Financial Results
First Quarter 2023

May 3, 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™

CONNECT360

Notes to readers

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

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

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

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

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

Notes to readers

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

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

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

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

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

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

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

Leader in zero-emission transportation

115M+
Electric service miles driven

2,891
ZEB EUs delivered since 2015

166
ZEB EUs delivered in 2023 Q1

21%
of total EUs delivered in 2023 Q1 were ZEBs

52%
of North American Public Bid Universe is ZEBs

~8,000
EUs annual ZEB production capacity

3,661
ZEBs in backlog

36%
of total backlog is ZEBs

130+
Cities have NFI ZEBs in service or on order

6
Countries have NFI ZEBs in service or on order

390+
EV chargers installed via Infrastructure Solutions™ since 2018

77+ MW
Charging capacity installed via Infrastructure Solutions™ since 2018

2023 Q1 Highlights (US$)

$524M
Total Revenue

$36.2M
Gross Profit

$46.0M
Net Loss

$66.4M
Cash Flow Used In Operating Activities

$0.60
Net Loss Per Share

1,873 EUs
in New Orders

$9.7M
Adjusted EBITDA[1] Savings from NFI Forward

792
EUs Delivered

$7.4M
Adjusted EBITDA[1]

($28.9)M
Free Cash Flow[1]

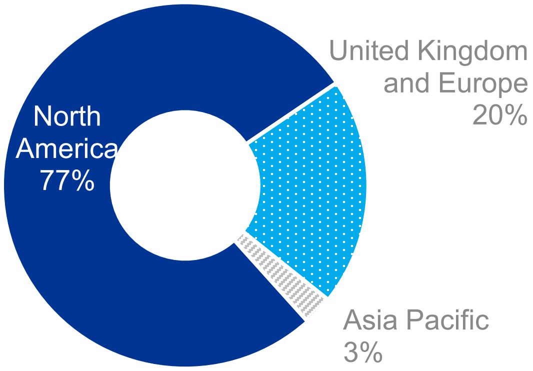
$124.1M
Liquidity [2][3]

$0.49
Adjusted Net Loss Per Share[4]

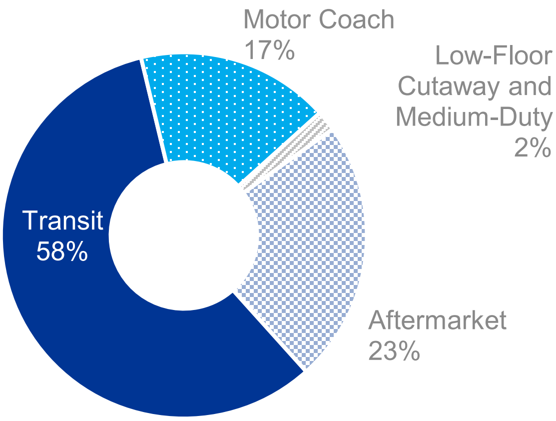
11,066 EUs
Active Bids

10,071 EUs
in Backlog (Value of $6.7B)[2]

1. Represents a non-IFRS measure, meaning it is not a defined term under IFRS and does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. See Non-IFRS and Other Financial Measures section.
2. Represents a supplementary financial measure. See Non-IFRS and Other Financial Measures section.
3. Without consideration given to the minimum liquidity requirement of $25 million.
4. Represents a non-IFRS ratio, meaning it is derived from a non-IFRS measure, which does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. The ratio is calculated using adjusted net income, which is a non-IFRS measure. See Non-IFRS and Other Financial Measures section.



Revenue by Geography[1]



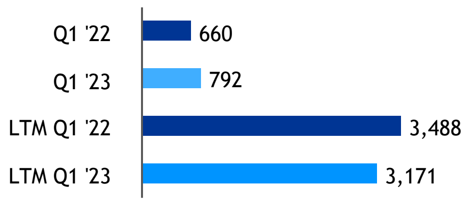
Revenue by Product[1]

[1] LTM as of 2023 Q1

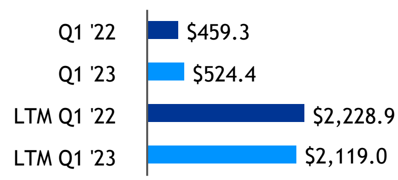
NFI Leading the ZEvolution™

KEY PERFORMANCE INDICATORS

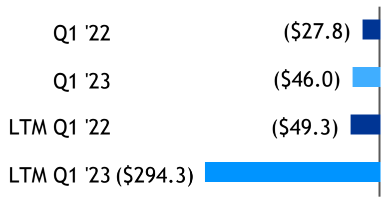
Deliveries (EUs)



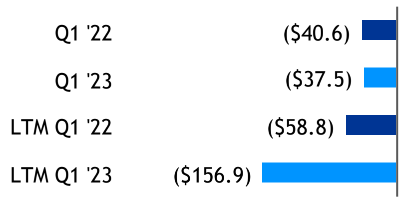
Revenue ($ millions)



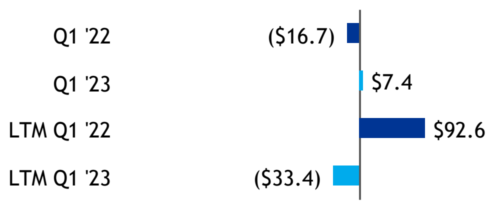
Net Loss ($ millions)



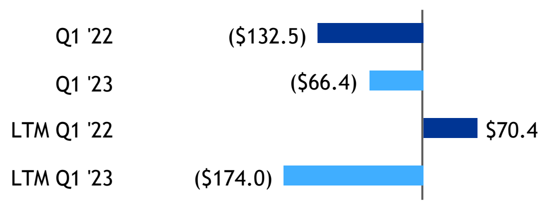
Adjusted Net Loss[1] ($ millions)



Adjusted EBITDA[1] ($ millions)

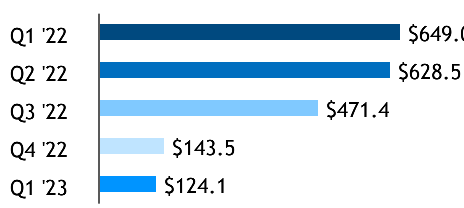


Net cash generated by (used in) operating activities ($ millions)

