(214.6)	*22.3 %*
Declared Dividends (CAD dollars)	—	4.1	*(100.0 %)*	—	28.7	*(100.0 %)*
Free Cash Flow per Share (CAD dollars)[2]	(0.62)	(1.02)	*39.2 %*	(2.05)	(3.18)	*35.5 %*
Dividends per Share (CAD dollars)	—	0.05	*(100.0 %)*	—	0.37	*(100.0 %)*
Payout Ratio (Declared Dividends divided by Free Cash Flow)[2]	— %	(5.3 %)	*100.0 %*	— %	(13.4 %)	*100.0 %*

Free Cash Flow[1] in 2023 Q3 increased by $12.9 million, or 23.0%, compared to 2022 Q3, mainly due to reduced cash used in operating activities for the period offset by and increased interest paid.

Cash used in operating activities in 2023 Q3 was $38.8 million, a decrease of $80.2 million or 67.4%, compared to cash used in 2022 Q3 of $119.0 million. The decrease is mainly due to a significant decrease in changes to non-cash working capital offset by increases in interest paid, and an increase in net losses. The 2023 Q3 LTM net cash used in operating activities increased by 39.7% compared to 2022 Q3 LTM, primarily due to an increase in net losses and interest paid.

	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3
Working Capital Days[3]	63	64	69	68	70
Liquidity ($ million)[3]	$ 169.8	$ 81.5	$ 124.1	$ 143.5	$ 471.4
Backlog[1] (EUs)	9,556	9,803	10,071	9,186	8,505
ROIC[1]	(1.0 %)	(2.1 %)	(3.4 %)	(4.4 %)	(3.3 %)

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

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

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

As part of the Company's increased focus on cash conversion and leverage reduction, the Company is actively focused on reducing Working Capital Days[NG], as supply-related disruptions to its operations have been improving. In 2023 Q3, Working Capital Days[NG] were 63, compared to 64 at the end of 2023 Q2, and 70 at the end of 2022 Q3. The decrease in Working Capital Days[NG] in 2023 Q3 compared to 2023 Q2 is mostly attributable to the increase in sales over the last twelve months, offset by an increase in average working capital balances. The increase of average working capital is primarily due to increases in accounts receivable as the Company had higher deliveries across each of its new vehicles and pre-owned coaches compared to 2023 Q2. As a result of these higher deliveries, work-in-progress has decreased from 2023 Q2, while raw materials has increased as production continues to ramp up. NFI is continuing focused efforts to lower work-in-process inventory and accelerate customer acceptance programs to lower working capital balances and improve Working Capital Days[NG].

The Company's liquidity[NG] position, which combines cash on-hand plus available capacity under its credit facilities, without consideration given to the minimum liquidity[NG] requirement of $50 million under the Amended Facilities[1], was $169.8 million at the end of 2023 Q3, up $88.3 million from the end of 2023 Q2. The increase in liquidity[NG] is due to the completion of the Company's comprehensive refinancing plan during 2023 Q3.

At the end of 2023 Q3, the Company's total backlog[NG] (firm and options) was 9,556 EUs, a 2.6% decrease compared to 9,803 EUs at the end of 2023 Q2, but still up over 1,000 EUs from 2022 Q3. The year-over-year decrease was driven by higher deliveries, offset by higher awards in the period and less cancellations/expiries. Backlog[NG] for 2023 Q3 had a total dollar value of $6.6 billion. In addition, there were 1,834 EUs of new firm and option orders that were in bid award pending at the end of 2023 Q3, up from 719 as of the end of 2023 Q2. These are orders where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company.

LTM 2023 Q3 return on invested capital ("ROIC")[NG] increased by 1.0% from LTM 2023 Q2, due to the increase in Adjusted EBITDA[NG] and a slight decrease in the invested capital base[NG] . The decrease in invested capital[NG] is primarily due to a decrease in long-term debt, offset by increases in cash and shareholders' equity as a result of the completion of the Company's comprehensive refinancing plan. Also contributing is an elimination of the Company's interest rate swaps and equity hedge, which were sold during the quarter.

Footnotes:

1. As described in the Capital Allocation section on page 32.

2023 Q3 Highlights

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

While there has been improvement, NFI's Manufacturing operations continued to experience inflation impacts related to legacy contracts bid in 2020 and 2021, and operational inefficiencies resulting from global supply chain challenges. NFI also saw delivery delays as a result of the installation of a liquid drainage system on select North American battery-electric buses to address a recall. As of the end of 2023 Q3, NFI had installed the drainage system on all the impacted buses and had delivered the majority of them, but there were still some vehicles in work-in-progress inventory at the end of the quarter. NFI expects it will deliver the remaining production impacted vehicles in the fourth quarter of 2023.

NFI continued to see supply chain performance improvement during the quarter and maintained its plan to slowly increase line entry rates, with a goal to reach pre-2020 levels by mid-2024. NFI increases manufacturing production slowly to match the addition of new team members and training requirements, and to ensure consistent supply. To support this ramp-up, NFI has taken numerous actions to drive supply performance improvement, including longer lead-times to suppliers, use of alternative suppliers at different levels of the supply chain, where appropriate, and carrying higher levels of inventory for certain components. The Company has also seen an easing of inflationary pressures related to components and raw materials.

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

Successful Completion of Refinancing Plan

On August 25, 2023, NFI announced that it had closed its comprehensive refinancing plan (the "Refinancing Plan"), raising total gross proceeds of approximately $444 million, from a combination of equity financings that generated total gross proceeds of approximately $263.6 million and from a second lien debt financing (the “Second Lien Financing”) that raised approximately $180.4 million. Through the equity financings, NFI issued a total of 41,759,574 new Shares.

Under the Refinancing Plan, NFI also completed amendments, including financial covenant waivers, to the Company’s existing North American senior secured credit facility (the “North American Facility”) and UK senior secured credit facility (the “UK Facility”, and together with the North American Facility, the “Secured Facilities”) and extended their maturities to April 30, 2026. NFI also extended the maturity of Manitoba Development Corporation’s ("MDC") and Export Development Canada’s (“EDC”) senior unsecured debt facilities to April 30, 2026; and completed a $25.0 million permanent repayment of the EDC facility, which is viewed as a temporary financing facility to support working capital.

Through the Refinancing Plan, NFI added approximately $136.8 million of additional liquidity[NG].

Strong Market Demand and Increasing Procurements

The Company continued to see strong demand metrics during the third quarter of 2023. In 2023 Q3, new orders increased by 113.9% and active bids of 10,361 EUs increased 2.5% year-over-year; the number of bids submitted during 2023 Q3 was 21.4% greater than those submitted in 2022 Q3; and there were 1,834 EUs in bid awards pending (where NFI had received notification of award from the customer, but formal purchase order documentation had not yet been finalized). This positions NFI for another quarter of strong backlog[NG] growth in the fourth quarter of 2023.

NFI's Total Public Bid Universe for North America was at an all-time high of 31,682 EUs and up 3.9% year-over-year, for another consecutive quarter of record EUs. The Company ended 2023 Q3 with 1,591 bids in process, and another 8,770 bids submitted, remaining at very strong levels, up 21.4% year-over-year. *See Appendix B for details.*

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

Zero-Emission Mobility—The *ZE*volution™

As at the end of 2023 Q3, NFI had 3,456 EUs of ZEBs in the backlog[NG], representing 36.2% of the total backlog[NG], down slightly from the record of 36.4% as at the end of 2023 Q1, but up from 21.2% at the end of 2022 Q3. As of 2023 Q3, 52.1%, of the Total Bid Universe were ZEBs, an increase of 13.3% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs. NFI sells buses to all of the 25 largest transit authorities in North America and has electric vehicles in service with 17 of these transit agencies. NFI also serves all of the UK's major transit and coach operators.

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

- USA: delivery of three zero-emission electric J4500 CHARGE™ coaches to Roberts Hawaii, marking the first delivery in the U.S. tour and charter travel market;
- UK: Alexander Dennis and BYD UK jointly announced that its electric vehicle partnership had delivered its 1,500th bus, a BYD-Alexander Dennis Enviro200EV for Go-Ahead London; and
- UK: Alexander Dennis announced that Transdev Blazefield ordered 19 next-generation Alexander Dennis battery-electric double deck buses, with part funding from the UK Government's Zero Emission Bus Regional Areas ("ZEBRA") scheme.

In July 2023, Alexander Dennis announced that its Enviro200AV autonomous bus had concluded testing as part of the 2023 Dubai World Challenge for Self-Driving Transport. Alexander Dennis and its technology partner Fusion Processing Ltd. were one of just six automotive consortia globally that the Roads and Transport Authority of Dubai shortlisted for the competition, which this year focused on buses.

On September 25, 2023, Alexander Dennis announced that it had appointed Big Rig Manufacturing ("Big Rig") as its contract manufacturing partner to meet an increased interest in the Enviro500 double deck bus in North America. Big Rig is a subsidiary of Big Rig Collision Group, a leading provider of truck, bus and motorcoach accident repairs in Canada and the United States. Starting in 2024, Big Rig will assemble clean diesel Enviro500 double deck buses and the zero-emission Enviro500EV CHARGE to Alexander Dennis designs, specifications, and processes at a new facility in Las Vegas, Nevada. The new arrangement is expected to replicate the highly successful, low-capital intensity partnerships Alexander Dennis has in the Asia-Pacific region with contract manufacturers in China and New Zealand.

Subsequent Events

On October 4, 2023, NFI announced a battery pack supply agreement with American Battery Solutions, to increase the resiliency of NFI's North American battery supply chain.

On October 5, NFI announced an order for up to 210 high-performance New Flyer Xcelsior® buses for Houston's Metropolitan Transit Authority; these EUs were included in NFI's 2023 Q3 backlog[NG].

On October 9, 2023, New Flyer announced that it had designed the 60-foot zero-emission, battery-electric Xcelsior CHARGE NG™ to include additional battery strings, thereby increasing the range of the bus. The addition of the seventh and eighth battery strings to the Xcelsior CHARGE NG raises the total capacity of the bus's energy storage system by 33%, resulting in the addition of approximately 46 more miles of range per charge.

On October 18, 2023, NFI announced that NFI's subsidiaries New Flyer of America Inc., Motor Coach Industries, Inc., ARBOC Specialty Vehicles, LLC, and Alexander Dennis Incorporated are now qualified manufacturers for the commercial clean vehicle credit under the Inflation Reduction Act. NFI's electric vehicles in the United States are eligible for up to $40,000 USD in U.S. tax credits, per vehicle.

On November 1, 2023, Alexander Dennis launched its next generation of battery-electric buses for the UK and Ireland, unveiling the new Enviro100EV midibus and Enviro400EV double-deck bus, designed in house.

Outlook

NFI anticipates positive improvements to revenue, gross profit, Adjusted EBITDA[NG] and Free Cash Flow[NG], a shift to net profit, and improvement in ROIC[NG] in the medium- to longer-term, as it delivers on its backlog[NG], and benefits from record government investments in public transportation, and growing demand for its buses, coaches, parts, and Infrastructure Solutions™ services.

Market demand is evident through the high volume of active bus and motor coach procurements in both North America and international markets. As of 2023 Q3, the Company's North American active bids remained high at 10,361 EUs. This bid activity is expected to drive additional backlog[NG] growth in the last quarter of 2023 and throughout 2024, and revenue growth in the medium- and longer-term. The current five-year demand within the Company's North American bid universe is also strong at 21,321 EUs, and, when combined with active bids, provides a record Total Bid Universe of 31,682 EUs.

In addition to the increased numbers of bids for ZEBs, the number of EUs per bid has increased, as transit agencies are progressing from pilot or trials to more active deployment and operation of ZEB fleets. NFI expects active ZEB bids to remain high through the coming years based on strong government funding levels supporting state, provincial and municipal ZEB adoption targets. In 2023 Q3, NFI also saw an increase in orders for ARBOC and MCI vehicles, up 93% and 47% year-over-year respectively. NFI was especially encouraged by growth in MCI demand within the private sector.

NFI's overall supply base continues to improve and the Company has seen the number of moderate and high risk suppliers decrease. NFI is working closely with its suppliers to monitor performance, and, due to the Company's strong order book, has been able to provide longer-term visibility to its supply base well into 2024. The improvement of on-time supplier delivery performance, combined with actions taken by NFI's supply and sourcing teams, supports expected increases to 2023 and 2024 production volumes.

NFI has commenced the increase of new vehicle production rates and is hiring new team members. The Company has seen success in these actions and added over 240 direct and indirect team members during the third quarter of 2023, primarily focused in North Americas. While there has been positive improvement, the labour market within the United States and the UK remains challenging. NFI will continue to ramp-up production and add personnel on a phased approach with gradual headcount additions throughout 2023 and in 2024 to support consistent supply and labour availability.

Gross margins and other profitability metrics are expected to improve in line with increases in production rates, increases to bus and coach deliveries, the reduction of work-in-progress vehicle inventory, and the completion of the remaining inflation-impacted legacy contracts, originally bid in 2020 and 2021. NFI anticipates that the majority of these legacy contracts will be delivered in 2023 and expects that less than 5% of 2024 H1 deliveries will be legacy inflation-impacted contracts. The Company has also experienced signs of commodities and material costs easing during the first three quarters of 2023 and anticipates that newer contracts in NFI's backlog[NG] now reflect appropriate, inflation-adjusted costing and pricing.

Strong Government Support for Recovery and Zero-Emission Transition

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

The importance of long-term government funding in key markets cannot be understated, as it allows public transit agencies to proceed with confidence regarding their multi-year fleet replacement plans and capital asset procurements. In addition to funding, ridership trends have begun to recover. The American Public Transportation Association's ("APTA") Ridership Trends Dashboard reports that, as of September 30, 2023, national public transit ridership in the U.S. was up about 80% year-over-year, showing continued signs of recovery.

In the U.S., the Infrastructure Investment and Jobs Act ("IIJA") signed in 2021 includes $86.9 billion over five years for the Federal Transit Administration ("FTA"); the IIJA also authorized an additional $21.2 billion in supplemental appropriations from general revenues, for a total of $108 billion in FTA funding, a 63% increase from the previous government funding act. Generally, U.S. public agencies can secure up to 80% of the capital costs for a new transit bus from FTA funds, with the remaining 20% coming from state and local sources. There are also several unique funding sources such as the FTA's Low- or No-Emission ("Low-No") and Buses and Bus Facilities ("BBF") programs, designed to assist with the incremental cost of ZEBs and the required charging infrastructure, that can sometimes cover 100% of the capital costs. On September 7, 2023, NFI announced that New Flyer was named the partner of choice on over $207 million in competitive grant awards through the FTA's 2023 Low-No and BBF programs, New Flyer's best Low-No and BBF performance to date. This $207 million is a significant improvement over the $41 million in grants from 2021, and an increase from the nearly $200 million in grants from 2022.

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

The UK government also continues to support purchases of low- and zero-emission buses, and has previously committed to introducing 4,000 British-built zero-emission buses through its various funding programs, with several rounds of the Zero Emission Bus Regional Areas, or "ZEBRA", funding scheme having already been released. Alexander Dennis has received several customer orders for ZEBs funded by ZEBRA, but overall the release of UK government funding has been slower than expected. In September 2023, Alexander Dennis hosted the UK government announcement of a new £129 million funding program, ZEBRA 2; ZEBRA 2 will provide £129 million to support the introduction of ZEBs in financial years 2023 to 2024, and 2024 to 2025, via a single-stage funding competition to award funding over both financial years.

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

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

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

The Company also continues to focus on growing its NFI Infrastructure Solutions™ business to assist customers in assessing their charging infrastructure requirements and to project manage infrastructure procurement and installation. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 391 plug-in and 35 overhead charger projects, for a total of 82 megawatts ("MW") charging capacity, for 60 different customers. Currently, Infrastructure Solutions™ has projects under contract for 2023-2025 with 7 existing and 5 new customers, which will add 147 plug-in and 42 overhead depot chargers, for a total of 34 MW.

Other International Markets

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

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

Financial Guidance and Targets

NFI updates its financial guidance for Fiscal 2023: revenue of $2.7 to $2.8 billion (previous: $2.6 to $2.8 billion) and Adjusted EBITDA[NG] of $45 to $65 million (previous: $40 to $60 million); anticipated ZEBs as a percentage of manufacturing sales and cash capital expenditures remain unchanged for 2023. NFI also reaffirms its Fiscal 2024, and its 2025 targets, as presented on March 1, 2023.

	2019 Pro-forma Results	2023 Guidance	2024 Guidance	2025 Targets
Revenue	$3.2 billion	**$2.7 to $2.8 billion**	$3.2 to $3.6 billion	~$4 billion
ZEBs (electric) as a percentage of manufacturing sales	6%	25% to 30%	30% to 35%	~40%
Adjusted EBITDA[NG]	$331 million	**$45 to $65 million**	$250 to $300 million	~$400 million
Cash Capital Expenditures		$35 to $40 million	$50 to $60 million	~$50 million
Return on Invested Capital[NG] - provided for 2025 targets	9.8%			>12%

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

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

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

- **Adjusted EBITDA[NG]**: Adjusted EBITDA[NG] performance is driven by 2023 year-to-date results, anticipated recoveries in new vehicle deliveries, changes to product mix, a higher percentage of ZEB deliveries, aftermarket segment contributions and anticipated improvements in operating margins due to recovery in supply chain health, improved labour efficiency and higher average vehicle sales prices. While there will be some impact to margins in 2023 and H1 2024 from legacy inflation impacted contracts, contracts secured in the second half of 2022 and in Fiscal 2023 reflect updated pricing and improved margins.

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

Guidance and targets above are conditional on several factors and expectations, including the recovery of supply chain performance, a higher percentage of ZEB sales (which provide a higher revenue and dollar margin benefit), the mitigation of inflationary pressures, end markets recovering inline with management expectations, international expansion, aftermarket parts sales, and continuous improvement initiatives.

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

Selected Quarterly and Annual Financial and Operating Information

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

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

Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA[1]	Earnings (loss) per Share
2023						
	Q3	709,620	(13,760)	(39,926)	11,167	(0.42)
	Q2	659,569	(11,297)	(48,101)	12,178	(0.62)
	Q1	524,411	(21,749)	(45,964)	7,409	(0.60)
	Total	**1,893,600**	**(46,806)**	**(133,991)**	**30,754**	**(1.64)**
2022						
	Q4	682,604	(139,206)	(149,444)	(4,156)	(1.94)
	Q3	514,047	(41,051)	(40,167)	(13,281)	(0.53)
	Q2	397,952	(63,497)	(56,009)	(20,624)	(0.73)
	Q1	459,330	(41,481)	(27,795)	(16,660)	(0.36)
	Total	**2,053,933**	**(285,235)**	**(273,415)**	**(54,721)**	**(3.56)**
2021						
	Q4	694,843	(4,785)	(8,691)	26,154	(0.12)
	Q3	492,038	(2,797)	(15,415)	31,330	(0.22)
	Q2	582,794	26,675	2,588	51,856	0.04
	Q1	574,119	26,918	7,033	54,841	0.10
	Total	**2,343,794**	**46,011**	**(14,485)**	**164,181**	**(0.21)**

Comparison of Third Quarter 2023 Results

(U.S. dollars in thousands)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022	52-Weeks Ended October 1, 2023	53-Weeks Ended October 2, 2022
Statement of Earnings Data						
Revenue						
North America	457,093	303,523	1,170,376	771,653	1,578,568	1,151,155
United Kingdom and Europe	103,352	79,026	293,088	216,416	438,353	378,283
Asia Pacific	6,611	13,436	10,923	18,327	19,830	54,297
Manufacturing operations	567,056	395,985	1,474,387	1,006,396	2,036,751	1,583,735
North America	115,493	93,545	336,477	280,002	431,579	366,243
United Kingdom and Europe	22,254	18,132	66,103	59,212	86,057	78,523
Asia Pacific	4,817	6,385	16,633	25,719	21,817	37,671
Aftermarket operations	142,564	118,062	419,213	364,933	539,453	482,437
Total revenue	$ 709,620	$ 514,047	$ 1,893,600	$ 1,371,329	$ 2,576,204	$ 2,066,172
Loss from operations	$ (13,760)	$ (41,051)	$ (46,806)	$ (146,027)	$ (186,012)	$ (150,814)
Loss before interest and income taxes	$ (1,540)	$ (38,026)	$ (39,585)	$ (148,383)	$ (175,272)	$ (158,783)
Net Loss	$ (39,926)	$ (40,167)	$ (133,835)	$ (123,971)	$ (283,279)	$ (132,662)
Adjusted EBITDA[1]	$ 11,167	$ (13,281)	$ 30,754	$ (50,565)	$ 26,598	$ (24,411)
Cash capital expenditures	$ 8,516	$ 6,199	$ 16,592	$ 16,639	$ 21,324	$ 29,587

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

Results of Operations

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

Revenue

(U.S. dollars in thousands)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022
Manufacturing Revenue	567,056	395,985	1,474,387	1,006,396
Aftermarket Revenue	142,564	118,062	419,213	364,933
Total Revenue	709,620	514,047	1,893,600	1,371,329
Loss from Operations	(13,760)	(41,051)	(46,806)	(146,027)
Loss before interest and income taxes	(1,540)	(38,026)	(39,585)	(148,383)
Loss before income tax expense	(44,472)	(50,300)	(154,549)	(160,444)
Net Loss	(39,926)	(40,167)	(133,835)	(123,971)

Manufacturing revenue for 2023 Q3 increased by $171.1 million, or 43.2%, compared to 2022 Q3. Manufacturing revenue for 2023 Q3 YTD increased by $468.0 million, or 46.5%, compared to 2022 Q3 YTD. Both quarter-to-date and year-to-date figures increased as a result of increased deliveries during the period.

Aftermarket revenue for 2023 Q3 increased by $24.5 million, or 20.8% compared to 2022 Q3. Aftermarket revenue for 2023 Q3 YTD increased by $54.3 million, or 14.9%, compared to 2022 Q3 YTD. Both quarter-to-date and year-to-date figures increased due to higher sales volume as the Aftermarket segment has experienced an increase in demand during 2023 Q3. Aftermarket sales were higher in the North American region offset by lower sales in the Asia-Pacific Region, as a specific multi-year retrofit program continues, but at lower run rates.

Cost of sales

(U.S. dollars in thousands)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022
Manufacturing				
Direct cost of sales	488,958	350,589	1,261,405	880,384
Depreciation and amortization	19,059	19,561	53,772	57,921
Other overhead	54,306	49,186	155,468	140,979
Manufacturing cost of sales	562,323	419,336	1,470,645	1,079,284
As percent of Manufacturing Sales	99.2 %	105.9 %	99.7 %	107.2 %
Aftermarket				
Direct cost of sales	95,191	85,197	281,802	256,852
Depreciation and amortization	2,411	2,722	7,329	7,994
Aftermarket cost of sales	97,602	87,919	289,131	264,846
As percent of Aftermarket Sales	68.5 %	74.5 %	69.0 %	72.6 %
Total Cost of Sales	659,925	507,255	1,759,776	1,344,130
As percent of Sales	93.0 %	98.7 %	92.9 %	98.0 %

The consolidated cost of sales for 2023 Q3 increased by $152.7 million, or 30.1%, compared to 2022 Q3. The consolidated cost of sales for 2023 Q3 YTD increased by $415.6 million, or 30.9%, compared to 2022 Q3 YTD.

Cost of sales from Manufacturing operations in 2023 Q3 was $562.3 million (99.2% of Manufacturing operations revenue) compared to $419.3 million (105.9% of Manufacturing operations revenue) in 2022 Q3, an increase of $143.0 million, or 34.1%. Cost of sales from Manufacturing operations in 2023 Q3 YTD was $1,470.6 million (99.7% of Manufacturing operations revenue) compared to $1,079.3 million (107.2% of Manufacturing operations revenue) in 2022 Q3 YTD. The increase in both periods was driven by higher bus and coach deliveries. Cost of sales decreased as a percentage of revenue in both periods, mainly due to a reduction of operational inefficiencies that resulted from supply shortages and impacts of inflation.

Cost of sales from Aftermarket operations in 2023 Q3 was $97.6 million (68.5% of Aftermarket revenue) compared to $87.9 million (74.5% of Aftermarket revenue) in 2022 Q3, a decrease of 6.0% as a percentage of revenue. Cost of sales from Aftermarket operations in 2023 Q3 YTD was $289.1 million (69.0% of Aftermarket revenue) compared to $264.8 million (72.6% of Aftermarket revenue) in 2022 Q3 YTD. Cost of sales decreased as a percentage of revenue in both periods primarily due to increased sales, and favourable product mix. Also contributing is mitigated inflationary impacts on labour, freight costs, and surcharges.

Gross Margins

(U.S. dollars in thousands)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022
Manufacturing	4,733	(23,351)	3,742	(72,888)
Aftermarket	44,962	30,143	130,082	100,087
Total Gross Margins	49,695	6,792	133,824	27,199
As a percentage of sales				
Manufacturing	0.8 %	(5.9 %)	0.3 %	(7.2 %)
Aftermarket	31.5 %	25.5 %	31.0 %	27.4 %
	7.0 %	1.3 %	7.1 %	2.0 %

Manufacturing gross margin for 2023 Q3 of $4.7 million (0.8% of Manufacturing revenue), increased by $28.1 million compared to a negative gross margin of $23.4 million ((5.9%) of Manufacturing revenue) for 2022 Q3. Manufacturing had a gross margin for 2023 Q3 YTD of $3.7 million (0.3% of Manufacturing revenue), an improvement of $76.6 million, or 105.1%, compared to a negative gross margin of $72.9 million ((7.2%) of Manufacturing revenue) in 2022 Q3 YTD.

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

Aftermarket gross margins for 2023 Q3 of $45.0 million (31.5% of Aftermarket revenue) increased by $14.8 million, or 49.2%, compared to 2022 Q3 gross margins of $30.1 million (25.5% of Aftermarket revenue). Aftermarket gross margins for 2023 Q3 YTD of $130.1 million (31.0% of Aftermarket revenue) increased by $30.0 million, or 30.0%, compared to 2022 Q3 YTD gross margins of $100.1 million (27.4% of Aftermarket revenue). The increase in gross margins and gross margins as a percentage of revenue are mainly due to increased sales, favourable product mix and the mitigated inflationary impacts on the cost of labour, freight and surcharges.

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

(U.S. dollars in thousands)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022
Selling expenses	7,189	11,262	20,703	24,525
General and administrative expenses	55,469	41,636	161,614	148,637
Other costs	—	1,267	—	5,825
Total SG&A	62,658	54,165	182,317	178,987

The consolidated SG&A for 2023 Q3 of $62.7 million (8.8% of consolidated revenue) increased by $8.5 million, or 15.7%, compared to $54.2 million (10.5% of consolidated revenue) in 2022 Q3. The consolidated SG&A for 2023 Q3 YTD of $182.3 million (9.6% of consolidated revenue) increased by $3.3 million, or 1.9%, compared to $179.0 million (13.1% of consolidated revenue) in 2022 Q3 YTD.

Consolidated SG&A increased in both periods primarily due to increased insurance premiums, cash settled compensation expense based on share grants, and additional hiring as the Company has added 240 new team members during 2023 Q3. These increases were partially offset by restructuring costs incurred during both periods which did not re-occur, and by realized fair value increases in the Company's total return swap as these swaps were unwound during 2023 Q3. Please see Note 16(b) of the unaudited interim condensed consolidated financial statements for disclosure of financial instruments and risk management.

Realized foreign exchange loss/gain

In 2023 Q3, the Company recorded a realized foreign exchange loss of $0.8 million compared to a gain of $6.3 million in 2022 Q3. In 2023 Q3 YTD, the Company recorded a realized foreign exchange gain of $1.7 million compared to a gain of $5.8 million in 2022 Q3 YTD.

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

Loss from operations

Consolidated losses from operations in 2023 Q3 were $13.8 million ((1.9%) of consolidated revenue) compared to losses of $41.1 million ((8.0%) of consolidated revenue) in 2022 Q3, an improvement of $27.3 million or 66.4%. Consolidated losses from operations in 2023 Q3 YTD were $46.8 million ((2.5%) of consolidated revenue) compared to a loss of $146.0 million ((10.6%) of consolidated revenue) in 2022 Q3 YTD.

In 2023 Q3, losses from operations attributable to the Manufacturing segment were $34.0 million ((6.0%) of Manufacturing revenue) compared to losses of $65.6 million ((16.6%) of Manufacturing revenue) in 2022 Q3. Losses from Manufacturing operations in 2023 Q3 YTD were $115.8 million ((7.9%) of Manufacturing revenue) compared to losses of $199.5 million ((19.8%) of Manufacturing revenue) in 2022 Q3 YTD, an improvement of $83.7 million, or 62.5%. The decreased loss as a percentage of revenue in both periods is primarily attributable to increased new vehicle deliveries, and a reduction in operational inefficiencies resulting from supply chain challenges.

Earnings from operations related to Aftermarket operations in 2023 Q3 were $27.1 million (19.0% of Aftermarket revenue) compared to $11.9 million (10.1% of Aftermarket revenue) in 2022 Q3. Earnings from operations related to Aftermarket operations in 2023 Q3 YTD were $77.0 million (18.4% of Aftermarket revenue) compared to $48.4 million (13.2% of Aftermarket revenue) in 2022 Q3 YTD. Earnings from Aftermarket operations increased in year-to-date figures due to favourable sales mix and a reduction of inflationary impacts on the cost of labour, freight, and surcharges.

Unrealized foreign exchange gain (loss)

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

(U.S. dollars in thousands)	**2023 Q3**	**2022 Q3**	**39-Weeks Ended October 1, 2023**	**39-Weeks Ended October 2, 2022**
Unrealized gain (loss) on forward foreign exchanges contracts	5,012	(5,997)	(1,618)	(12,288)
Unrealized gain (loss) on other long-term monetary assets/liabilities	(3,401)	8,478	(818)	8,957
	1,611	2,481	(2,436)	(3,331)

At October 1, 2023, the Company had $13.4 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 $0.1 million (January 1, 2023: $1.7 million asset) is recorded on the unaudited interim condensed consolidated statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net loss and total comprehensive loss.

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

In 2023 Q3, the Company recorded an EBIT loss of $1.5 million compared to an EBIT loss of $38.0 million in 2022 Q3. In 2023 Q3 YTD, the Company recorded EBIT loss of $39.6 million compared to EBIT loss of $148.4 million in 2022 Q3 YTD.

Interest and finance costs

The interest and finance charges for 2023 Q3 of $42.9 million increased by $30.7 million compared to $12.3 million in 2022 Q3. The interest and finance charges for 2023 Q3 YTD of $115.0 million increased by $102.9 million compared to interest and finance charges of $12.1 million in 2022 Q3 YTD. The quarterly increase is primarily due to higher interest cost on long-term debt as a result of elevated debt levels, and higher interest rates on components of the Company's debt. Also contributing are fair market value losses on the adjustment to the Company's interest rate swaps and the cash conversion option related to the convertible debt. The Company had a fair market value loss on the interest rate swap of $1.9 million in 2023 Q3 compared to a gain of $10.5 million in 2022 Q3. The Company had a fair market value loss on its cash conversion option of $1.5 million compared to a loss of $0.3 million in 2022 Q3. The Company had a fair market value loss on the interest rate swap of $9.4 million in 2023 Q3 YTD compared to a gain of $11.0 million in 2022 Q3 YTD. The Company had a fair market value loss on its cash conversion option of $3.4 million in 2023 Q3 YTD compared to a gain of $38.9 million in 2022 Q3 YTD.

On July 20, 2023, the Company sold its interest rate swap contracts (valued at $20.2 million asset at the end of 2023 Q2) for total proceeds of $18.4 million. NFI's equity hedge (valued at $2.6 million liability at the end of 2023 Q2) was unwound and removed from liabilities on the balance sheet. Please see Note 16 of the unaudited interim condensed consolidated financial statements for disclosure of financial instruments and risk management.

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

EBT loss for 2023 Q3 of $44.5 million decreased by $5.8 million compared to EBT loss of $50.3 million in 2022 Q3. EBT loss for 2023 Q3 YTD of $154.5 million decreased by $5.9 compared to EBT loss of $160.4 million in 2022 Q3 YTD. The primary drivers of the changes of EBT are addressed in the Earnings (loss) from Operations and interest and finance costs sections above.

Income tax recovery

The income tax recovery for 2023 Q3 was $4.5 million compared to $10.1 million in 2022 Q3. The reduced income tax recovery is primarily due to the non-recognition of deferred tax assets associated with Canadian loss carryforwards and restricted interest in the UK.

The income tax recovery for 2023 Q3 YTD is $20.7 million, compared to $36.5 million in 2022 Q3 YTD. The decrease in the overall income tax recovery is primarily due to the non-recognition of deferred tax assets associated with Canadian loss carryforwards and restricted interest in the UK, offset by the absence of a detrimental foreign exchange impact in 2022 Q3 YTD.