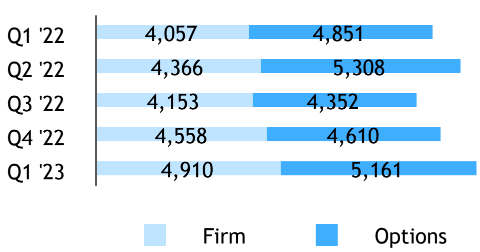


Working Capital Days[2]

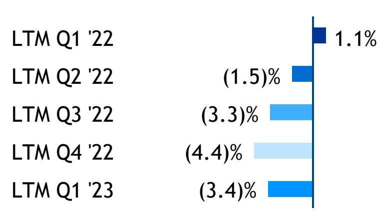
Total Liquidity[2] ($ millions)



Backlog (EUs)



ROIC[3]



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

FINANCIAL RESULTS

NFI's 2023 first quarter financial results reflect the global supply chain challenges, and the impacts of heightened inflation, supplier surcharges and rapid foreign exchange movements on select legacy contracts bid in 2020 and 2021. While these challenges impacted results, there was significant improvement when compared to the same period in 2022 as overall supply chains showed improvement. During the first quarter of 2023, the Company's Manufacturing business segment ("Manufacturing") took the prudent approach to maintain production rates at lower levels to align with supply chain lead times and allow for teams to focus offline work-in-progress ("WIP") inventory. The Company's end markets are recovering from the pandemic, which is demonstrated by recent order activity, a record North American bid environment and unprecedented government funding for public transit. The Aftermarket business segment ("Aftermarket") experienced record quarterly levels of revenue.

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

Deliveries (EUs)	2023 Q1	2022 Q1	% Change	2023 Q1 LTM	2022 Q1 LTM	% Change
Transit buses	505	505	*— %*	2,253	2,567	*(12.2)%*
Motor coaches	149	83	*79.5 %*	590	612	*(3.6)%*
Medium-duty and cutaway	138	72	*91.7 %*	328	309	*6.1 %*
New vehicle deliveries	792	660	*20.0 %*	3,171	3,488	*(9.1)%*
Pre-owned coach	108	19	*468.4 %*	279	235	*18.7 %*
Zero-emission deliveries (included in the above totals)	166	202	*(17.8)%*	657	769	*(14.6)%*
Zero-emission deliveries as a percentage of total new vehicle deliveries	21.0 %	30.6 %	*(31.4)%*	20.7 %	22.0 %	*(5.9)%*

Revenue (dollars in millions)	2023 Q1	2022 Q1	% Change	2023 Q1 LTM	2022 Q1 LTM	% Change
Transit buses	270.3	264.7	*2.1 %*	1,218.1	1,335.4	*(8.8)%*
Motor coaches	91.8	50.8	*80.7 %*	337.2	338.5	*(0.4)%*
Medium-duty and cutaway	14.4	7.9	*82.3 %*	38.2	32.1	*19.0 %*
Total New Vehicle Revenue	**376.5**	**323.4**	***16.4 %***	**1,593.5**	**1,706.0**	***(6.6)%***
Pre-owned coach revenue	5.8	0.8	*625.0 %*	17.8	11.4	*56.1 %*
Infrastructure Solutions™	0.5	0.6	*(16.7)%*	8.4	14.3	*(41.3)%*
Fiberglass reinforced polymer components	2.5	1.8	*38.9 %*	7.7	5.4	*42.6 %*
Manufacturing Revenue	**385.3**	**326.6**	***18.0 %***	**1,627.4**	**1,737.1**	***(6.3)%***
Aftermarket	139.1	132.7	*4.8 %*	491.6	491.8	*— %*
Total Revenue	**524.4**	**459.3**	***14.2 %***	**2,119.0**	**2,228.9**	***(4.9)%***
North America	414.6	334.0	*24.1 %*	1,635.6	1,638.6	*(0.2)%*
United Kingdom and Europe	102.3	114.7	*(10.8)%*	428.4	471.1	*(9.1)%*
Asia Pacific	7.5	10.6	*(29.2)%*	55.0	119.4	*(53.9)%*

Manufacturing revenue for 2023 Q1 increased by $58.7 million, or 18.0%, compared to 2022 Q1. The increase was driven by higher deliveries within motor coach and medium-duty and low-floor cutaway vehicles. Quarterly and LTM deliveries are down relative to pre-COVID levels due to global supply chain challenges and related production inefficiencies. These challenges are largely the result of suppliers recovering from impacts of the COVID-19 pandemic, which has created numerous bottlenecks in the supply chain and disruptions to certain parts availability.

Quarterly revenue of the Company's Infrastructure Solutions™ division decreased by $0.1 million. The decrease is primarily due to the timing of revenue recognition on open contracts. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 356 plug-in and 35 on-route charger projects for 58 different customers.

Aftermarket revenue for 2023 Q1 increased by $6.4 million, or 4.8% compared to 2022 Q1. The increase is mainly related to increased volume in the North America region. The Company continues to benefit from a multi-year retrofit program in the Asia-Pacific region, which continued throughout 2023 Q1, but at a lower run rate. The 2023 Q1 LTM sales under the program were $55.0 million, a decrease of $64.4 million compared to 2022 Q1 LTM sales of $119.4 million.