The Effective Tax Rate ("ETR") for 2023 Q3 was 10.2% and the ETR for 2022 Q3 was 20.1%. The ETR for 2023 Q3 YTD was 13.4% and the ETR for 2022 Q3 YTD was 22.7%. The 2023 Q3 ETR is negatively impacted by the non-recognition of deferred tax assets associated with Canadian loss carryforwards, and restricted interest in the UK.

Net loss

The Company reported net losses of $39.9 million in 2023 Q3, an increase of $0.3 million, or 0.8%, compared to net losses of $40.2 million in 2022 Q3. The Company reported net losses of $133.8 million in 2023 Q3 YTD, an increase of $9.8 million, or 7.9%, compared to net losses of $124.0 in 2022 Q3 YTD. The increase in net loss for 2023 Q3 YTD is primarily due to increases in interest and finance costs as discussed above, partially offset by a decrease in the Company's loss from operations previously discussed.

Net loss (U.S. dollars in millions, except per Share figures)	**2023 Q3**	**2022 Q3**	**39-Weeks Ended October 1, 2023**	**39-Weeks Ended October 2, 2022**
Loss from operations	(13.8)	(41.1)	(46.8)	(146.1)
Gain (loss) on disposition of property, plant and equipment	0.1	0.5	(0.9)	1.0
Gain on debt modification	10.5	—	10.5	—
Unrealized foreign exchange gain (loss) on monetary items	1.6	2.5	(2.4)	(3.3)
Interest and finance costs	(42.9)	(12.3)	(114.9)	(12.1)
Income tax recovery	4.5	10.1	20.7	36.5
Net Loss	(39.9)	(40.2)	(133.8)	(124.0)
Net loss per Share (basic)	(0.42)	(0.53)	(1.62)	(1.61)
Net loss per Share (fully diluted)	(0.42)	(0.53)	(1.62)	(1.61)

The Company recorded net loss per Share for 2023 Q3 of $0.42 compared to net loss per Share of $0.53 in 2022 Q3. The Company's net loss per Share for 2023 Q3 YTD of $1.62 increased from net loss per Share of $1.61 in 2022 Q3 YTD. The per Share net loss increased in 2023 Q3 YTD as a result of an increased loss during the period, and an increase in the outstanding number of Shares as discussed below.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)		2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid		5,375	(19,479)	14,575	(73,599)
Interest paid		(33,076)	(15,384)	(90,279)	(42,881)
Income taxes recovered		21	6,556	20,897	4,466
Cash flow invested in working capital		(11,105)	(90,659)	(64,133)	(131,340)
Net cash used in operating activities		(38,785)	(118,966)	(118,940)	(243,354)
Net cash generated by financing activities	$	67,904	114,962	182,908	221,104
Net cash used in investing activities		(10,972)	(8,783)	(40,911)	(16,027)

Cash flows from operating activities

The 2023 Q3 net operating cash used in operating activities of $38.8 million is mainly comprised of $27.7 million of net cash loss and $11.1 million of cash invested in working capital. The 2022 Q3 net cash used in operating activities of $119.0 million is comprised of $28.3 million of net cash loss and $90.7 million of cash invested in working capital.

The 2023 Q3 YTD net operating cash used of $118.9 million is comprised of $54.8 million of net cash loss and $64.1 million of cash invested in working capital. The 2022 Q3 YTD net operating cash used of $243.4 million is comprised of $112.0 million of net cash loss and $131.3 million of cash invested in working capital.

Cash flow from financing activities

The cash generated by financing activities of $67.9 million during 2023 Q3 is comprised mainly of proceeds from the Company's comprehensive refinancing plan offset by repayments made to the Company's revolving credit facilities, unsecured debt, resulting in generated cash of $71.9 million, and further offset by repayments of obligations under lease of $4.0 million. The cash generated of $182.9 million during 2023 Q3 YTD is due proceeds of the refinancing plan discussed above and proceeds from senior unsecured debt of $62.0 million, partially offset by repayments of obligations under leases of $14.4 million.

Cash flow from investing activities

(U.S. dollars in thousands)		2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022
Acquisition of intangible assets	$	(3,402)	(2,947)	(7,446)	(6,476)
Proceeds from disposition of property, plant and equipment	$	1,045	360	1,250	1,673
Long-term restricted deposits		(99)	3	(18,123)	5,415
Acquisition of property, plant and equipment		(8,516)	(6,199)	(16,592)	(16,639)
Cash used in investing activities		(10,972)	(8,783)	(40,911)	(16,027)

Cash used in investing activities was higher in 2023 Q3, primarily due to increased investments in property, plant and equipment. Cash used in investing activities was higher in 2023 Q3 YTD, primarily due to increased investments in long-term restricted deposits and intangible assets. Long-term restricted deposit is collateral for certain of the Company's letters of credit.

Credit risk

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

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

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

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

U.S. dollars in thousands	October 1, 2023	January 1, 2023
Current, including holdbacks	$ 434,843	$ 333,522
Past due amounts but not impaired		
1 – 60 days	20,221	15,931
Greater than 60 days	8,361	5,480
Less: allowance for doubtful accounts	(182)	(107)
Total accounts receivables, net	463,243	354,826

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

Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of leases and accrued benefit liabilities as at October 1, 2023:

U.S. dollars in thousands	Total	2023	2024	2025	2026	2027	Post 2027
Leases	228,834	6,907	24,967	20,523	17,930	16,035	142,472
Accrued benefit liability	2,824	2,824					
	231,658	9,731	24,967	20,523	17,930	16,035	142,472

As at October 1, 2023, outstanding surety bonds guaranteed by the Company totaled $322.4 million (January 1, 2023: $375.6 million). The estimated maturity dates of the surety bonds outstanding at October 1, 2023 range from October 2023 to December 2039. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Secured Facility, the Company has established a letter of credit sub-facility of $150.0 million (January 1, 2023: $100.0 million). As at October 1, 2023, letters of credit totaling $83.7 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the Secured Facility. This increase is primarily driven by collateral requirements provided to support bonds associated with new contracts.

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

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

The surety reinsurance support program is in place to cover surety bond(s) issued on behalf of the NFI is provided that such surety bond is a bid bond, performance bond, regulatory bond, license and permit bond.

As at October 1, 2023, there is $68.2 million outstanding under the bonding support facility.

As at October 1, 2023, letters of credit in the UK totaling $19.3 million remain outstanding as a security for contractual obligations of the Company outside of the UK facility (January 1, 2023: $18.3 million). Additionally, there are $45.8 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the Credit Facility.

As at October 1, 2023, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at October 1, 2023.

Share Option Plan

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

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(490,356)	—	—	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(252,233)	(247,751)	—	—	December 28, 2022	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(30,942)	(121,941)	—	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(62,446)	(222,228)	—	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	(2,126)	709	July 15, 2027	C$35.98	C$4.90
December 31, 2019	519,916	—	(83,720)	(327,150)	109,046	December 31, 2027	C$26.81	C$3.36
December 28, 2020	258,673	—	(29,250)	(114,717)	114,706	December 28, 2028	C$24.70	C$6.28
February 10, 2021	1,894	—	—	(947)	947	December 28, 2028	C$28.74	C$6.28
August 16, 2021	601	—	—	(150)	451	August 16, 2029	C$30.79	C$6.28
January 3, 2022	311,892	—	(7,940)	(75,993)	227,959	January 3, 2030	C$20.26	C$6.10
April 1, 2022	1,728	—	—	(432)	1,296	April 3, 2030	C$16.25	C$6.51
January 9, 2023	374,448	—	—	—	374,448	January 9, 2031	C$10.46	C$5.28
	3,887,412	(1,366,150)	(485,739)	(1,205,961)	829,562		C$25.88	

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

The following reconciles the Share options outstanding:

	2023 Q3		2022 Q3	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,910,057	C$27.41	1,617,759	C$28.82
Granted during the period	375,496	C$10.46	313,620	C$20.24
Expired during the period	(248,982)	C$14.38	(12,058)	C$34.94
Exercised during the period	—	C$0.00	—	C$0.00
Balance at end of period	2,036,571	C$25.88	1,919,321	C$27.38

Restricted Share Unit Plan for Non-Employee Directors

Pursuant to the Company's Restricted Share Unit Plan for Non-Employee Directors, a maximum of 500,000 Shares are reserved for issuance to non-employee directors. The Company issued 23,239 director restricted Share units ("Director RSUs"), with a total value of $0.2 million, in 2023 Q3. Approximately $0.1 million of the issued Director RSUs were exercised and exchanged for 13,708 Shares.

Critical accounting estimates and judgments

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

New and amended standards adopted by the Company

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

IFRS 17 – Insurance Contracts:

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

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

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

The adoption of the standard resulted in a decrease to net loss and retained deficit of $2,428 for the Q3 2022 period, $3,433 for the 2022 fiscal period, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

The transition adjustment in 000s is as follows:

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

International Accounting Standards ("IAS") 1 - Presentation of Financial Statements:

Classification of Liabilities as Current or Non-current, which amends IAS 1, was issued January 2020 and October 2022, effective for annual reporting periods beginning on or after January 1, 2024. This clarified a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. Management is currently assessing the impact of this standard on its consolidated financial statements.

NON-IFRS AND OTHER FINANCIAL MEASURES

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

Adjusted EBITDA and Net Operating Profit after Taxes

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

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

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

(U.S. dollars in thousands)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022	52-Weeks Ended October 1, 2023	53-Weeks Ended October 2, 2022
Net loss	(39,926)	(40,167)	(133,835)	(123,971)	(283,280)	(132,662)
Addback						
Income taxes	(4,546)	(10,133)	(20,714)	(36,473)	(31,662)	(37,539)
Interest expense[15]	42,932	12,274	114,964	12,061	139,669	11,417
Amortization	21,470	22,282	61,102	65,915	83,682	91,032
(Gain) loss on disposition of property, plant and equipment and right of use assets	(101)	(544)	851	(975)	1,261	(1,161)
Gain on debt modification[19]	(10,508)	—	(10,508)	—	(10,508)	—
Fair value adjustment for total return swap[9]	—	—	—	952	—	1,599
Unrealized foreign exchange (gain) loss on non-current monetary items and forward foreign exchange contracts	(1,611)	(2,481)	2,436	3,331	(1,493)	9,131
Costs associated with assessing strategic and corporate initiatives[7]	—	—	—	—	—	(106)
Past service costs and other pension costs[11]	—	—	4,764	7,000	4,764	7,000
Proportion of the total return swap realized[10]	—	—	—	(275)	—	(872)
Equity settled stock-based compensation	677	421	1,917	949	2,314	1,242
Unrecoverable insurance costs and other[12]	—	—	—	8,325	164	8,325
Expenses incurred outside of normal operations[17]	308	2,054	2,034	2,054	3,742	2,054
Prior year sales tax provision [13]	60	—	60	—	60	1,996
COVID-19 costs[14]	—	—	—	—	—	2,926
Out of period costs[16]	—	(659)	—	(659)	(938)	575
Impairment loss on goodwill[18]	—	—	—	—	103,900	—
Restructuring costs[8]	2,412	3,672	7,683	11,203	14,923	10,632
Adjusted EBITDA	11,167	(13,281)	30,754	(50,563)	26,598	(24,411)
Depreciation of property, plant and equipment and right of use assets	(13,590)	(14,571)	(37,522)	(42,129)	(50,875)	(59,094)
Tax at 31%	751	8,634	2,098	28,735	7,526	25,887
NOPAT	(1,672)	(19,218)	(4,670)	(63,957)	(16,751)	(57,618)
Adjusted EBITDA is comprised of:						
Manufacturing	(14,162)	(36,804)	(53,167)	(118,643)	(83,688)	(126,354)
Aftermarket	31,678	18,182	90,707	63,272	113,589	88,355
Corporate	(6,349)	5,341	(6,786)	4,808	(3,303)	13,588

(Footnotes on page 27)

Free Cash Flow and Free Cash Flow per Share

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

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

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

(U.S. dollars in thousands, except per Share figures)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022	52-Weeks Ended October 1, 2023	53-Weeks Ended October 2, 2022
Net cash used in operating activities	(38,785)	(118,966)	(118,940)	(243,354)	(116,487)	(83,405)
Changes in non-cash working capital items[3]	11,105	90,659	64,133	131,340	32,390	(18,001)
Interest paid[3]	33,076	15,384	90,279	42,881	105,746	60,135
Interest expense[3]	(36,390)	(18,792)	(93,736)	(53,663)	(117,923)	(73,771)
Income taxes recovered[3]	(21)	(6,556)	(20,897)	(4,466)	(17,853)	(7,464)
Current income tax recovery (expense)[3]	(3,012)	(7,184)	(3,932)	(1,747)	17,624	(12,264)
Repayment of obligations under lease	(4,046)	(8,017)	(14,407)	(18,888)	(20,054)	(21,094)
Cash capital expenditures	(8,516)	(6,199)	(16,592)	(16,639)	(21,324)	(29,587)
Acquisition of intangible assets	(3,402)	(2,947)	(7,446)	(6,476)	(11,182)	(8,364)
Proceeds from disposition of property, plant and equipment	1,045	360	1,250	1,673	1,264	4,322
Costs associated with assessing strategic and corporate initiatives[7]	—	—	—	—	—	(106)
Defined benefit funding[4]	996	2,270	2,267	4,566	1,966	6,156
Defined benefit expense[4]	(693)	(1,860)	(2,085)	(4,414)	(1,169)	(7,484)
Past service costs and other pension costs[11]	—	—	—	7,000	—	7,000
Expenses incurred outside of normal operations[17]	308	2,054	2,034	2,054	3,742	2,054
Equity hedge	2,844	(297)	3,765	(421)	3,183	(421)
Proportion of the total return swap realized[10]	—	—	—	(275)	—	(872)
Unrecoverable insurance costs and other[12]	—	—	—	8,324	164	10,320
Out of period costs[16]	—	(659)	—	605	(938)	1,839
Prior year sales tax provision[13]	60	—	60	—	60	—
Restructuring costs[8]	2,411	2,281	7,680	$ 6,004	13,358	6,175
COVID-19 costs[14]	—	—	—	12	—	2,938
Foreign exchange (loss) gain on cash held in foreign currency[5]	(137)	2,345	2,453	791	2,433	(2,082)
Free Cash Flow[1]	(43,157)	(56,124)	(104,114)	(145,093)	(125,000)	(163,976)
U.S. exchange rate[2]	1.3580	1.3826	1.3291	1.3155	1.3333	1.3096
Free Cash Flow (C$)[1]	(58,607)	(77,597)	(138,383)	(190,744)	(166,663)	(214,603)
Free Cash Flow per Share (C$)[6]	(0.6224)	(1.0170)	(1.6706)	(2.4727)	(2.0467)	(3.1848)
Declared dividends on Shares (C$)	—	4,096	—	12,288	—	28,678
Declared dividends per Share (C$)[6]	—	0.0537	—	0.1599	—	0.3724

1. Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS.
2. U.S. exchange rate (C$ per US$) is the weighted average exchange rate applicable to dividends declared for the period.
3. Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the credit facilities which are available to fund general corporate requirements, including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and income taxes paid.
4. The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.
5. Foreign exchange gain (loss) on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS; however, because it is a cash item, management believes it should be included in the calculation of Free Cash Flow.
6. Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2023 Q3 was 94,169,027 and 76,299,666 for 2022 Q3. The weighted average number of Shares outstanding for 2023 Q3 LTM and 2023 Q2 LTM are 81,426,753 and 74,517,345, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.
7. Normalized to exclude non-operating expenses and recoveries related to the costs of assessing strategic and corporate initiatives.
8. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, inefficient labour costs, increased medical costs and right-of-use asset impairments and inventory impairments associated with NFI Forward and other restructuring initiatives. Free Cash Flow reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.
9. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted EBITDA. Beginning in Q2 2022, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
10. A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA and Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
11. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans. 2022 Q2 includes $7.0 million for the liability related to the closure of the Pembina facility and withdrawal from the multi-employer pension plan. Also included is $4.8 million of pension past service costs incurred during Q1 2023.
12. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.
13. Provision for sales taxes as a result of a previous state sales tax review.
14. Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. During 2022, management determined costs related to sanitization and masks were an operating cost and would no longer be included in the definition.
15. Includes fair market value adjustments to interest rate swaps and the cash conversion option on the Convertible Debentures. 2023 Q3 includes a loss of $1.9 million and 2022 Q3 includes a gain of $10.5 million for the interest rate swaps. 2023 Q3 includes a loss of $1.5 million and 2022 Q2 includes a loss of $0.3 million on the cash conversion option.
16. Includes adjustments made related to expenses that pertain to prior years. 2022 Q2 includes expenses related to amounts that should have been capitalized from Fiscal Years 2010 - 2021.
17. Includes adjustments made related to items that occurred outside of normal operations. This includes specified items purchased in broker markets at a premium and associated broker fees, which the Company provided to suppliers, and does not normally directly purchase. Also included is the additional labour costs associated with the shortage of the specified item.
18. Includes 2022 Q4 impairment charges with respect to ARBOC's goodwill of $23.2 million and the Alexander Dennis manufacturing cash generating unit ("CGU")'s goodwill of $80.7 million.
19. As a result of the Company's comprehensive refinancing plan, the Company has recognized an accounting gain stemming from the modification made to its Former Facilities.

Liquidity

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

Backlog

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

Book-to-Bill Ratio

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

Working Capital Days

Working Capital Days is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines Working Capital Days as the calculated number of days to convert working capital to cash. It is calculated by the number of days in the last twelve months (2023 Q3 LTM - 364 days) divided by the working capital turnover ratio (total sales for the last twelve months divided by average working capital for the last thirteen months).

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

Payout Ratio

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

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

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

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

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

(U.S. dollars in thousands, except per Share figures)	2023 Q3	2022 Q3	39-Weeks Ended October 1, 2023	39-Weeks Ended October 2, 2022	52-Weeks Ended October 1, 2023	53-Weeks Ended October 2, 2022
Net loss	(39,926)	(40,167)	(133,835)	(123,971)	(283,280)	(132,662)
Adjustments, net of tax[1, 2]						
Fair value adjustments of total return swap[3]	—	—	—	657	—	952
Unrealized foreign exchange (gain) loss	(1,111)	(1,713)	1,681	2,298	(1,030)	4,937
Unrealized loss (gain) on interest rate swap	1,292	(7,271)	6,504	(26,814)	7,299	(31,310)
Unrealized loss (gain) on Cash Conversion Option	1,055	217	2,375	(7,608)	(1,456)	(12,573)
Unrealized loss on prepayment option of second lien debt[4]	328	—	328	—	328	—
Accretion in carrying value of long-term debt associated with debt modification[5]	1,014	—	1,014	—	1,014	—
Gain on debt modification[6]	(7,250)	—	(7,250)	—	(7,250)	—
Portion of the total return swap realized[7]	—	—	—	(190)	—	(462)
Equity swap settlement fee[8]	2,428	—	2,428	—	2,428	—
Costs associated with assessing strategic and corporate initiatives[9]	—	—	—	—	—	(106)
Equity settled stock-based compensation	467	291	1,323	655	1,597	789
(Gain) loss on disposition of property, plant and equipment	(70)	(376)	587	(673)	870	(758)
Past service costs and other pension costs[10]	—	—	3,287	4,830	3,287	4,830
Unrecoverable insurance costs and other[11]	—	—	—	5,744	114	6,652
Expenses incurred outside of normal operations[12]	213	1,417	1,404	1,417	2,582	1,417
Other tax adjustments[13]	201	(1,428)	—	(3,308)	22,292	(6,141)
COVID-19 costs[14]	—	—	—	—	—	1,331
Out of period costs[15]	—	(455)	—	809	(1,911)	1,371
Accretion in carrying value of convertible debt and cash conversion option	1,318	1,321	3,876	3,930	5,218	4,204
Prior year sales provision[16]	42	—	42	—	42	—
Impairment loss on goodwill[17]	—	—	—	—	103,900	—
Restructuring costs[18]	1,664	2,534	5,300	7,730	10,296	7,470
Adjusted Net Loss	(38,335)	(45,630)	(110,936)	(134,494)	(133,660)	(150,059)
Loss per Share (basic)	(0.42)	(0.53)	(1.62)	(1.61)	(3.48)	(1.74)
Loss per Share (fully diluted)	(0.42)	(0.53)	(1.62)	(1.61)	(3.48)	(1.74)
Adjusted Net Loss per Share (basic)	(0.41)	(0.60)	(1.34)	(1.74)	(1.64)	(1.97)
Adjusted Net Loss per Share (fully diluted)	(0.41)	(0.60)	(1.34)	(1.74)	(1.64)	(1.97)

1. Addback items are derived from the historical financial statements of the Company.
2. The Company has utilized a rate of 54.5% to tax effect the adjustments in periods related to Fiscal 2021. A rate of 31.0% has been used to tax effect the adjustments for all other periods.
3. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted EBITDA. Beginning in Q2 2022, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
4. The unrealized loss on the prepayment option is related to the Company's second lien debt instrument. The loss is the result of a decrease in the options fair value between its inception date (August 25, 2023) and October 1, 2023.
5. Normalized to exclude the over accretion of transaction costs relating to the Company's Secured Facilities.
6. As a result of the Company's comprehensive refinancing plan, the Company has recognized an accounting gain stemming from the modification made to its Former Facilities.
7. A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA and Free Cash Flow to match the equivalent portion of the related deferred compensation expense recognized. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the (gain) loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
8. During the year the Company settled its equity swaps which were used to hedge the exposure associated with changes in value of its Shares with respect to outstanding management restricted units ("Management RSUs") and a portion of the outstanding performance share units ("PSUs"), and deferred share units ("DSUs").
9. Normalized to exclude non-operating expenses and recoveries related to the costs of assessing strategic and corporate initiatives.
10. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans. 2022 Q2 includes $7.0 million for the liability related to the closure of the Pembina facility and withdrawal from the multi-employer pension plan. Also included is $4.8 million of pension past service costs.
11. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.
12. Includes adjustments made related to items that occurred outside of normal operations. This includes specified items purchased in broker markets at a premium and associated broker fees, which the Company provided to suppliers, and does not normally directly purchase. Also included is the additional labour costs associated with the shortage of the specified item.
13. Includes the impact of changes in deferred tax balances as a result of substantively enacted tax rate changes. The 2021 and 2022 amounts include the impact of the revaluation of deferred tax balances due to the enacted increase in the UK corporate tax rate from 19% to 25% in 2021 Q3. Also included in 2022 Q4 is the impact of the reduction of deferred tax assets related to the derecognition of loss carry forwards in Canada, and restricted interest in the UK.
14. Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. During 2022, management determined costs related to sanitization and masks were an operating cost and would no longer be included in the definition.
15. Includes adjustments made related to expenses that pertain to prior years. 2022 Q1 includes expenses related to amounts that should have been capitalized from Fiscal Years 2010 - 2021.
16. Provision for sales taxes as a result of a previous state sales tax review.
17. Includes 2022 Q4 impairment charges with respect to ARBOC's goodwill of $23.2 million and the Alexander Dennis manufacturing CGU's goodwill of $80.7 million.
18. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, inefficient labour costs, increased medical costs and right-of-use asset impairments and inventory impairments associated with NFI Forward and other restructuring initiatives. Free Cash Flow reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.

ROIC

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

Reconciliation of Shareholders' Equity to Invested Capital

(U.S. dollars in thousands)	2023 Q3	2023 Q2	2023 Q1	2022 Q4
Shareholders' Equity	$ 706,177	495,140	533,756	577,575
Addback				
Long term debt	583,948	935,605	911,203	896,626
Second lien debt	172,975	—	—	—
Obligation under lease	130,102	124,405	127,247	131,625
Convertible debentures	221,427	225,081	218,719	217,516
Senior unsecured debt	60,838	87,363	86,431	—
Derivatives	(6,814)	9,422	(17,164)	(21,620)
Cash	(75,498)	(57,488)	(59,375)	(49,987)
Bank indebtedness	—	—	—	—
Invested Capital	1,793,155	1,819,528	1,800,817	1,751,735
Average of invested capital over the quarter	1,806,342	1,810,173	1,776,276	1,798,614

	2022 Q3	2022 Q2	2022 Q1	2021 Q4
Shareholders' Equity	710,984	783,905	850,323	871,772
Addback				
Long term debt	859,297	718,139	677,996	586,411
Second lien debt	—	—	—	—
Capital leases	122,666	131,077	139,129	143,675
Convertible debentures	211,281	224,947	229,673	225,768
Senior unsecured debt	—	—	—	—
Derivatives	(18,904)	(8,179)	4,806	31,883
Cash	(39,832)	(50,274)	(26,604)	(77,318)
Bank indebtedness	—	—	1,233	—
Invested Capital	1,845,492	1,799,615	1,876,556	1,782,191
Average of invested capital over the quarter	1,822,554	1,838,085	1,829,373	1,862,392

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[NG] risk. Liquidity[NG] 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[NG] include sales mix, production levels, cash production costs, working capital requirements, capital expenditure requirements, scheduled repayments of long-term debt obligations, interest costs, funding requirements of the Company's pension plans, income taxes, credit capacity, expected future debt and equity capital market conditions.

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

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

On December 29, 2022, the Company amended the North American credit facility and the UK credit facility (together the "Amended Facilities"). Amendments provided relief from previous key financial covenants (Total Leverage Ratio ("TLR")[NG], Minimum Adjusted EBITDA[NG] and Interest Coverage Ratio ("ICR")[NG]) for the fourth quarter of 2022 and the first two quarters of 2023 ending June 30, 2023 (the "Waiver Period") to provide the Company with relaxed covenants as the Company navigates supply chain disruptions, heightened inflation and other impacts of the COVID-19 pandemic. This Waver Period was extended to August 31, 2023, in order for the Company could finalize the comprehensive refinancing plan (see below). During the Waiver Period, the Company was subject to a Total Net Debt to Capitalization ("TNDC") ratio[NG], starting in January 2023, and a minimum Adjusted EBITDA[NG] covenant starting in March 2023. The terms of the Amended Facilities imposed restrictions over the declaration and payment of dividends until the Waiver Period had ended.

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

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

On August 25, 2023, NFI announced that it had closed its comprehensive refinancing plan (the "Refinancing Plan"). Through the Refinancing Plan, the following changes to the profile and capacity of the Secured Facilities were effected:

- The $1.0 billion revolving North American Facility converted to a $400 million first lien term loan and a $361 million first lien revolving credit facility (total combined borrowing capacity of $761 million).
- The £40 million revolving UK Facility converted to a £16.0 million term loan and a £14.4 million revolving credit facility (total combined borrowing capacity of £30.4 million).

As part of the refinancing plan, the Company:

- Completed a private placement on August 25, 2023 of common shares with Coliseum Capital Management for 21,656,624 Shares at a subscription price of $6.1567 per Share (the "Subscription Price") of $133.3 million.
- Completed a private placement on August 25, 2023 with a leading global asset manager for 5,000,000 Shares at a subscription price of C$10.10 per Share for aggregate gross proceeds to NFI of C$50,500,000 (approximately $37.2 million).
- Issued 15,102,950 subscription receipts on June 6, 2023 at a price of C$8.25 per Subscription Receipt, for aggregate gross proceeds to NFI of approximately C$125.9 million (approximately $93.1 million), inclusive of interest earned in escrow. Each subscription receipt was redeemed for 1 Share after the Refinancing Plan closed, on August 25, 2023.
- extended the maturity of Manitoba Development Corporation's and Export Development Canada's ("MDC and "EDC" respectively) senior unsecured debt facilities to April 30, 2026; and with a $25.0 million permanent repayment of the EDC facility.

Terms of NFI's completed $180.4 million Second Lien Financing included the following:

- a five-year term and a 97% original issue discount ("OID"), generating net proceeds of $175.0 million, before fees and commissions;
- annual coupon of 14.5%, payable semi-annually; and
- callable at 100% of face value with applicable premium for the first 12 months, callable at 106% of face value for months 13 to 24, callable at 103% of face value for months 25 to 36 and callable at par from 36 months onwards.

The agreement is with Coliseum Capital Management, the Company's largest shareholders', and related party. The Second Lien Financing is a senior secured second lien obligation of NFI and its material subsidiaries, which ranks behind the Secured Facilities and all other first lien secured indebtedness of NFI and such subsidiaries, ranks ahead of any subordinated obligations of NFI and its subsidiaries, and, by virtue of being secured, ranks ahead of any unsecured obligations.

Secured Facilities capacity change following completion of the Refinancing Plan

(USD $'000)	*Pre-Transaction*	*Change*	*Post-Transaction*
North America Facility			
Revolving credit facility	$ 1,000,000	$ (639,000)	$ 361,000
First lien term loan		$ 400,000	$ 400,000
UK Facility			
Revolving credit facility	$ 50,796	$ (32,668)	$ 18,128
First lien term loan		$ 20,418	$ 20,418
Total Capacity	**$ 1,050,796**	**$ 251,251**	**$ 799,545**
Minimum Liquidity[NG]	$ (25,000)		$ (50,000)
Total Available Liquidity[NG]	**$ 1,025,796**		**$ 749,545**

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

	Total Leverage Ratio[1, NG]	Interest Coverage Ratio[2, NG]	Total Net Debt to Capitalization[3, NG]	Minimum Cumulative Adjusted EBITDA[4, NG]	Minimum Liquidity[5, NG]	Senior Secured Net Leverage Ratio[6, NG]
September 2023	Waived	Waived	<0.65:1.00	>($13,000)	$50,000	Waived
October 2023	Waived	Waived	<0.65:1.00	>($11,000)	$50,000	Waived
November 2023	Waived	Waived	<0.65:1.00	>($4,000)	$50,000	Waived
December 2023	Waived	Waived	<0.65:1.00	>$3,000	$50,000	Waived
January 2024	Waived	Waived	<0.65:1.00	>$14,000	$50,000	Waived
February 2024	Waived	Waived	<0.65:1.00	>$25,000	$50,000	Waived
March 2024	Waived	Waived	<0.65:1.00	>$47,000	$50,000	Waived
2024 Q2	Waived	Waived	<0.65:1.00	>$105,000	$50,000	Waived
2024 Q3	<6.00x	>1.25x	N/A	N/A	$50,000	<4.50x
2024 Q4	<4.75x	>1.50x	N/A	N/A	$50,000	<3.50x
2025 Q1	<4.75x	>1.75x	N/A	N/A	$50,000	<3.50x
2025 Q2	<4.25x	>2.00x	N/A	N/A	$50,000	<3.25x
2025 Q3	<4.25x	>2.25x	N/A	N/A	$50,000	<3.25x
2025 Q4	<3.75x	>2.50x	N/A	N/A	$50,000	<3.00x

1. Total Leverage Ratio ("TLR")[NG] is calculated as aggregate indebtedness of the Company not including the Company's 5.0% convertible debentures and certain non-financial products, but including any senior unsecured or second lien indebtedness, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by Adjusted EBITDA[NG] (calculated on a trailing twelve-month basis). The TLR[NG] is reintroduced in 2024 Q3.

2. Interest Coverage Ratio ("ICR")[NG] is calculated as the same trailing twelve month Adjusted EBITDA[NG] as the Total Leverage Ratio[NG] divided by trailing twelve-month interest expense on the Secured Facilities, the Company's 5.0% convertible debentures, any senior unsecured or second lien indebtedness and other interest and bank charges.

3. Total Net Debt to Capitalization ("TNDC")[NG] is calculated as borrowings on the Secured Facilities and any senior unsecured or second lien indebtedness, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by shareholders' equity, as shown on the Company's balance sheet, plus borrowings on the Secured Facilities. The TNDC[NG] covenant excludes the impact of any actual goodwill write-downs up to a maximum of $100 million.

4. The Minimum Adjusted EBITDA[NG] covenant is first tested with the month ending September 30, 2023, but includes results from the period May 1, 2023 to September 30, 2023. The covenant continues on a cumulative basis until April 30, 2024, at which point it becomes a trailing-twelve month test for the second quarter of 2024. The Minimum Adjusted EBITDA[NG] tests are based on calendar month-end dates from September 2023 to March 2024.

5. Liquidity[NG] is calculated as unrestricted cash and cash equivalents plus the aggregate amount of credit available under the Secured Facilities.

6. Senior Secured Net Leverage[NG] will include the Secured Facilities and is calculated as indebtedness on those facilities, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by Adjusted EBITDA[NG] (calculated on a trailing twelve-month basis). The Senior Secured Net Leverage[NG] is reintroduced in 2024 Q3.