Net Earnings (Loss) (dollars in millions, except per share amounts)	2023 Q1	2022 Q1	*% Change*	2023 Q1 LTM	2022 Q1 LTM	% Change
Manufacturing	(41.5)	(46.4)	*10.6 %*	(304.6)	(110.5)	*(175.7)%*
Aftermarket	24.8	18.6	*33.3 %*	73.2	83.6	*(12.4)%*
Corporate	(29.3)	—	*— %*	(62.9)	(22.4)	*(180.8)%*
Net Loss	**(46.0)**	**(27.8)**	***(65.5)%***	**(294.3)**	**(49.3)**	***(497.0)%***
Adjusted Net Loss[1]	(37.5)	(40.6)	*7.6 %*	(156.9)	(58.8)	*(166.8)%*
Net Loss per Share	(0.60)	(0.36)	*(66.7)%*	(3.80)	(0.66)	*(475.8)%*
Adjusted Net Loss per Share[1]	(0.49)	(0.53)	*7.5 %*	(2.03)	(0.81)	*(150.6)%*

Adjusted EBITDA[1] (dollars in millions)	2023 Q1	2022 Q1	*% Change*	2023 Q1 LTM	2022 Q1 LTM	*% Change*
Manufacturing	(23.1)	(39.5)	*41.5 %*	(132.8)	(23.7)	*(460.3)%*
Aftermarket	29.5	22.8	*29.4 %*	92.8	99.0	*(6.3)%*
Corporate	1.0	—	*— %*	6.6	17.3	*(61.8)%*
Total Adjusted EBITDA[1]	**7.4**	**(16.7)**	***144.3 %***	**(33.4)**	**92.6**	***(136.1)%***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	(6.0)%	(12.1)%	*50.4 %*	(8.2)%	(1.4)%	*485.7 %*
Aftermarket	21.2 %	17.2 %	*23.3 %*	18.9 %	20.1 %	*(6.0)%*
Total	**1.4 %**	**(3.7)%**	***137.8 %***	**(1.6)%**	**4.1 %**	***(139.0)%***

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

The 2023 Q1 Manufacturing Adjusted EBITDA increased by $16.4 million, or 41.5%, compared to 2022 Q1. 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 $41.5 in 2023 Q1 million compared to a net loss of $46.4 million in 2022 Q1. The decrease in Manufacturing net loss was mainly attributable to the same items that impacted Manufacturing Adjusted EBITDA.

The 2023 Q1 Aftermarket realized Adjusted EBITDA of $29.5 million, a $6.7 million, or 29.4%, year-over-year increase. The increase in Adjusted EBITDA was primarily due to improved sales volume and product mix. Also contributing were economic impacts reducing freight and part costs and freight surcharges. This increase in Aftermarket Adjusted EBITDA results were partially related to a multi-year retrofit program in the Asia-Pacific region, which will continue into early 2024, but at a lower run rate as the program unwinds. 2023 Q1 Aftermarket net earnings increased by $6.2 million, or 33.3%, primarily due to the same items that impacted Aftermarket Adjusted EBITDA.

2023 Q1 Corporate Adjusted EBITDA increased by $1.1 million, compared to 2022 Q1. Corporate expenses included in the calculation of net loss increased by $29.3 million, primarily due to increased interest on long-term debt and unfavourable mark-to-market adjustments to the Company's interest rate swaps. These were somewhat offset by a favourable fair value adjustment to the Company's convertible debenture cash conversion option.

Free Cash Flow[1] and net cash generated by operating activities (dollars in millions, except per share amounts)	2023 Q1	2022 Q1	% Change	2023 Q1 LTM	2022 Q1 LTM	% Change
Net cash (used in) generated by operating activities	(66.4)	(132.5)	*49.9 %*	(174.0)	70.4	*(347.2)%*
Free Cash Flow	(28.9)	(40.4)	*28.5 %*	(157.2)	(32.8)	*(579.3)%*
Free Cash Flow (CAD dollars)	(39.0)	(50.5)	*22.8 %*	(211.2)	(41.4)	*410.1 %*
Declared Dividends (CAD dollars)	—	4.1	*(100.0)%*	8.2	50.7	*(83.8)%*
Free Cash Flow per Share (CAD dollars)[2]	(0.51)	(0.66)	*22.7 %*	(2.73)	(0.57)	*(578.9)%*
Dividends per Share (CAD dollars)	—	0.05	*(100.0)%*	0.11	0.69	*(115.9)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow)[2]	— %	(8.1)%	*(100.0)%*	(3.9)%	(122.5)%	*(96.8)%*

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

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

Free Cash Flow in 2023 Q1 increased by $11.5 million, or 28.5%, compared to 2022 Q1, mainly due to higher earnings in the period. "NFI Forward", the Company's transformational restructuring initiatives to generate cost savings, generated Adjusted EBITDA savings of $9.7 million and an additional $1.8 million Free Cash Flow savings in the quarter.

Net cash used in operating activities in 2023 Q1 was $66.4 million, a decrease of $66.2 million or 49.9%, compared to cash used in 2022 Q1, mainly due to the decrease in cash used in working capital. The 2023 Q1 LTM net cash used in operating activities increased by 347.2%, primarily due to a increase in net losses and cash used in working capital.

	2023 Q1	2022 Q4	2023 Q3	2022 Q2	2022 Q1
Working Capital Days[1]	69	68	70	72	70
Liquidity ($ million)[1]	$ 124.1	$ 143.5	$ 471.4	$ 628.5	$ 649.0
Backlog (EUs)	10,071	9,186	8,505	9,674	8,908
ROIC[1]	(3.4)%	(4.4)%	(3.3)%	(1.5)%	1.1 %

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

As part of the Company's increased focus on cash conversion and leverage reduction, the Company is actively focused on reducing Working Capital Days, especially as it navigates through supply-related disruption to its operations. In 2023 Q1, Working Capital Days were 69, compared to 68 at the end of 2022 Q4, and 70 at the end of 2022 Q1. The increase in Working Capital Days in 2023 Q1 compared to 2022 Q4 is mostly attributable to the increase in average working capital balances, mainly due to increases in WIP inventory, primarily driven by the timing of completion of vehicles missing certain components and also related to delays in delivering certain North American battery-electric buses that required the installation of new drain technology within the energy enclosure system.

The Company's liquidity position, which combines cash on-hand plus available capacity under its credit facilities, without consideration given to the minimum liquidity requirement of $25 million under the Amended Facilities[1], was $124.1 million as at the end of 2023 Q1, down $19.4 million from the end of 2022 Q4. The decrease in liquidity is primarily due to increased drawings from letters of credit ("LOC") and increased debt drawings to support increased worked capital levels.

At the end of 2023 Q1, the Company's total backlog (firm and options) was 10,071 EUs, an increase of 9.6% compared to 9,186 EUs at the end of 2022 Q4. The increase was driven by high levels of new awards in North American and UK transit operations in the quarter, offset by lower deliveries and some option expiries. In addition, 425 EUs of new firm and option orders were pending from customers at the end of 2023 Q1 where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog.

LTM 2023 Q1 return on invested capital (ROIC) increased by 1.0% from LTM 2022 Q4, due to the increase in Adjusted EBITDA and by a lower invested capital base. The increase in invested capital is primarily due to an increase in senior unsecured debt partially offset by a decrease in shareholders' equity.

Footnotes

1. As described in the Capital Allocation section on page 33.

2023 Q1 HIGHLIGHTS

Similar to Fiscal 2022, the first quarter of 2023 continued to be a representation of the broader operating and economic environment, with numerous long-term positive indicators, including increases in new orders, higher contract pricing, and high backlog and bid activity, offset by continued near-term challenges related to supply chain challenges and heightened inflation. Manufacturing operations continued to experience inflation impacts related to legacy contracts bid in 2020 and 2021, and some operational inefficiencies resulting from global supply chain challenges, although there have been signs of supply chain performance improving. Consistent with the Company's expectations for the first quarter, NFI continued to operate at reduced new vehicle input rates, primarily by adjusting production, and by delaying some new vehicle line entries to match timing of parts availability. The Company has started to see an easing of inflationary pressures related to components and raw materials, and has also experienced some success from various actions taken to improve supply performance, including longer lead-times to suppliers and use of alternative suppliers at different levels of the supply chain.

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

During the first quarter of 2023, NFI saw an increase in its inventory balances. These higher inventory balances primarily relate to the timing of completing vehicles that require certain components and from delays in delivering select North American battery-electric buses that require the installation of new drain technology within the battery energy enclosure system. Work on the drains began in the second quarter, and NFI expects that the majority of the vehicles impacted by these issues will commence delivery late in the second quarter and continue to be delivered throughout the rest of 2023. Accounts payable balances were also elevated to match the timing of deliveries to supplier payments and deferred revenue increased linked to customer prepayments and deposits.

NFI’s customers continue to be accommodating to the supply chain challenges that have continually adjusted the Company's production and delivery schedules. NFI has continued to communicate with its customers to provide updates and coordinate delivery schedules based on supply availability. Similar to the second half of 2022, NFI worked with customers in the first quarter of 2023 to seek commercial consideration in response to rising input costs. As of April 2, 2023, the Company had received $88.3 million in prepayments, secured pricing adjustments from certain customers and continued to work with other customers on programs to help alleviate some of NFI's working capital investments as it navigates through the supply chain challenges. These programs are ongoing and, if successful, may have a positive impact on working capital investments and operating cash flows throughout 2023.

During the quarter, NFI and its banking syndicate partners continued to advance amended multi-year credit arrangements that the Company expects will provide the appropriate capacity, covenants and tenor matched to the Company’s anticipated financial performance and recovery. Associated with NFI's overall credit capacity, in January 2023, the Company announced that it had finalized agreements for the previously announced financial support package of approximately $187 million with the Manitoba Development Corporation ("MDC"), an entity that provides financial services and financial instruments on behalf of the Province of Manitoba, and Export Development Canada (“EDC”), a Canadian government Crown corporation. The financial support package included two debt facilities, a $37 million facility (C$50 million) from MDC (the "Manitoba Facility") and a $50 million facility from EDC (the "EDC Facility"), as well as an up to $100 million surety reinsurance support arrangement with EDC for NFI’s surety and performance bonding requirements.

Strong Market Demand and Increasing Procurements

The Company continued to see strong metrics that measure future demand and activity during the first quarter of 2023. In 2023 Q1, new orders increased by 33.1% year-over-year; active bids of 11,066 EUs were at record levels, up 99.0% year-over-year; and there were 425 EUs in bid awards pending. This positions NFI for another quarter of backlog growth in the second quarter of 2023. The Company's 2023 Q1 Book-to-Bill[1] ratio was 149.0%, mostly driven by higher deliveries; 2023 Q1 LTM Book-to-Bill was 131.3%, an increase from 124.8% for the same period last year.

NFI's Total Public Bid Universe for North America was a record 31,169 EUs, up 18.2% year-over-year. The Company ended 2023 Q1 with 2,833 EUs of bids in process, and another 8,233 EUs of bids submitted, the highest bids submitted on record. See Appendix B for details.

Given the highly customized nature of NFI's products, there is significant lead time between when an order is received to when a vehicle is delivered. Generally, in North America, NFI will begin production on an order six to twelve months after it is awarded. In international markets, this lead time can be anywhere from three to eight months. This pre-production period is utilized to complete final

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

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™

At the end of 2023 Q1, NFI had 3,661 ZEBs in the backlog, representing a record 36.4% of the total backlog, up from the previous record of 28.6% in 2022 Q4. 16,077 EUs, or 51.6%, of the Total Bid Universe is ZEBs, an increase of 43.7% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

NFI sells buses to all of the 25 largest transit authorities in North America and has electric vehicles in service with 17 of these transit agencies. NFI also serves all of the UK's major transit and coach operators. Within the first quarter of 2023, the Company announced new zero-emission and electric orders for customers in Athlone, Ireland; Oxfordshire and West Midlands, UK; Miami, Florida, USA, and multiple agencies in California and other states.

In February 2023, NFI's zero-emission innovation and expertise was on display as New Flyer welcomed United States Vice President Kamala Harris to its manufacturing facility in St. Cloud, Minnesota. During the visit, Vice President Harris participated in a tour that included New Flyer Xcelsior CHARGE NG™ electric buses, and the assembly of American-made batteries packages used in New Flyer electric buses. Vice President Harris also delivered an address to New Flyer team members and special guests.

In April 2023, Alexander Dennis announced plans to expand its Larbert head office facility into a manufacturing site for the future: the Larbert site will focus on the production of the new Enviro400EV zero-emission bus starting in the second half of 2023, assembling the next-generation body on the new Alexander Dennis battery-electric chassis. The decision follows a successful pilot program to build Enviro400FCEV hydrogen fuel cell-electric buses in Larbert, Scotland.