US dollars in thousands	**October 1, 2023**	January 1, 2023
Liquidity[NG] Position (must be greater than $50 million)	$ 169,792	$ 143,454
Minimum Cumulative Adjusted EBITDA[NG] (must be greater than ($13,000) [2022: N/A])	$ 18,950	Waived
Net Debt to Capital Ratio[NG] (must be less than 0.65:1.00 [2022: N/A])	0.42	Waived

As of October 1, 2023, NFI's liquidity[NG] was $169.8 million, without consideration given to the minimum liquidity[NG] requirement of $50 million under the Secured Facilities. As part of the Company's efforts to improve working capital and liquidity[NG], the Company requested prepayments and deposits from certain customers. As of October 1, 2023, the Company has received $130.9 million in deferred revenue and is continuing to work with other customers to help alleviate some of the Company's working capital investments while it navigates through the supply chain challenges.

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

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

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

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

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

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in common systems and lean manufacturing operations to improve quality and cost effectiveness, while also investing to expand the Company's expertise in ZEBs, Infrastructure Solutions™, and Advanced Driver Assistance Systems ("ADAS") and automated vehicles. The Company has made significant investments in its ZEB production capabilities to be prepared for the expected evolution to a more electrified fleet. New Flyer now has the capability to manufacture ZEBs at all of its North American facilities. Alexander Dennis is the market leader in ZEBs with production capabilities at all of its UK facilities, MCI has invested in its electric coach offering for both public and private customers, and ARBOC is developing its medium-duty Equess CHARGE™ electric bus.

In November 2022, Alexander Dennis announced that several of its vehicles will now offer its next-generation electric driveline and future-proof battery system. Alexander Dennis has secured orders in the UK using this new technology, and, in 2023 Q2, Alexander Dennis delivered its first battery-electric buses to key customers in Hong Kong. Subsequent to quarter-end, on October 4, 2023, NFI announced the launch of its next generation battery technology for the North American market with supplier partner, American Battery Solutions. The new custom battery packs will be used on NFI's heavy-duty transit buses and coaches in North America starting in the first quarter of 2024. To support customers making the transition to zero-emission fleets, NFI launched its Infrastructure Solutions™ business in 2018.

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

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

Return of Capital to Shareholders

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

The Company's 2023 Q3 Free Cash Flow[NG] was C($58.6) million with no dividends declared during this period. For 2022 Q3, Free Cash Flow[NG] was C($77.6) million. No dividends were declared in 2023 Q3 compared to declared dividends of C$4.1 million in 2022 Q3. This resulted in payout ratio[NG] of nil% in 2023 Q3 compared to (5.3%) in 2022 Q3.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2023 Q3**	**2022 Q3**
Dividends paid	$ —	$ 3.2

Controls and Procedures

Internal Controls over Financial Reporting

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

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

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

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

There have been no changes in our internal control over financial reporting during the quarter ended October 1, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at October 1, 2023 were effective.

Appendix A - Meaning of Certain References

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

The Shares trade on the Toronto Stock Exchange (“TSX”) under the symbol NFI, and the Convertible Debentures trade on the TSX under the symbol NFI.DB. As at October 1, 2023, 118,949,728 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI’s Annual Information Form and information circular, is available on SEDAR at www.sedarplus.ca.

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

Forward-Looking Statements

This MD&A contains “forward-looking information” and “forward-looking statements” within the meaning of applicable Canadian securities laws, which reflect the expectations of management regarding the Company's future growth, financial performance, and liquidity[NG] and objectives and the Company’s strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic, supply chain disruptions and plans to address them. The words “believes”, “views”, “anticipates”, “plans”, “expects”, “intends”, “projects”, “forecasts”, “estimates”, “guidance”, “goals”, “objectives” and “targets” and similar expressions of future events or conditional verbs such as “may”, “will”, “should”, “could”, “would” are intended to identify forward-looking statements. These forward-looking statements reflect management’s current expectations regarding future events (including the temporary nature of the supply chain disruptions and operational challenges, production improvement, labour supply shortages and labour rates, the recovery of the Company’s markets and the expected benefits to be obtained through its “NFI Forward” initiatives) and the Company’s financial and operating performance and speak only as of the date of this MD&A. By their very nature, forward-looking statements require management to make assumptions and involve significant risks and uncertainties, should not be read as guarantees of future events, performance or results, and give rise to the possibility that management’s predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that the assumptions may not be correct and that the Company’s future growth, financial condition, ability to generate sufficient cash flow and maintain adequate liquidity[NG], and the Company’s strategic initiatives, objectives, plans, business prospects and opportunities, including the Company’s plans and expectations relating to the duration, impact of and recovery from the COVID-19 pandemic, supply chain disruptions, operational challenges, labour supply shortages and inflationary and labour rate pressures, 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[NG] may be materially adversely impacted by the aftermath and ongoing effects of COVID-19 pandemic and related supply chain and operational challenges, inflationary effects and labour supply and labour rate challenges; the Company’s business, operating results, financial condition and liquidity[NG] may be materially adversely impacted by the ongoing Russian invasion of Ukraine due to factors including but not limited to further supply chain disruptions, inflationary pressures and tariffs on certain raw materials and components that may be necessary for the Company’s operations; funding may not continue to be available to the Company’s customers at current levels or at all; the Company’s business is affected by economic factors and adverse developments in economic conditions which could have an adverse effect on the demand for the Company’s products and the results of its operations; currency fluctuations could adversely affect the Company’s financial results or competitive position; interest rates could change substantially, materially impacting the Company’s revenue and profitability; an active, liquid trading market for the Shares and/or the Debentures may cease to exist, which may limit the ability of security holders to trade Shares and/or Debentures; the market price for the Shares and/or the Debentures may be volatile; if securities or industry analysts do not publish research or reports about the Company and its business, if they adversely change their recommendations regarding the Shares or if the Company’s results of operations do not meet their expectations, the Share price and trading volume could decline, in addition, if securities or industry analysts publish inaccurate or unfavorable research about the Company or its business, the Share price and trading volume of the Shares could decline; competition in the industry and entrance of new competitors; current requirements under U.S. “Buy America” regulations may change and/or become more onerous or suppliers’ “Buy America” content may change; failure of the Company to comply with the U.S. Disadvantaged Business Enterprise (“DBE”) program requirements or the failure to have its DBE goals approved by the U.S. FTA; absence of fixed term customer contracts, exercise of options and customer suspension or termination for convenience; local content bidding preferences in the United States may create a competitive disadvantage; requirements under Canadian content policies may change and/or become more onerous; the Company’s business may be materially impacted by climate change matters, including risks related to the transition to a lower-carbon economy; operational risk resulting from inadequate or failed internal processes, people and/or systems or from external events, including fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, floods, technology failures, processing errors, business integration, damage to physical assets, employee safety and insurance coverage; international operations subject the Company to additional risks and costs and may cause profitability to decline; compliance with international trade regulations, tariffs and duties; dependence on unique or limited sources of supply (such as engines, components containing microprocessors or, in other cases, for example, the supply of transmissions, batteries for battery-electric buses, axles or structural steel tubing) resulting in the Company's raw materials and components not being readily available from alternative sources of supply, being available only in limited supply, a particular component may be specified by a customer, the Company's products have been engineered or designed with a component unique to one supplier or a supplier may have limited or no supply of such raw materials or components or sells such raw materials or components to the Company on less than favorable commercial terms; the Company's vehicles and certain other products contain electrical components, electronics, microprocessors control modules, and other computer chips, for which there has been a surge in demand, resulting in a worldwide supply shortage of such chips in the transportation industry, and a shortage or disruption of the supply of such microchips could materially disrupt the Company's operations and its ability to deliver products to customers; dependence on supply of engines that comply with emission regulations; a disruption, termination or alteration of the supply of vehicle chassis or other critical components from third-party suppliers could materially adversely affect the sales of certain of the Company's products; the Company's profitability can be adversely affected by increases in raw material, component and labour costs; the Company may incur material losses and costs as a result of product warranty costs, recalls, failure to comply with motor vehicle manufacturing regulations and standards and the remediation of transit buses and motor coaches; production delays may result in liquidated damages under the Company's contracts with its customers; catastrophic events, including those related to impacts of climate change, may lead to production curtailments or shutdowns; the Company may not be able to successfully renegotiate collective bargaining agreements when they expire and may be adversely affected by labour disruptions and shortages of labour; the Company's operations are subject to risks and hazards that may result in monetary losses and liabilities not covered by insurance or which exceed its insurance coverage; the Company may be adversely affected by rising insurance costs; the Company may not be able to maintain performance bonds or letters of credit required by its contracts or obtain performance bonds and letters of credit required for new contracts; the Company is subject to litigation in the ordinary course of business and may incur material losses and costs as a result of product liability and other claims; the Company may have difficulty selling pre-owned coaches and realizing expected resale values; the Company may incur costs in connection with regulations relating to axle weight restrictions and vehicle lengths; the Company may be subject to claims and liabilities under environmental, health and safety laws; dependence on management information systems and cyber security risks; the Company's ability to execute its strategy and conduct operations is dependent upon its ability to attract, train and retain qualified personnel, including its ability to retain and attract executives, senior management and key employees; the Company may be exposed to liabilities under applicable anti-corruption laws and any determination that it violated these laws could have a material adverse effect on its business; the Company's risk management policies and procedures may not be fully effective in achieving their intended purposes; internal controls over financial reporting, no matter how well designed, have inherent limitations; there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures; ability to successfully execute strategic plans and maintain profitability; development of competitive or disruptive products, services or technology; development and testing of new products or model variants; acquisition risk; reliance on third-party manufacturers; third-party distribution/dealer agreements; availability to the Company of future financing; the Company may not be able to generate the necessary amount of cash to service its existing debt, which may require the Company to refinance its debt; the Company's substantial consolidated indebtedness could negatively impact the business; the restrictive covenants in the Company's credit facilities could impact the Company's business and affect its ability to pursue its business strategies; in December 2022, the Board made the decision to suspend the payment of dividends given credit agreement constraints and to support the Company's focus on improving its liquidity[NG] and financial position and the resumption of dividend payments is not assured or guaranteed; a significant amount of the Company's cash may be distributed, which may restrict potential growth; the Company is dependent on its subsidiaries for all cash available for distributions; the Company may not be able to make principal payments on the Debentures; redemption by the Company of the Debentures for Shares will result in dilution to holders of Shares; Debentures may be redeemed by the Company prior to maturity; the Company may not be able to repurchase the Debentures upon a change of control as required by the trust indenture under which the Debentures were issued (the "Indenture"); conversion of the Debentures following certain transactions could lessen or eliminate the value of the conversion privilege associated with the Debentures; future sales or the possibility of future sales of a substantial number of Shares or Debentures may impact the price of the Shares and/or the Debentures and could result in dilution; payments to holders of the Debentures are subordinated in right of payment to existing and future Senior Indebtedness (as described under the Indenture) and will depend on the financial health of the Company and its creditworthiness; if the Company is required to write down goodwill or other intangible assets, its financial condition and operating results would be negatively affected; and income and other tax risk resulting from the complexity of the Company's businesses and operations and the income and other tax interpretations, legislation and regulations pertaining to the Company's activities being subject to continual change.

Factors relating to the aftermath and ongoing effects of the global COVID-19 pandemic include: ongoing economic and social disruptions; production rates may not increase as planned and may decrease; ongoing and future supply delays and shortages of parts and components, and shipping and freight delays, and disruption to or shortage of labour supply may continue or worsen; the pandemic has adversely affected operations of suppliers and customers and may reverse; the supply of parts and components by suppliers continues to be challenged and may deteriorate; the recovery of the Company's markets in the future may not continue and demand may be lower than expected; the Company's ability to obtain access to additional capital if required may be impaired; and the Company's financial performance and condition, obligations, cash flow and liquidity[NG] and its ability to maintain compliance with the covenants under its credit facilities may be impaired. There can be no assurance that the Company will be able to maintain sufficient liquidity[NG] for an extended period or have access to additional capital or government financial support; and there can be no assurance as to if or when production operations will return to pre-pandemic production rates. There is also no assurance that governments will provide continued or adequate stimulus funding 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 on a sustained basis in the anticipated period of time. The Company cautions that the COVID-19 pandemic may return or worsen or other pandemics or similar events may arise. Such events are inherently unpredictable and may have severe and far-reaching impacts on the Company's operations, markets, and prospects.

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

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

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

Appendix B - 2023 Third Quarter Bid Universe and Order Activity

Demand for Transit Buses and Motor Coaches

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

The Company's end markets continued to show strong order activity in the third quarter of 2023. Following large declines in the second half of 2020 as a result of the pandemic delaying orders in core markets, active bids rebounded significantly in 2021, 2022 and the first nine months of 2023. In 2023 Q3, active bids of 10,361 EUs were up 2.5% year-over-year and 3.1% from 2023 Q2. The Company ended 2023 Q3 with 1,591 bids in process, and another 8,770 bids submitted. The number of bids submitted during 2023 Q3 was 21.4% greater than those submitted in 2022 Q3.

The forecasted five-year North American industry procurement has rebounded from the lows of the first half of 2021. As of 2023 Q3, the Total Bid Universe is at an all-time high of 31,682 EUs, another consecutive quarter of record EUs. Year-over-year, the Total Bid Universe increased by 3.9%, or 1,198 EUs. The Company expects that the forecasted five-year North American industry procurement will remain high through the remainder of 2023 as transit agencies continue to formalize their short- and long-term procurement plans linked to the multi-billion funding programs announced and/or launched by governments in Canada and the U.S.

As at 2023 Q3, 16,492 EUs, or 52.1%, of the Total Bid Universe are ZEBs, an increase of 13.3% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

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

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)[1]	Total Bid Universe (EUs)
2022 Q3	2,881	7,226	10,107	20,377	30,484
2022 Q4	5,169	5,338	10,507	20,277	30,784
2023 Q1	2,833	8,233	11,066	20,103	31,169
2023 Q2	1,682	8,372	10,054	21,569	31,623
2023 Q3	**1,591**	**8,770**	10,361	**21,321**	31,682

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 Alexander Dennis U.S. and Canadian sales.

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

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

Alexander Dennis does not currently have a Bid Universe metric for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe; however, Alexander Dennis does maintain a sales pipeline. Management does not currently believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2019, and was expected to increase in 2020 before it was hit disproportionately hard by the COVID-19 pandemic, with bus ridership down by nearly 80% at its worst point in 2020. While management saw signs of recovery in 2021 and 2022, supply chain challenges have continued to disrupt the market. Throughout 2023, management saw stronger market recovery based on customers' fleet recovery plans and an aging UK vehicle fleet, with an increase in orders and improved backlog[NG] for 2024 deliveries. Governments continue to focus on the green recovery and government funding is starting to materialize. This funding, plus future investments under plans to expand transport service in communities outside of London is expected to contribute to market growth in 2024 and beyond. Alexander Dennis has seen the benefits of this anticipated recovery as it has increased UK sales in 2023 and has a strong pipeline of opportunities for 2024. Alexander Dennis continues to grow its installed fleet in Europe through the execution of multi-year contracts in Ireland and Germany. The European market is highly fragmented with numerous players providing niche opportunities for Alexander Dennis in the future.

In Asia Pacific, the Hong Kong market is highly cyclical, and, following busier periods in 2015 through 2018, the market has declined as anticipated. As in other regions, Hong Kong was also impacted by the COVID-19 pandemic, but Alexander Dennis remains the leader in double-deck buses and retains deep customer relationships in Hong Kong. Management saw some recovery in 2022 and continues to expect the Hong Kong market to see stable annual deliveries and a slow recovery through the remainder of 2023 and into 2024. In 2023 Q2, Alexander Dennis delivered its first battery-electric buses to key customers in Hong Kong. New Zealand and Singapore remain highly cyclical markets with more predictable purchasing expectations based on vehicle age; Alexander Dennis continues to see significant opportunities in both markets and is also pursuing additional expansion programs in South Africa and the Middle-East region.

Order activity

New orders (firm and options) during 2023 Q3 totaled 969 EUs, a 113.9% increase from 2022 Q3. The timing of new orders can vary based on transit agency procurement processes, with the fourth quarter typically being a busier period tied to agency and operator approval meetings. On an LTM basis, new firm and option orders for 2023 Q3 LTM were 6,337 EUs, an increase of 31.6% from 2022 Q3 LTM. 2023 Q3 was a slower period for option conversion, with only 17 EUs converted; option conversions vary quarter-to-quarter. These 17 EUs of option conversions contributed to the 468 EUs converted to firm orders for the 2023 Q3 LTM period. Option conversion declines in 2021, 2022, and the first three quarters of 2023 were primarily related to older contracts and changes in customers' expected fleet replacement plans. *Further details are provided below under the "Options" section.*

In 2023 Q3, the Company received orders for 206 EUs of battery-electric, zero-emission vehicles, an increase from the 90 EUs of ZEB orders in 2023 Q2. These 206 EUs of ZEBs equate to 21.3% of all new firm and option orders for the quarter.

1,834 EUs of new firm and option orders were pending from customers at the end of 2023 Q3, 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[NG]. This was up from the 719 EUs of pending new firm and option orders as of the end of 2023 Q2. The Company anticipates that the majority of the units currently in bid award pending will convert into backlog[NG] during 2023 Q4.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2022 Q3	453	4,815	217	797
2022 Q4	2,578	5,786	118	638
2023 Q1	1,873	6,252	44	464
2023 Q2	917	5,821	289	668
2023 Q3	**969**	**6,337**	**17**	**468**

Options

In 2023 Q3, 149 options expired, as compared to 229 options in 2023 Q2, and as compared to 804 option that expired in 2022 Q3. Option expiries can vary significantly quarter-to-quarter. Certain agencies are letting a portion of older options expire as they re-evaluate their longer-term fleet planning decisions with an increased focus on the procurement of ZEBs rather than traditional internal combustion engine propulsion. In certain cases, customers have issued new procurements to replace the expired options. NFI replenished a significant amount of expired options through new orders in 2022 and the first three quarters of 2023; on an LTM basis, 6,337 EUs in new firm and option orders were added to backlog[NG]. Overall demand remains at record levels and will support future option orders.

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

	2018	2019	2020	2021	2022	2023 YTD	2024	2025	2026	2027	2028	Total
A) Options Expired (EUs)	741	512	1,202	819	1,920	520						5,714
B) Options Exercised (EUs)	1,795	1,518	953	1,110	638	350						6,364
C) Current Options by year of expiry (EUs)						205	284	532	1,465	1,487	720	4,693
D) Conversion rate % = B / (A+B)	**71 %**	**75 %**	**44 %**	**58 %**	**25 %**							

The Company's conversion rate can vary significantly from quarter-to-quarter and should be looked at on an annual or LTM basis, for this reason NFI has not updated the YTD number and will update in the fourth-quarter of 2023.

In addition to contracts for identified public customers, the Company has increased its focus on purchasing schedules (state and national contracts, cooperative agency purchasing agreements) with the objective of having multiple available schedules, from which customers within a prescribed region or from defined list, can purchase. The Company is currently named on over 40 of these purchasing schedules, either directly or through its dealers. These schedules are not recorded in backlog[NG] as they do not have defined quantities allocated to the Company or any other original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order. The Company has received more than 1,130 vehicle awards from these schedules since the start of 2018, showing their growing use by transit agencies as a procurement alternative in North America.

The Company's 2023 Q3 Book-to-Bill[NG] ratio (defined as new firm orders and exercised options divided by new deliveries) was 80.0%, an increase from 77.3% in 2022 Q3. This increase in Book-to-Bill[NG] was driven by higher total new orders but offset by higher deliveries as compared to the same period last year. 2023 Q3 LTM Book-to-Bill[NG] was 122.0%, a decrease from 129.8% for 2022 Q3 LTM, primarily driven by increased deliveries and the timing of customer awards.

Backlog[NG]

The Company's total backlog[NG] consists of buses sold primarily to U.S. and Canadian public customers and private operators in the UK and Internationally. The majority of the backlog[NG] relates to New Flyer transit buses for public customers with some of the backlog[NG] consisting of units from MCI, AD, and ARBOC. Options for ARBOC vehicles are held by dealers, rather than the operator, and are not included as options in the NFI backlog[NG], but are converted to firm backlog[NG] 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 62.2% of the total backlog[NG] as of the end of 2023 Q3, down slightly from 65.3% as of the end of 2023 Q2. As at the end of 2023 Q3, there were 3,456 EUs of ZEBs in the backlog[NG], representing 36.2% of the total backlog[NG], down slightly from the record of 36.4% as at the end of 2023 Q1, but up from 35.6% as at the end of 2023 Q2.

Footnotes

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

	2023 Q3			2023 Q2			2022 Q3		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	5,089	4,714	9,803	4,910	5,161	10,071	4,366	5,308	9,674
New orders	825	145	970	846	71	917	388	65	453
Options exercised	17	(17)	—	289	(289)	—	217	(217)	—
Shipments[1]	(1,051)	—	(1,051)	(931)	—	(931)	(783)	—	(783)
Cancelled/expired	(17)	(149)	(166)	(25)	(229)	(254)	(35)	(804)	(839)
End of period	**4,863**	**4,693**	**9,556**	**5,089**	**4,714**	**9,803**	**4,153**	**4,352**	**8,505**
Consisting of:									
Heavy-duty transit buses	3,911	4,388	8,299	4,175	4,407	8,582	3,114	4,082	7,196
Motor coaches	353	305	658	341	307	648	358	270	628
Cutaway and medium-duty buses	599		599	573	—	573	681	—	681
Total Backlog[NG]	**4,863**	**4,693**	**9,556**	**5,089**	**4,714**	**9,803**	**4,153**	**4,352**	**8,505**

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

At the end of 2023 Q3, the Company's total backlog[NG] (firm and options) of 9,556 EUs decreased from 9,803 units as of the end of 2023 Q2, but up over 1,000 EUs from 2022 Q3. The decrease was driven by higher deliveries, offset by higher awards in the quarter and less cancellations/expiries. The third quarter is generally a slower period due to transit agency approval processes. Backlog[NG] for 2022 Q3 has a total dollar value of $6.6 billion[2]. 1,834 EUs of new firm and option orders were in bid award pending at the end of 2023 Q3, up from 719 as of the end of 2023 Q2.

The average price of an EU in backlog[NG] is now $0.69 million, a 20.4% increase from 2022 Q3.

The summary of the values is provided below.

	2023 Q3		2023 Q2		2022 Q3	
		EUs		EUs		EUs
Total firm orders	$ 2,864.6	4,863	$ 2,993.9	5,089	$ 2,276.2	4,153
Total options	3,718.9	4,693	3,687.3	4,714	2,589.5	4,352
Total backlog[NG]	**$ 6,583.5**	**9,556**	**$ 6,681.2**	**9,803**	**$ 4,865.7**	**8,505**

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

October 1, 2023

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NFI GROUP INC.

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13-weeks and 39-weeks ended October 1, 2023 ("2023 Q3" and "2023 Q3 YTD", respectively) and 13-weeks and 39-weeks ended October 2, 2022 ("2022 Q3" and "2022 Q3 YTD", respectively)
(in thousands of U.S. dollars except per share figures)

	2023 Q3	2022 Q3 restated (note 2.6)	2023 Q3 YTD	2022 Q3 YTD restated (note 2.6)
Revenue (note 17)	$ 709,620	$ 514,047	$ 1,893,600	$ 1,371,329
Cost of sales (note 4)	659,925	507,255	1,759,776	1,344,130
Gross profit	49,695	6,792	133,824	27,199
Sales, general and administration costs and other operating expenses	62,658	54,165	182,317	178,987
Foreign exchange loss (gain)	797	(6,322)	(1,687)	(5,761)
Loss from operations	(13,760)	(41,051)	(46,806)	(146,027)
Gain (Loss) on disposition of property, plant and equipment and right-of-use asset	101	544	(851)	975
Gain on debt modification	10,508	—	10,508	—
Unrealized foreign exchange gain (loss) on monetary items	1,611	2,481	(2,436)	(3,331)
Loss before interest and income taxes	(1,540)	(38,026)	(39,585)	(148,383)
Interest and finance costs				
Interest on long-term debt	24,930	13,804	66,111	35,166
Interest on convertible debt	3,138	3,828	9,380	10,613
Interest on senior unsecured debt	3,045	—	6,929	—
Accretion in carrying value of long-term debt (note 10)	732	1,795	1,919	2,611
Accretion in carrying value of convertible debt (note 12)	1,909	1,915	5,617	5,696
Accretion in carrying value of senior unsecured debt (note 6)	25	—	349	—
Interest expense on lease liability	1,653	1,448	6,110	4,315
Other interest and bank charges (recovery)	105	(292)	1,687	3,547
Fair market value loss on prepayment option of second lien debt (note 11)	475	—	475	—
Equity swap settlement fee	3,519	—	3,519	—
Fair market value loss (gain) on interest rate swap	1,873	(10,538)	9,427	(11,026)
Fair market value loss (gain) on cash conversion option (note 16)	1,528	314	3,441	(38,861)
	42,932	12,274	114,964	12,061
Loss before income tax recovery	(44,472)	(50,300)	(154,549)	(160,444)
Income tax recovery (note 9)	(4,546)	(10,133)	(20,714)	(36,473)
Net loss for the period	$ (39,926)	$ (40,167)	$ (133,835)	$ (123,971)
Other comprehensive loss				
Actuarial gain (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	4,425	(12,057)	4,774	14,812
Unrealized foreign exchange (gain) loss on translation of foreign operations - this item will not be reclassified subsequently to profit or loss	(6,137)	(15,754)	3,563	(39,812)
Net gain (loss) on equity hedge of restricted share plan (note 16b)	—	—	271	(300)
Total comprehensive loss for the period	(41,638)	(67,978)	(125,227)	(149,271)
Net loss per share (basic) (note 14)	$ (0.42)	$ (0.53)	$ (1.62)	$ (1.61)
Net loss per share (diluted) (note 14)	$ (0.42)	$ (0.53)	$ (1.62)	$ (1.61)

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 October 1, 2023
(in thousands of U.S. dollars)

		October 1, 2023		January 1, 2023 restated (note 2.6)
Assets				
Current				
Cash	$	75,498	$	49,987
Accounts receivable (note 3, 16d)		463,243		354,826
Inventories (note 4)		826,762		732,096
Income tax receivable		16,437		40,142
Derivative financial instruments (note 16a, b)		90		1,720
Prepaid expenses and deposits		18,917		23,452
		1,400,947		1,202,223
Property, plant and equipment		187,718		195,783
Right-of-use asset		106,964		107,631
Derivative financial instruments (note 11, 16a, b)		1,652		27,800
Goodwill and intangible assets		973,155		986,421
Accrued benefit asset		9,712		14,747
Other long-term assets (note 5)		50,052		32,126
Deferred tax assets		32,572		17,665
	$	2,762,772	$	2,584,396
Liabilities				
Current				
Accounts payable and accrued liabilities		541,565		453,793
Derivative financial instruments (note 16a, b)		—		2,837
Current portion of long-term debt (note 10)		—		17,901
Current portion of long-term liabilities (note 7)		198,783		167,251
		740,348		641,782
Accrued benefit liability		2,569		2,927
Obligations under leases		113,083		114,044
Deferred compensation obligation		3,227		1,497
Deferred revenue		29,797		20,776
Provisions (note 8)		74,546		67,576
Deferred tax liabilities		45,281		56,914
Derivative financial instruments (note 12, 16a, b)		8,556		6,067
Senior unsecured debt (note 6)		60,838		—
Long-term debt (note 10)		583,948		878,725
Second lien debt (note 11)		172,975		—
Convertible debentures (note 12)		221,427		216,513
	$	2,056,595	$	2,006,821
Commitments and contingencies (note 17)				
Shareholders' equity				
Share capital (note 13)		1,240,275		988,218
Stock option and restricted share unit reserve		13,056		11,285
Accumulated other comprehensive income (loss)		5,630		(2,979)
Deficit		(552,784)		(418,949)
	$	706,177	$	577,575
	$	2,762,772	$	2,584,396

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended October 1, 2023

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, January 2, 2022 (restated) (note 2.6)	**$ 987,943**	**$ 10,105**	**$ 5,921**	**$ (133,380)**	**$ 870,589**
Net loss (restated) (note 2.6)	—	—	—	(126,712)	(126,712)
Other comprehensive income	—	—	(25,000)		(25,000)
Dividends declared on common shares	—	—	—	(9,412)	(9,412)
Equity transaction cost	(2)	—	—	—	(2)
Share-based compensation, net of deferred income taxes	—	1,030	—	—	1,030
Shares issued	204	(204)	—	—	—
Balance, October 2, 2022 (restated) (note 2.6)	**$ 988,145**	**$ 10,931**	**$ (19,079)**	**$ (269,504)**	**$ 710,493**
Net loss (restated) (note 2.6)	—	—	—	(149,444)	(149,444)
Other comprehensive loss	—	—	16,100	—	16,100
Dividends declared on common shares	—	—	—	(1)	(1)
Equity Transaction Cost	2	—	—	—	2
Share-based compensation, net of deferred income taxes	—	425	—	—	425
Shares issued	71	(71)	—	—	—
Balance, January 1, 2023 (restated) (note 2.6)	**$ 988,218**	**$ 11,285**	**$ (2,979)**	**$ (418,949)**	**$ 577,575**
Net loss	—	—	—	(133,835)	(133,835)
Other comprehensive loss	—	—	8,609	—	8,609
Equity transaction cost	(10,248)	—	—	—	(10,248)
Share-based compensation, net of deferred income taxes	—	2,021	—	—	2,021
Shares issued - private placement (note 13)	170,458				170,458
Shares issued (note 13)	91,847	(250)	—	—	91,597
Balance, October 1, 2023	**$ 1,240,275**	**$ 13,056**	**$ 5,630**	**$ (552,784)**	**$ 706,177**

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

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

13-Weeks and 39-weeks ended October 1, 2023 ("2023 Q3" and "2023 Q3 YTD, respectively) and 13-weeks and 39-weeks ended October 2, 2022 ("2022 Q3" and 2022 Q3 YTD, respectively)

(in thousands of U.S. dollars)

	2023 Q3	2022 Q3 restated (note 2.6)	2023 Q3 YTD	2022 Q3 YTD restated (note 2.6)
Operating activities				
Net loss for the period	$ (39,926)	$ (40,167)	$ (133,835)	$ (123,971)
Income tax recovery	(4,546)	(10,133)	(20,714)	(36,473)
Depreciation of plant and equipment	13,590	14,570	37,522	42,127
Amortization of intangible assets	7,879	7,711	23,579	23,786
Share-based compensation	677	421	1,917	949
Interest and finance costs recognized in profit or loss	40,927	11,959	111,046	23,085
Fair value adjustment for total return swap	(2,844)	294	(3,765)	1,370
Unrealized foreign exchange (gain) loss on monetary items	(1,611)	(2,481)	2,436	3,332
Foreign exchange gain (loss) on cash held in foreign currency	137	(2,345)	(2,453)	(791)
Gain (loss) on fair value adjustment for cash conversion option	2,004	314	3,917	(11,026)
(Gain) loss on disposition of property, plant and equipment	(101)	(544)	851	(975)
Impairment loss on property, plant and equipment	—	1,332	—	5,140
Gain on debt modification	(10,508)	—	(10,508)	—
Past service cost	—	—	4,764	—
Defined benefit expense	693	1,860	2,085	4,414
Defined benefit funding	(996)	(2,270)	(2,267)	(4,566)
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	5,375	(19,479)	14,575	(73,599)
Changes in non-cash working capital items (note 15)	(11,105)	(90,659)	(64,133)	(131,340)
Cash used in operating activities before interest and income taxes paid	(5,730)	(110,138)	(49,558)	(204,939)
Interest paid	(33,076)	(15,384)	(90,279)	(42,881)
Income taxes recovered	21	6,556	20,897	4,466
Net cash used in operating activities	(38,785)	(118,966)	(118,940)	(243,354)
Financing activities				
Repayment of obligations under lease	(4,046)	(8,017)	(14,407)	(18,888)
(Repayment) proceeds from credit facilities	(173,233)	135,862	(134,864)	259,419
Share issuance	262,057	—	262,057	(2)
Share issuance costs	(10,248)	—	(10,248)	—
Proceeds on other long-term liabilities	18,374	—	18,374	—
(Repayment of) proceeds from senior unsecured debt	(25,000)	—	61,996	—
Dividends paid	—	(12,883)	—	(19,425)
Net cash generated by financing activities	67,904	114,962	182,908	221,104
Investing activities				
Acquisition of intangible assets	(3,402)	(2,947)	(7,446)	(6,476)
Proceeds from disposition of property, plant and equipment	1,045	360	1,250	1,673
(Investment in) disposition of long-term restricted deposits	(99)	3	(18,123)	5,415
Acquisition of property, plant and equipment	(8,516)	(6,199)	(16,592)	(16,639)
Net cash used in investing activities	(10,972)	(8,783)	(40,911)	(16,027)
Effect of foreign exchange rate on cash	(137)	2,345	2,454	791
Increase (decrease) in cash	18,010	(10,442)	25,511	(37,486)
Cash — beginning of period	57,488	50,274	49,987	77,318
Cash — end of period	$ 75,498	$ 39,832	$ 75,498	$ 39,832

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

1. CORPORATE INFORMATION

1.1 Corporate information

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

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on November 7, 2023.