Also in April 2023, Alexander Dennis announced that the CAVForth autonomous bus service would begin on May 15, 2023, in East Scotland, using five Alexander Dennis Enviro200AV buses. This follows the successful completion of an extensive testing program and registration of the bus service by Stagecoach, the UK's largest bus and coach operator. The CAVForth2 project will continue development of autonomous bus technology in the UK, and will see Stagecoach, the UK's largest bus operator, extend the 14-mile route of the existing CAVForth autonomous bus service, taking in more complex driving scenarios.

NFI Forward Update

In July 2022, NFI launched a series of additional projects called “NFI Forward 2.0”, that were expected to generate additional annualized Adjusted EBITDA 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, MN, driven by supply disruption that has created a build-up of WIP inventory and parts, NFI has decided to extend the use of the Pembina, ND facility, with the new planned closure date being no later than two years from the originally planned closure of June 2023. MCI will finish D45 CRT LE diesel coaches at the Pembina facility, for which there is a robust order book.

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.

Transportation Diversity Council Lifetime Achievement Award

In April 2023, NFI President and Chief Executive Officer Paul Soubry was awarded the Lifetime Achievement Award by the Transportation Diversity Council (“TDC”) during its 2023 Transportation & Infrastructure Summit virtual event, co-hosted by Massachusetts Institute of Technology. Established in 2010, TDC is a nonprofit organization that delivers world-class education and development programs promoting diversity in the transportation and construction industries. New Flyer first partnered with TDC in 2017, and, since then, its partnership has expanded and works to support the development and preservation of meaningful relationships with community organizations to hire individuals from local groups and programs that focus on underrepresented and underserved communities.

OUTLOOK

Since March 2020, NFI's global operations have been dramatically impacted by the COVID-19 pandemic and resulting macro trends including, supply disruption that created production inefficiencies, heightened and rapid inflation on parts, raw materials and labour rates, higher interest rates, and volatile foreign exchange movements. NFI continues to recover from these impacts and has seen signs of significant improvement within supply chains and contract pricing. These developments combined with record market demand, drive NFI's outlook for positive improvements to revenue, gross profit, Adjusted EBITDA, Free Cash Flow, Net Earnings and ROIC.

NFI's positive outlook is based on its multi-year backlog, growing demand for its buses, coaches, parts and Infrastructure Solutions™ services, and government funding reaching record high levels in core markets. In 2023 Q1, NFI received new firm and option orders for 1,873 EUs, an increase of 33% from 2022 Q1. These new orders included 1,091 EUs of ZEBs, which equates to 58% of all new firm and option orders for the quarter, an increase from 43% in 2022 Q4. NFI's closing backlog (firm and options) for 2023 Q1 was 10,071 EUs with a record value of $6.7 billion.

A high volume of active bus and motor coach procurements continue in both North America and international markets. As of 2023 Q1, the Company's North American active bids were at a record 11,066 EUs, an increase of 99% year-over-year. This bid activity is expected to drive additional backlog growth in 2023 and 2024, and revenue growth in the medium- and longer-term. The current five-year demand within the Company's North American bid universe also appears strong at 20,103 EUs, and, when combined with active bids, provides a record Total Bid Universe of 31,169 EUs.

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

While certain supply chain challenges continue and have caused dislocation to NFI's operating and financial performance, the Company has seen signs of significant improvement in 2023. The number of moderate and high risk suppliers within NFI's supply base has decreased, and, through the Company's actions, it has improved on-time supplier delivery performance supporting higher production volumes. This allows NFI to absorb less fixed overhead on a per unit basis.

NFI is maintaining its plan to increase new vehicle production rates in the second half of 2023, subject to continued and sustained supply performance. The Company anticipates it will hire an additional 150 to 200 direct labour team members before the end of 2023, to drive higher production rates and deliveries. This will be a phased approach with gradual headcount additions throughout the second half of the year.

As previously disclosed NFI's financial results reflect the impacts of inflation, supplier pricing adjustments, employee wage increases, and production inefficiencies. This impacted NFI's firm fixed price contracts originally bid in 2020 and 2021 that were built and delivered in 2022 or 2023. While NFI has completed the majority of these legacy contracts, it will deliver certain lower margin contracts throughout 2023. Some of the margin impacts on these deliveries will be somewhat offset by price adjustments and surcharges approved by customers. Generally, NFI's North American option backlog has a purchase price index adjustment clause used to reflect the higher input costs of a new bus or coach when an option is exercised. The Company has experienced signs of inflation easing during the first four months of 2023 and anticipates that newer contracts in NFI's backlog now reflect appropriate, inflation-adjusted pricing.

Credit Agreement

With covenant relief in place under the Company's Amended Facilities until June 30, 2023, management is focused on working with its senior banking syndicate partners to finalize amended multi-year credit arrangements. NFI is in detailed discussions with its partners to put in place amended agreements that provide the appropriate capacity, flexibility, and covenants to support the Company’s anticipated operational and financial recovery. Conversations are advancing well, and NFI is targeting completion of revised credit arrangements during the second quarter of 2023.

In addition to pursuing its amended credit arrangements, NFI is also continuing to pursue advance payments and deposits from customers wherever possible, and is exploring other potential opportunities to generate cash flow, including capital markets activities. A shelf prospectus was put in place to provide NFI with optionality on these matters.

Market Recovery Post-COVID-19 Pandemic and Supply Chain Constraints

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 the first quarter of 2023 and, when combined with existing backlog and bid activity, these new orders are expected to drive significant revenue growth going forward. This anticipated revenue growth, when combined with expected improvements in margins from updated pricing, operating efficiencies, volume leverage and movement beyond current inflationary pressures, is also expected to generate Adjusted EBITDA improvements in Fiscal 2023 through Fiscal 2025.

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 public transit ridership in the U.S. for the first 13 weeks of 2023 ranged from 60% to 75% of pre-pandemic levels, showing continued signs of recovery.

NFI's overall continued recovery will be dependent upon several factors, including inflation rates, pricing structures, labour availability, reliability parts supply and government funding for fleet investments and infrastructure. These factors will differ by business, product type and geography. It is also important to note that there are significant lead times between when NFI receives an order and when a vehicle enters production.

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 and experienced improvements in 2023 Q1 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 2023 and beyond. In addition, the Aftermarket segment is also expected to benefit from volume leverage as it takes advantage of NFI Forward's facility and cost rationalization efforts that decreased direct costs and SG&A expenses.