1.2 Refinancing plan

On August 25, 2023, NFI announced that it had closed its comprehensive refinancing plan (the "Refinancing Plan"). Through the Refinancing Plan, the following changes to the profile and capacity of the Company's senior secured credit facilities with its North American lenders (the "North American Facility") and UK lenders (the "UK Facility", collectively the "Secured Facilities") were effected:

- The $1.0 billion revolving North American Facility converted to a $400 million first lien term loan and a $361 million first lien revolving credit facility (total combined borrowing capacity of $761 million), which includes a $150 million letter-of-credit facility.

- The £40 million revolving UK Facility converted to a £16.0 million term loan and a £14.4 million revolving credit facility (total combined borrowing capacity of £30.4 million).

- Extension of maturity dates of the Secured Facilities to April 30, 2026.

- Total leverage[NG] and interest coverage[NG] covenants waived until 2024 Q3. Minimum liquidity[NG] requirement increased from $25 million to $50 million (note 16).

Terms of NFI's completed $180.4 million second lien financing ("Second Lien Financing") included the following:

- A five-year term and a 97% original issue discount ("OID"), generating net proceeds of $175.0 million, before fees and commissions;

- Annual coupon of 14.5%, payable semi-annually;

- Callable at 100% of face value with applicable premium for the first 12 months, callable at 106% of face value for months 13 to 24, callable at 103% of face value for months 25 to 36 and callable at par from 36 months onwards; and

- The financing has been provided by Coliseum Capital Management, the Company's largest shareholders', and a related party.

The Second Lien Financing is a senior secured second lien obligation of NFI and such material subsidiaries, which ranks behind the Secured Facilities and all other first lien secured indebtedness of NFI and such subsidiaries, ranks ahead of any subordinated obligations of NFI and its subsidiaries, and, by virtue of being secured, ranks ahead of any unsecured obligations.

As part of the refinancing plan, the Company:

- Completed a private placement on August 25, 2023 of common shares with Coliseum Capital Management for 21,656,624 Shares at a subscription price of $6.1567 per Share (the "Subscription Price") of $133.3 million.

- Completed a private placement on August 25, 2023 with a leading global asset manager for 5,000,000 Shares at a subscription price of C$10.10 per Share for aggregate gross proceeds to NFI of C$50,500,000 (approximately $37.2 million).

- Issued 15,102,950 subscription receipts on June 6, 2023 at a price of C$8.25 per Subscription Receipt, for aggregate gross proceeds to NFI of approximately C$125.9 million (approximately $93.1 million), inclusive of interest earned in escrow. Each subscription receipt was redeemed for 1 Share after the Refinancing Plan closed, on August 25, 2023.

- Extended the maturity of Manitoba Development Corporation's and Export Development Canada's ("MDC" and "EDC" respectively) senior unsecured debt facilities to April 30, 2026; and with a $25.0 million permanent repayment of the EDC facility.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

In preparing these Statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied by the Company in its audited consolidated financial statements as at and for the 52-week period ended January 1, 2023 ("Fiscal 2022").

The going concern basis asserts that the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business and requires an assessment looking out at least 12 months. While our going concern assessment identified material uncertainties over the course of the last year, management has concluded the material uncertainties no longer exist. That conclusion necessarily involved management judgments, estimates and assumptions, and consideration of recent developments including:

- The completion of the Refinancing Plan (Note 1.2 and Note 10) which resulted in more favourable debt covenants and an extension of maturities until at least 2026;
- The completion of the private placements and public offering (Note 13) which generated incremental liquidity[NG];
- Continued growth of sales backlog in both unit and dollars;
- Improvements in the supply chain; and
- Revenue and margin projections and forecasts regarding performance against the debt covenants.

Actual results may differ from these estimates and assumptions.

2.3 Principles of consolidation

The Statements include the accounts of the Company's 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.

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

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.4 Fiscal periods

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

2.5 Functional and presentation currency

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

2.6 New standards adopted

IFRS 17 – Insurance Contracts

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

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

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

The adoption of the standard resulted in a decrease to net loss and retained deficit of $2,428 for the 2022 Q3 period, $1,607 for Fiscal 2022, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

The transition adjustment is as follows:

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

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

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.7 Standards issued but not yet adopted

IAS 1 - Presentation of Financial Statements:

Classification of Liabilities as Current or Non-current, which amends IAS 1, was issued January 2020 and October 2022, effective for annual reporting periods beginning on or after January 1, 2024. This clarified a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. Management is currently assessing the impact of this standard on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE

	October 1, 2023	January 1, 2023 restated (note 2.6)
Trade, net of allowance for doubtful accounts (note 16d)	$ 430,848	$ 322,200
Other	32,395	32,626
	$ 463,243	$ 354,826

4. INVENTORIES

	October 1, 2023	January 1, 2023
Raw materials	$ 339,091	$ 329,388
Work in process	384,730	343,424
Finished goods	102,941	59,284
	$ 826,762	$ 732,096

	2023 Q3	2022 Q3	2023 Q3 YTD	2022 Q3 YTD
Cost of inventories recognized as expense and included in cost of sales	$ 639,876	$ 494,193	$ 1,706,810	$ 1,289,827
Write-down of inventory to net realizable value in cost of sales	373	2,632	1,959	7,952
Reversals of a previous write-down in inventory	91	—	91	—

5. OTHER LONG-TERM ASSETS

	October 1, 2023	January 1, 2023
Long-term restricted deposit(s)	$ 44,423	$ 25,351
Long-term accounts receivable	5,629	6,775
	$ 50,052	$ 32,126

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

6. SENIOR UNSECURED DEBT

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

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

6. SENIOR UNSECURED DEBT (Continued)

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

Both the MDC facility and EDC supply chain financing facility were extended to April 30, 2026 as part of the Refinancing Plan. The EDC bonding support facility (note 18c) has a one-year term for each new contract, subject to annual renewals.

As part of the Refinancing Plan, $25 million was repaid on the EDC supply chain financing facility as a permanent reduction.

	Face Value	Unamortized Transaction Costs	**Net Book Value October 1, 2023**	Net Book Value January 1, 2023
MDC	$ 36,819	$ 256	$ 36,563	—
EDC	25,000	725	24,275	—
	$ 61,819	$ 981	$ 60,838	—

7. CURRENT PORTION OF LONG-TERM LIABILITIES

	October 1, 2023	**January 1, 2023**
Deferred revenue	$ 168,720	$ 128,426
Provisions (note 8)	12,229	20,708
Deferred compensation obligation	815	536
Obligations under leases	17,019	17,581
	$ 198,783	$ 167,251

8. PROVISIONS

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

The restructuring provision consists of employee termination benefits associated with the "NFI Forward" restructuring initiative that was announced on July 27, 2020 (note 19) and costs associated with the closure and termination of the lease in respect of the Guildford, UK facility.

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

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

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

8. PROVISIONS (Continued)

	Insurance Risk Retention	Restructuring	Warranty	Onerous Contracts	Total
January 2, 2022	$ 25,243	2,485	$ 55,920	—	83,648
Net adjustments due to IFRS 17	(3,766)	—	—	—	(3,766)
Additions	6,720	7,000	53,333	3,705	70,758
Amounts used/realized	(5,690)	(2,485)	(50,027)	(1,582)	(59,784)
Unused provision	(248)	—	—	(351)	(599)
Unwinding of discount and effect of changes in the discount rate	—	—	17	—	17
Exchange rate differences	4	—	(2,050)	14	(2,032)
January 1, 2023	$ 22,263	$ 7,000	$ 57,193	$ 1,786	$ 88,242
Additions	21,334	1,398	33,524	839	57,095
Amounts used/realized	(8,500)	(251)	(47,298)	(694)	(56,743)
Unused provision	—	—	1,172	(1,243)	(71)
Unwinding of discount and effect of changes in the discount rate	—	—	(931)	—	(931)
Exchange rate differences	(3)	(51)	(762)	(1)	(817)
	35,094	8,096	42,898	687	86,775
Less current portion (note 7)	579	—	10,963	687	12,229
October 1, 2023	$ 34,515	$ 8,096	$ 31,935	$ —	$ 74,546

9. INCOME TAX RECOVERY

The income tax recovery for 2023 Q3 was $4.5 million compared to $10.1 million in 2022 Q3. The reduced income tax recovery is primarily due to the non-recognition of deferred tax assets associated with Canadian loss carryforwards and restricted interest in the UK.

The income tax recovery for 2023 Q3 YTD is $20.7 million, compared to $36.5 million in 2022 Q3 YTD. The decrease in the overall income tax recovery is primarily due to the non-recognition of deferred tax assets associated with Canadian loss carryforwards and restricted interest in the UK, offset by the absence of a detrimental foreign exchange impact in 2022 Q3 YTD.

The Effective Tax Rate ("ETR") for 2023 Q3 was 10.2% and the ETR for 2022 Q3 was 20.1%. The ETR for 2023 Q3 YTD was 13.4% and the ETR for 2022 Q3 YTD was 22.7%. The 2023 Q3 ETR is negatively impacted by the non-recognition of deferred tax assets associated with Canadian loss carryforwards, and restricted interest in the UK.

10. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value October 1, 2023**	Net Book Value January 1, 2023
First lien revolving credit facility, Secured (“N.A. Revolving Facility”)	159,195	14,098	145,097	878,725
First lien term loan, Secured (“N.A Non-Revolving Facility”)	400,000	—	400,000	—
Revolving Credit Facility, Secured ("U.K. Revolving Facility")	17,915	887	17,028	17,901
Term loan, Secured (“U.K. Non-Revolving Facility”)	19,519	—	19,519	—
Government of Canada Loan	2,824	520	2,304	—
	599,453	15,505	583,948	896,626
Less current portion	—	—	—	17,901
	599,453	15,505	583,948	878,725

The N.A. Revolving and Non-Revolving Facilities (collectively referred to as the "North American Facility") have a total borrowing limit of $761 million, which includes a $150 million letter-of-credit facility.

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

10. LONG-TERM DEBT (Continued)

The $83.7 million of outstanding letters-of-credit were drawn against the North American Facility at October 1, 2023. The North American Facility bears interest at a rate equal to SOFR 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 April 30, 2026.

The U.K. Revolving and Non-Revolving Facilities (collectively referred to as the "UK Facility") has a total borrowing limit of £30.4 million to support AD's operations in the UK. Amounts drawn under the UK Facility bear interest at a rate equal to Sterling Overnight Index Average ("SONIA") plus an applicable margin. The UK Facility matures on April 30, 2026.

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

11. SECOND LIEN DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value October 1, 2023**	Net Book Value January 1, 2023
Second Lien Debt	180,413	9,565	170,848	—
Prepayment Option	2,127	—	2,127	—
	182,540	9,565	172,975	—

The second lien debt financing is secured against all the Company's assets, and bears interest at an annual coupon of 14.5%, payable semi-annually on January 2 and July 2 commencing on January 2, 2024. The Second lien debt facility matures on August 1, 2028.

The Company has the option to exercise an option to prepay a portion of the remaining principal (note 16) at 100% of the face value plus applicable premium, expiring on the first anniversary of the debt facility. Prior to the second anniversary, the Company can exercise its option to prepay a portion of the remaining principal at 106% of the face value. Prior to the third anniversary, the Company can exercise its option to prepay a portion of the remaining principal at 103% of the face value. An option to prepay the remaining principal at par is available from the third anniversary onwards.

At inception, the prepayment option was recognized as a derivative asset with a fair value of $2.1 million. At October 1, 2023, the asset was revalued at $1.7 million. A fair market value loss of $0.48 million was recorded on the Company's unaudited interim condensed consolidated statements of net loss and total comprehensive loss for the quarter.

The second lien debt is financed by funds and accounts managed by Coliseum Capital Management LLC. Coliseum Capital Management has also participated in an equity transaction with the Company (disclosed in Note 13).

12. CONVERTIBLE DEBENTURES

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

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

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

	Face Value	Unamortized Transaction Costs	**Net Book Value October 1, 2023**	Net Book Value January 1, 2023
Convertible Debt	228,064	6,637	221,427	216,513
Cash Conversion Option	8,556	—	8,556	5,150
	236,620	6,637	229,983	221,663

13. SHARE CAPITAL

	October 1, 2023	January 1, 2023
Authorized - Unlimited		
Issued - 118,949,728 Common Shares (January 1, 2023: 77,155,016)	$ 1,240,275	$ 988,218

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

Shares	Number (000s)	Net Book Value
Balance – January 1, 2023	77,155	$ 988,218
Director RSUs exercised	35	250
Issuance of Shares - public offering	15,103	86,819
Issuance of Shares - private placement	26,657	164,988
Balance – October 1, 2023	118,950	$ 1,240,275

During the period ended October 1, 2023, the Company:

- Completed a private placement on August 25, 2023 of Shares to Coliseum Capital Management for 21,656,624 Shares at a subscription price of $6.1567 per Share (the "Subscription Price") for aggregate gross proceeds to NFI of $133.3 million.
- Completed a private placement on August 25, 2023 with a leading global asset manager for 5,000,000 Shares at a subscription price of C$10.10 per Share for aggregate gross proceeds to NFI of C$50,500,000 (approximately $37.2 million)
- Issued 15,102,950 subscription receipts on June 6, 2023 at a price of C$8.25 per subscription receipt, for aggregate gross proceeds to NFI of approximately C$125.9 million (approximately $93.1 million), inclusive of interest earned in escrow. Each subscription receipt was exchanged for 1 Share as part of the Refinancing Plan, resulting in the issuance of 15,102,950 Shares.

14. LOSS PER SHARE

	2023 Q3	2022 Q3 restated (note 2.6)	2023 Q3 YTD	2022 Q3 YTD restated (note 2.6)
Net loss attributable to equity holders	$ (39,926)	$ (40,167)	$ (133,835)	$ (123,971)
Weighted average number of Shares in issue	94,169,027	76,299,666	82,835,018	77,140,963
Weighted average number of Shares for diluted earnings per Share	94,169,027	76,299,666	82,835,018	77,140,963
Net loss per Share (basic)	$ (0.4240)	$ (0.5264)	$ (1.6157)	$ (1.6071)
Net loss per Share (diluted)	$ (0.4240)	$ (0.5264)	$ (1.6157)	$ (1.6071)

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

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

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

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2023 Q3	2022 Q3 restated (note 2.6)	2023 Q3 YTD	2022 Q3 YTD restated (note 2.6)
Accounts receivable	$ 14,103	$ (65,480)	$ (108,416)	$ 58,948
Other short-term asset	—	$ (117)	—	(117)
Income tax receivable	127	64	(1,125)	(1,897)
Inventories	3,437	(71,948)	(91,941)	(271,132)
Prepaid expenses and deposits	5,003	(852)	4,546	(14,051)
Accounts payable and accrued liabilities	(5,608)	25,399	86,255	43,041
Income tax payable	—	221	—	993
Deferred revenue	(26,305)	7,054	48,195	53,983
Provisions	(782)	13,158	(1,508)	9,710
Other	(1,080)	1,842	(139)	(10,818)
	$ (11,105)	$ (90,659)	$ (64,133)	$ (131,340)

Included in the "Other" category is $2,428, which represents the net impact of the adoption of IFRS 17 (note 2.6).

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

16. 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.

	October 1, 2023		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 75,498	75,498
Long-term restricted deposit	Level 1	44,423	44,423
Foreign exchange forward contracts	Level 2	90	$ 90
Derivative financial instrument assets - current		$ 90	$ 90
Prepayment Option (note 11)	Level 2	1,652	1,652
Derivative financial instrument assets - long term		$ 1,652	$ 1,652
Financial liabilities recorded at fair value			
Cash Conversion Option	Level 2	8,556	8,556
Derivative financial instrument liabilities - long term		$ 8,556	$ 8,556

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Risk Management

On July 20, 2023, NFI unwound its total return swap contracts which were used to hedge the exposure associated with changes in value of its Shares with respect to outstanding management restricted units ("Management RSUs") and a portion of the outstanding performance share units ("PSUs"), and deferred share units ("DSUs").

At October 1, 2023, the Company had $13.4 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). These foreign exchange contracts range in expiry dates from October 2023 to February 2024. The related asset of $0.1 million (January 1, 2023: $1.7 million asset) is recorded on the statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net loss and total comprehensive loss.