Strong Government Support for Recovery and Zero-Emission Transition

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

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

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

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

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

The Company also continues to focus on growing its Infrastructure Solutions™ business to assist customers assess charging infrastructure requirements and project manage infrastructure procurement and installation. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 356 plug-in and 35 overhead charger projects, for a total of 77 megawatts ("MW") charging capacity, for 58 different customers. Currently, Infrastructure Solutions™ has projects under contract for 2023-2025 with 6 existing and 4 new customers, which will add 144 plug-in and 32 overhead depot chargers, for a total of 31 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 reaffirms its financial guidance for Fiscal 2023 and 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	$2.5 to $2.8 billion	$3.2 to $3.6 billion	~$4 billion
ZEB (electric) as a percentage of manufacturing sales	6%	25% to 30%	30% to 35%	~40%
Adjusted EBITDA[2]	$331 million	$30 to $60 million	$250 to $300 million	~$400 million
Cash Capital Expenditures - including NFI Forward 2.0	$38 million	$35 to $40 million	$50 to $60 million	~$50 million
Return on Invested Capital - provided for 2025 targets	9.8%			>12%

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

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

The following selected 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						
	Q1	524,411	(21,749)	(45,964)	7,409	(0.60)
	Total	**524,411**	**(21,749)**	**(45,964)**	**7,409**	**(0.60)**
2022						
	Q4	682,604	(139,206)	(149,444)	(4,156)	(1.94)
	Q3	514,047	(43,363)	(42,483)	(15,593)	(0.56)
	Q2	397,952	(63,902)	(56,435)	(21,029)	(0.74)
	Q1	459,330	(41,481)	(27,795)	(16,660)	(0.36)
	Total	**2,053,933**	**(287,952)**	**(276,157)**	**(57,438)**	**(3.60)**
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 FIRST QUARTER 2023 RESULTS

(U.S. dollars in thousands)	**2023 Q1**	**2022 Q1**
Statement of Earnings Data		
Revenue		
North America	304,368	236,928
United Kingdom and Europe	80,131	89,718
Asia Pacific	832	(11)
Other	—	—
Manufacturing operations	385,331	326,635
North America	110,273	97,105
United Kingdom and Europe	22,133	24,980
Asia Pacific	6,674	10,610
Other	—	—
Aftermarket operations	139,080	132,695
Total revenue	$ 524,411	$ 459,330
Loss from operations	$ (21,749)	$ (41,481)
Loss before interest and income taxes	$ (21,308)	$ (45,875)
Net Loss	$ (45,964)	$ (27,795)
Adjusted EBITDA[1]	$ 7,409	$ (16,660)
Cash capital expenditures	$ 4,055	$ 6,208

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 Q1	**2022 Q1**
Manufacturing Revenue	385,331	326,635
Aftermarket Revenue	139,080	132,695
Total Revenue	524,411	459,330
Loss from Operations	(21,749)	(41,481)
Loss before interest and income taxes	(21,308)	(45,875)
Loss before income tax expense	(53,526)	(36,540)
Net Loss	(45,964)	(27,795)

Manufacturing revenue for 2023 Q1 increased by $58.7 million, or 18.0%, compared to 2022 Q1. The 2023 Q1 revenue increased as a result of increased deliveries during the quarter, this was offset by lower average selling prices, as a result of some low margin EUs impacted by inflation.

Aftermarket revenue for 2023 Q1 increased by $6.4 million, or 4.8% compared to 2022 Q1. The increase in revenue is related to higher volume as the Aftermarket segment has experienced an increase in demand during 2023 Q1. The Company also continues to benefit from a multi-year retrofit program in the Asia-Pacific region, which will continue throughout 2023, but at a lower run rate as the program unwinds in early 2024. This decrease of sales in the Asia-Pacific region is offset by increases in the North America region.

Cost of sales

(U.S. dollars in thousands)	**2023 Q1**	**2022 Q1**
Manufacturing		
Direct cost of sales	319,859	281,466
Depreciation and amortization	18,389	20,747
Other overhead	52,899	42,079
Manufacturing cost of sales	391,147	344,292
As percent of Manufacturing Sales	101.5 %	105.4 %
Aftermarket		
Direct cost of sales	94,515	94,404
Depreciation and amortization	2,512	2,603
Aftermarket cost of sales	97,027	97,007
As percent of Aftermarket Sales	69.8 %	73.1 %
Total Cost of Sales	488,174	441,299
As percent of Sales	93.1 %	96.1 %

The consolidated cost of sales for 2023 Q1 increased by $46.9 million, or 10.6%, compared to 2022 Q1.

Cost of sales from Manufacturing operations in 2023 Q1 was $391.1 million (101.5% of Manufacturing operations revenue) compared to $344.3 million (105.4% of Manufacturing operations revenue) in 2022 Q1, an increase of $46.9 million, or 13.6%. Cost of sales decreased as a percentage of revenue in 2023 Q1, 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 Q1 was $97.0 million (69.8% of Aftermarket revenue) compared to $97.0 million (73.1% of Aftermarket revenue) in 2022 Q1, a decrease of 3.3% as a percentage of revenue. Cost of sales decreased as a percentage of revenue in 2023 Q1 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 Q1	2022 Q1
Manufacturing	(5,782)	(17,658)
Aftermarket	42,019	35,688
Total Gross Margins	36,237	18,030
As a percentage of sales		
Manufacturing	(1.5)%	(5.4)%
Aftermarket	30.2 %	26.9 %
	6.9 %	3.9 %

Manufacturing negative gross margin for 2023 Q1 of $5.8 million ((1.5%) of Manufacturing revenue), increased by $11.9 million compared to a negative gross margin of $17.7 million ((5.4)% of Manufacturing revenue) for 2022 Q1.

Manufacturing gross margin increased as a percentage of revenue in 2023 Q1, mainly due to a reduction of operational inefficiencies that resulted from supply shortages and impacts of inflation. The supply chain is showing signs of improvement which has caused higher production volumes, resulting in the Company absorbing less fixed overhead on a per unit basis.

Aftermarket gross margins for 2023 Q1 of $42.0 million (30.2% of Aftermarket revenue) increased by $6.3 million, or 17.7%, compared to 2022 Q1 gross margins of $35.7 million (26.9% of Aftermarket revenue). The increase in gross margins and gross margins as a percentage of revenue is mainly due to increased sales, favourable product mix and the mitigated inflationary impacts on labour, freight costs and surcharges.

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

(U.S. dollars in thousands)	2023 Q1	2022 Q1
Selling expenses	6,774	5,702
General and administrative expenses	50,983	50,921
Other costs	—	2,823
Total SG&A	57,757	59,446

The consolidated SG&A for 2023 Q1 of $57.8 million (11.0% of consolidated revenue) decreased by $1.7 million, or 2.9%, compared to $59.4 million (12.9% of consolidated revenue) in 2022 Q1.

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

Realized foreign exchange loss/gain

In 2023 Q1, the Company recorded a realized foreign exchange gain of $0.2 million compared to a gain of $0.1 million in 2022 Q1.

The Company uses foreign exchange forward contracts to buy various currencies in which it operates with U.S. dollars, Canadian dollars and GBP. The purchase of these currencies using foreign exchange forward contracts at 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 Q1 were $21.7 million ((4.1%) of consolidated revenue) compared to losses of $41.5 million ((9.0%) of consolidated revenue) in 2022 Q1, an decrease of $19.8 million or 47.7%.

2023 Q1 losses from operations attributable to the Manufacturing segment were $49.1 million ((12.7)% of Manufacturing revenue) compared to losses of $55.5 million ((17.0)% of Manufacturing revenue) in 2022 Q1. The decreased loss as a percentage of revenue in 2023 Q1 was 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 Q1 were $24.8 million (17.8% of Aftermarket revenue) compared to $18.6 million (14.0% of Aftermarket revenue) in 2022 Q1. Earnings from Aftermarket operations in 2023 Q1 increased due to favourable sales mix and a reduction of inflationary impacts on labour, freight costs, and surcharges.

Unrealized foreign exchange gain/loss

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

(U.S. dollars in thousands)		
	2023 Q1	**2022 Q1**
Unrealized loss on forward foreign exchanges contracts	(6,631)	(2,452)
Unrealized gain (loss) on other long-term monetary assets/liabilities	7,055	(2,316)
	424	(4,768)

At April 2, 2023, the Company had $47.3 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, and GBP). The related asset of $0.4 million (January 1, 2023: $1.7 million asset) is recorded on the unaudited interim condensed consolidated statement of financial positions 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 Q1, the Company recorded an EBIT loss of $21.3 million compared to an EBIT loss of $45.9 million in 2022 Q1.

Interest and finance costs

The interest and finance charges for 2023 Q1 of $32.2 million increased by $41.6 million compared 2022 Q1. 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, a fair market value loss on the adjustment to the Company's interest rate swaps and lower gain on the adjustment to the Company's cash conversion option related to the convertible debt. The Company had a fair market value loss on the interest rate swap of $5.6 million in 2023 Q1 compared to a gain of $22.5 million in 2022 Q1. The Company had a fair market value gain on its cash conversion option of $2.6 million compared to $5.4 million in 2022 Q1.

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

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

The fair value of the interest rate swap asset of $22.3 million at April 2, 2023 (January 1, 2023: liability of $6.1 million) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded in finance costs for the reported period.

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

EBT loss for 2023 Q1 of $53.5 million increased by $17.0 million compared to EBT loss of $36.5 million in 2022 Q1. 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 expense

The income tax recovery for 2023 Q1 was $7.6 million compared to $8.7 million in 2022 Q1. The income tax recovery is primarily due to reduced earnings before taxes, offset by the detrimental impact of Base Erosion Anti-Abuse Tax ("BEAT"), and the non-recognition of deferred tax assets associated with Canadian loss carryforwards, and restricted interest in the UK.

The Effective Tax Rate ("ETR") for 2023 Q1 was 14.1% and the ETR for 2022 Q1 was 23.9%. The 2023 Q1 ETR is negatively impacted by the non-recognition of Canadian loss carryforwards, restricted interest in the UK and BEAT.

Net loss

The Company reported net losses of $46.0 million in 2023 Q1, an increase of 18.2 million, or 65.4%, compared to net losses of $27.8 million in 2022 Q1. The net losses are a result of the items discussed above.

Net loss (U.S. dollars in millions, except per Share figures)	**2023 Q1**	**2022 Q1**
Loss from operations	(21.7)	(41.5)
Gain (loss) on disposition of property, plant and equipment	—	0.4
Unrealized foreign exchange gain (loss) on monetary items	0.4	(4.8)
Interest and finance costs	(32.2)	9.4
Income tax recovery	7.6	8.7
Net Loss	(46.0)	(27.8)
Net loss per Share (basic)	(0.60)	(0.36)
Net loss per Share (fully diluted)	(0.60)	(0.36)

The Company recorded net loss per Share for 2023 Q1 of $0.60 compared to net loss per Share of $0.36 in 2022 Q1. The per Share net loss increased in both periods as a result of decreased earnings during the period, and by increased Shares outstanding as discussed below.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)	**2023 Q1**	**2022 Q1**
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	3,244	(17,691)
Interest paid	(29,246)	(14,538)
Income taxes recovered	1,367	884
Cash flow invested in working capital	(41,744)	(101,483)
Net cash used in by operating activities	(66,379)	(132,828)
Net cash generated by financing activities	97,915	82,576
Net cash used in investing activities	(22,333)	(1,026)

Cash flows from operating activities

The 2023 Q1 net operating cash used in operating activities of $66.4 million is mainly comprised of $24.6 million of net cash earnings and $41.7 million of cash invested in working capital. The 2022 Q1 net operating cash outflow of $132.8 million is comprised of $31.3 million of net cash loss and $101.5 million of cash invested in working capital.

Cash flow from financing activities

The cash generated by financing activities of $97.9 million during 2023 Q1 is comprised mainly of proceeds from senior unsecured debt of $86.3 million and proceeds from the revolving credit facilities of $16.0 million offset by repayments of obligations under lease of $5.1 million.