(c) Liquidity[NG] Management

The Company's approach to managing liquidity[NG] risk is to ensure, as far as possible, that it will always have sufficient liquidity[NG] to meet liabilities when due. At October 1, 2023 the Company had a cash balance of $75.5 million (January 1, 2023: $50.0 million), $570 million drawn under the North American Facility due in 2026 (January 1, 2023: $882 million), and $83.7 million of outstanding letters of credit (January 1,2023: $22.5 million). The liquidity[NG] position as at October 1, 2023 is $169.8 million, without consideration given to the minimum liquidity[NG] requirement under the Secured facilities of $50.0 million. In addition, as at October 1, 2023 the Company had $37.1 million drawn under the UK Facility (January 1, 2023: $18.3 million), and $65.1 million of the letters of credit outstanding outside of the North American Facility. The North American Facility has a total borrowing limit of $761 million, which includes a $150 million letter-of-credit facility. The UK Facility has a total borrowing limit of £30.4 million.

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

	Total Leverage Ratio[1,NG]	**Interest Coverage Ratio[2,NG]**	**Total Net Debt to Capitalization[3,NG]**	**Minimum Cumulative Adjusted EBITDA[4,NG]**	**Minimum Liquidity[5,NG]**	**Senior Secured Net Leverage Ratio[6,NG]**
September 2023	Waived	Waived	<0.65:1.00	>($13,000)	$50,000	Waived
October 2023	Waived	Waived	<0.65:1.00	>($11,000)	$50,000	Waived
November 2023	Waived	Waived	<0.65:1.00	>($4,000)	$50,000	Waived
December 2023	Waived	Waived	<0.65:1.00	>$3,000	$50,000	Waived
January 2024	Waived	Waived	<0.65:1.00	>$14,000	$50,000	Waived
February 2024	Waived	Waived	<0.65:1.00	>$25,000	$50,000	Waived
March 2024	Waived	Waived	<0.65:1.00	>$47,000	$50,000	Waived
2024 Q2	Waived	Waived	<0.65:1.00	>$105,000	$50,000	Waived
2024 Q3	<6.00x	>1.25x	N/A	N/A	$50,000	<4.50x
2024 Q4	<4.75x	>1.50x	N/A	N/A	$50,000	<3.50x
2025 Q1	<4.75x	>1.75x	N/A	N/A	$50,000	<3.50x
2025 Q2	<4.25x	>2.00x	N/A	N/A	$50,000	<3.25x
2025 Q3	<4.25x	>2.25x	N/A	N/A	$50,000	<3.25x
2025 Q4 and after	<3.75x	>2.50x	N/A	N/A	$50,000	<3.00x

1. Total Leverage Ratio ("TLR")[NG] is calculated as aggregate indebtedness of the Company not including the Company's 5.0% convertible debentures and certain non-financial products, but including any senior unsecured or second lien indebtedness, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by Adjusted EBITDA[NG] (calculated on a trailing twelve-month basis). The TLR[NG] is reintroduced in 2024 Q3.

2. Interest Coverage Ratio ("ICR")[NG] is calculated as the same trailing twelve month Adjusted EBITDA[NG] as the TLR[NG] divided by trailing twelve-month interest expense on the Secured Facilities, the Company's 5.0% convertible debentures, any senior unsecured or second lien indebtedness and other interest and bank charges.

3. Total Net Debt to Capitalization ("TNDC")[NG] is calculated as borrowings on the Secured Facilities and any senior unsecured or second lien indebtedness, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by shareholders' equity, as shown on the Company's balance sheet, plus borrowings on the Secured Facilities. The TNDC[NG] covenant excludes the impact of any actual goodwill write-downs up to a maximum of $100 million.

4. The Minimum Adjusted EBITDA[NG] covenant is first tested with the month ending September 30, 2023, but includes results from the period May 1, 2023 to September 30, 2023. The covenant continues on a cumulative basis until April 30, 2024, at which point it becomes a trailing-twelve month test for the second quarter of 2024. The Minimum Adjusted EBITDA[NG] tests are based on calendar month-end dates from September 2023 to March 2024.

5. Liquidity[NG] is calculated as unrestricted cash and cash equivalents plus the aggregate amount of credit available under the Secured Facilities.

6. Senior Secured Net Leverage[NG] will include the Secured Facilities and is calculated as indebtedness on those facilities, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by Adjusted EBITDA[NG] (calculated on a trailing twelve-month basis). The Senior Secured Net Leverage[NG] is reintroduced in 2024 Q3.

The calculation of the liquidity[NG] position, without consideration given to the minimum liquidity[NG] requirements under the Secured Facilities at October 1, 2023 is provided below. Calculation of the cumulative Adjusted EBITDA[NG] starts with 2023 Q3 results. The calculation is adjusted for the impact of the adoption of IFRS 16 in Fiscal 2019. As at October 1, 2023, the Company was in compliance with all covenant requirements.

US dollars in thousands		**October 1, 2023**		January 1, 2023
Liquidity[NG] Position (must be greater than $50 million)	$	169,792	$	143,454
Minimum Cumulative Adjusted EBITDA[NG] (must be greater than ($13,000) [2022: N/A])	$	18,950		Waived
Net Debt to Capital Ratio[NG] (must be less than 0.65:1.00 [2022: N/A])	$	0.42		Waived

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at October 1, 2023:

US dollars in thousands	Total	2023	2024	2025	2026	2027	Post 2027
Leases	228,834	6,907	24,967	20,523	17,930	16,035	142,472
Accrued benefit liability	2,824	2,824					
	$ 231,658	$ 9,731	$ 24,967	$ 20,523	$ 17,930	$ 16,035	$ 142,472

(d) Credit risk

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

	October 1, 2023	January 1, 2023 restated (note 2.6)
Current, including holdbacks	$ 434,843	$ 333,522
<u>Past due amounts but not impaired</u>		
1 – 60 days	20,221	15,931
Greater than 60 days	8,361	5,480
Less: Allowance for doubtful accounts	(182)	(107)
Total accounts receivables, net	$ 463,243	$ 354,826

As at October 1, 2023, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

17. SEGMENT INFORMATION

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

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

The Manufacturing Operations segment has recorded vendor rebates of $762 (2022 Q3: $201), which have been recognized into earnings during 2023, but for which the full requirements for entitlement to these rebates have not yet been met.

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

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

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

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

17. SEGMENT INFORMATION (Continued)

Segment information about profits and assets is as follows:

	2023 Q3			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 567,056	$ 142,564		$ 709,620
Operating costs and expenses	611,661	115,410	27,021	754,092
(Loss) earnings before income tax recovery	(44,605)	27,154	(27,021)	(44,472)
Total assets	1,965,158	488,371	309,243	2,762,772
Addition of capital expenditures	8,398	118	—	8,516
Addition of intangibles assets	3,402	—	—	3,402
Indefinite-life intangible assets	244,265	18,334	—	262,599
Goodwill	223,027	188,068	—	411,095

	2023 Q3 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,474,384	$ 419,216		$ 1,893,600
Operating costs and expenses	1,600,524	342,221	105,404	2,048,149
(Loss) earnings before income tax (recovery) expense	(126,140)	76,995	(105,404)	(154,549)
Total assets	1,965,158	488,371	309,243	2,762,772
Addition of capital expenditures	16,297	295	—	16,592
Addition of intangibles assets	7,446	—	—	7,446
Indefinite-life intangible assets	244,265	18,334	—	262,599
Goodwill	223,027	188,068	—	411,095

	2022 Q3 restated (note 2.6)			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 395,984	$ 118,063	—	$ 514,047
Operating costs and expenses	461,443	106,184	(3,280)	564,347
(Loss) earnings before income tax (recovery) expense	(65,459)	11,879	3,280	(50,300)
Total assets	1,840,455	476,865	267,076	2,584,396
Addition of capital expenditures	6,182	17	—	6,199
Addition of intangibles assets	2,947		—	2,947
Indefinite-life intangible assets	241,210	17,845	—	259,055
Goodwill	318,752	185,221	—	503,973

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

17. SEGMENT INFORMATION (Continued)

	2022 Q3 YTD restated (note 2.6)			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,006,396	$ 364,933	—	$ 1,371,329
Operating costs and expenses	1,205,312	316,568	9,893	1,531,773
(Loss) earnings before income tax (recovery) expense	(198,916)	48,365	(9,893)	(160,444)
Total assets	1,840,455	476,865	267,076	2,584,396
Addition of capital expenditures	13,349	3,290	—	16,639
Addition of intangibles assets	6,476	—	—	6,476
Indefinite-life intangible assets	241,210	17,845	—	259,055
Goodwill	318,752	185,221	—	503,973

The Company's revenue by geography is summarized below:

	2023 Q3	2022 Q3	2023 Q3 YTD	2022 Q3 YTD
North America	$ 572,586	$ 397,067	$ 1,506,852	$ 1,051,655
UK and Europe	125,606	97,158	359,191	275,628
Asia Pacific	11,428	19,822	27,557	44,046
Other	—	—	—	—
Total	$ 709,620	$ 514,047	$ 1,893,600	$ 1,371,329

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

	2023 Q3	2022 Q3	2023 Q3 YTD	2022 Q3 YTD
Transit buses	$ 450,126	$ 306,895	$ 1,141,063	$ 770,751
Motor coaches	96,321	76,460	269,160	198,508
Medium-duty and cutaway buses	12,687	4,480	36,254	18,975
Pre-owned coach	4,195	5,837	15,824	7,538
Infrastructure solutions	1,950	860	5,922	5,835
Fiberglass reinforced polymer components	1,777	1,452	6,161	4,789
Manufacturing revenue	$ 567,056	$ 395,984	$ 1,474,384	$ 1,006,396

18. COMMITMENTS AND CONTINGENCIES

(a) In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings, including those that may be related to negligence, product liability, wrongful dismissal, contractual disputes or personal injury. Many claims are covered by the Company's insurance policies. Management does not currently 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 ("surety bond") 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 October 1, 2023 range from October 2023 to December 2039.

17. COMMITMENTS AND CONTINGENCIES (Continued)

At October 1, 2023, outstanding surety bonds guaranteed by the Company totaled $322.4 million (January 1, 2023: $375.6 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(c) The Company has a letter of credit sub-facility of $150.0 million as part of the North American Facility (January 1, 2023: $100.0 million). As at October 1, 2023, letters of credit totaling $83.7 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the North American Facility.

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

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

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

As at October 1, 2023, there was $68.2 million outstanding under the bonding support facility.

As at October 1, 2023, letters of credit in the UK totaling $19.3 million were outstanding as security obligations of the Company outside of the UK facility (January 1, 2023: $18.3 million). Additionally, there are $45.8 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the UK Facility.

As at October 1, 2023, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

(d) Through the normal course of operations, the Company has guaranteed payments and residual values to third party lenders on behalf of customers. As at October 1, 2023, the Company had guaranteed $2.5 million of these arrangements. The Company has not provided for any of these costs, as it does not believe they will have to pay out on any of these arrangements.

19. RESTRUCTURING

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

In July 2022, NFI launched a series of additional projects called "NFI Forward 2.0", that were expected to generate additional annualized Adjusted EBITDA[NG] savings in 2023 and beyond. The initial project, which occurred during the third quarter of 2022, was the integration of NFI's Delaware parts distribution operations (a legacy parts warehouse that NFI acquired when it purchased NABI in 2013) into its existing NFI Parts™ footprint by subleasing the facility to a third party.

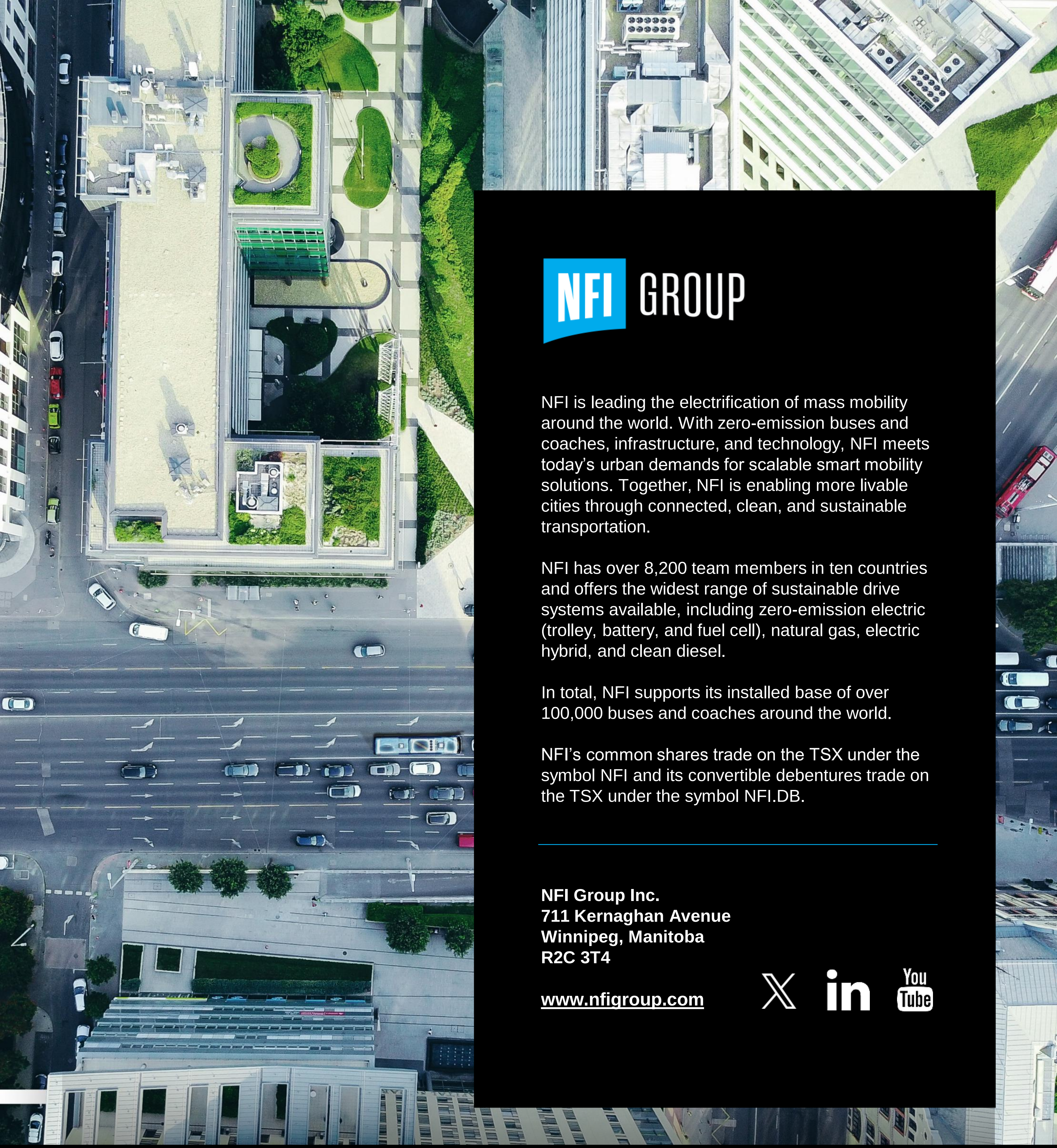
After a detailed review of the Company's manufacturing footprint, the Company had originally planned to close the MCI coach manufacturing facility in Pembina, North Dakota, in the first half of 2023. In response to production delays in Crookston, Minnesota, driven by inability to hire and supply disruption that has created a build-up of WIP inventory and parts, NFI has decided to extend the use of the Pembina, North Dakota facility, with the new planned closure date being no later than two years from the originally planned closure of June 2023.

This extension of the closure date will defer the majority of the expected savings of NFI Forward 2.0, which was smaller in scale and financial impact when compared to the original NFI Forward initiatives, into 2025. The items included in net loss for NFI Forward and NFI Forward 2.0 are as follows:

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

19. RESTRUCTURING (Continued)

	2023 Q3	2022 Q3	2023 Q3 YTD	2022 Q3 YTD
Employee termination benefits	$ —	$ 632	$ 1,749	$ 676
Right-of-use asset and property, plant and equipment impairments	—	3,808	—	3,808
Pension liability	—	7,000	—	7,000
Other	—	1,595	51	1,647
Total restructuring costs	$ —	$ 13,035	$ 1,800	$ 13,131



NFI GROUP

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

NFI has over 8,200 team members in ten countries and offers the widest range of sustainable drive systems available, including zero-emission electric (trolley, battery, and fuel cell), natural gas, electric hybrid, and clean diesel.

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

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

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