Cash flow from investing activities

(U.S. dollars in thousands)	2023 Q1	2022 Q1
Acquisition of intangible assets	(1,461)	(1,315)
Proceeds from disposition of property, plant and equipment	139	1,085
Long-term restricted deposits	(18,024)	5,412
Acquisition of property, plant and equipment	(2,987)	(6,208)
Cash used in investing activities	(22,333)	(1,026)

Cash used in investing activities was higher in 2023 Q1, 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. Management has not observed, and does not anticipate, significant changes to credit risk as a result of the COVID-19 pandemic.

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

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

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

U.S. dollars in thousands		April 2, 2023		January 1, 2023
Current, including holdbacks	$	360,123	$	333,522
Past due amounts but not impaired				
1 – 60 days		15,196		15,931
Greater than 60 days		5,970		5,480
Less: allowance for doubtful accounts		(219)		(107)
Total accounts receivables, net		381,070		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 April 2, 2023:

U.S. dollars in thousands	Total	2023	2024	2025	2026	2027	Post 2027
Leases	205,393	19,707	21,241	16,849	14,287	12,931	120,377
Accrued benefit liability	2,838	2,838	—	—	—	—	—
	208,231	22,545	21,241	16,849	14,287	12,931	120,377

As at April 2, 2023, outstanding surety bonds guaranteed by the Company totaled $361.0 million (January 1, 2023: $375.6 million). The estimated maturity dates of the surety bonds outstanding at April 2, 2023 range from April 2023 to December 2039. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company has established a letter of credit sub-facility of $100.0 million (January 2, 2022: $100.0 million). As at April 2, 2023, letters of credit totaling $60.9 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility.

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

The PSG program is in place to cover a standby letter of credit or letter of guarantee (in each case an "LC"), required as part of a collateral package provided to support a surety facility where the new bonding capacity is a minimum of at least twice the face value of the LC. The underlying surety facility must only be supporting surety bonds required under contracts entered into by 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. A Surety Bond, required under contracts entered into by the Company, provided that such Surety Bond is a bid bond, performance bond, regulatory bond, license and permit bond. Surety reinsurance support not to exceed 75% of the surety bond amount.

As at April 2, 2023, there are no amounts outstanding under the bonding support facility.

As at April 2, 2023, letters of credit in the UK totaling $16.2 million remain outstanding as a security for contractual obligations of the Company outside of the UK facility (January 2, 2022: $40.6 million). Additionally, there are $32.0 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the Credit Facility.

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

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

Share Option Plan

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

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

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

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

The following reconciles the Share options outstanding:

	2023 Q1		2022 Q1	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,910,057	$27.41	1,617,759	C$28.82
Granted during the period	374,448	$10.46	311,892	$20.26
Expired during the period	(12,599)	$31.84	(12,058)	$34.94
Exercised during the period	—	C$0.00	—	C$0.00
Balance at end of period	2,271,906	$24.60	1,917,593	$27.41

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 27,669 director restricted Share units (“Director RSUs”), with a total value of $0.2 million, in 2023 Q1. Approximately $0.1 million of the issued Director RSUs were exercised and exchanged for 10,329 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 use 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 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 $273 for the Q1 2022 period, $1,607 for the 2022 fiscal period, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

The transition adjustment is as follows:

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

IAS 1 - Presentation of Financial Statements:

Disclosure of Accounting policies which amends IAS 1, Presentation of financial statements was adopted on January 2, 2023. The amendments to the standard clarify some requirements relating to materiality, order of notes, subtotals, accounting policies and disaggregation.The amended paragraphs require entities to disclose their material accounting policy information rather than significant accounting policies, as well as provided a four-step materiality process to determine which accounting policy disclosures are required. Management assessed this standard did not have a material impact on its consolidated financial statements.

Future Changes to Accounting Standards

The following issued accounting pronouncements represent a summary of the pronouncements that are likely to, or may at some future time, have an impact on the Company.

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 Q1	2022 Q1	52-Weeks Ended April 2, 2023	53-Weeks Ended April 3, 2022
Net loss	(45,964)	(27,795)	(294,326)	(49,312)
Addback				
Income taxes	(7,562)	(8,745)	(46,238)	(6,775)
Interest expense[14]	32,218	(9,335)	78,341	19,578
Amortization	20,901	23,351	86,045	95,941
(Gain) loss on disposition of property, plant and equipment and right of use assets	(17)	(373)	(209)	94
Fair value adjustment for total return swap[9]	—	952	—	2,071
Unrealized foreign exchange (gain) loss on non-current monetary items and forward foreign exchange contracts	(424)	4,768	(5,790)	14,030
Costs associated with assessing strategic and corporate initiatives[7]	—	—	—	(106)
Past service costs and other pension costs[11]	4,764	—	11,764	—
Proportion of the total return swap realized[10]	—	(275)	—	(1,434)
Equity settled stock-based compensation	409	285	1,470	1,373
Unrecoverable insurance costs and other[12]	—	411	8,078	1,129
Expenses incurred outside of normal operations[16]	1,246	—	5,007	—
COVID-19 costs[13]	—	—	—	3,670
Out of period costs[15]	—	—	(1,597)	3,230
Impairment loss on goodwill[17]	—	—	103,900	—
Restructuring costs[8]	1,838	96	20,185	9,192
Adjusted EBITDA	7,409	(16,660)	(33,370)	92,681
Depreciation of property, plant and equipment and right of use assets	(13,036)	(15,212)	(54,837)	(63,216)
Tax at 31%	1,744	9,880	27,344	(9,134)
NOPAT	(3,883)	(21,992)	(60,863)	20,331
Adjusted EBITDA is comprised of:				
Manufacturing	(23,093)	(39,459)	(132,798)	(23,675)
Aftermarket	29,462	22,834	92,782	99,022
Corporate	1,040	(35)	6,646	17,334

(Footnotes on page 28)

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 Q1	2022 Q1	52-Weeks Ended April 2, 2023	53-Weeks Ended April 3, 2022
Net cash generated by (used in) operating activities	(66,379)	(132,547)	(174,020)	70,351
Changes in non-cash working capital items[3]	41,744	101,209	36,704	(58,833)
Interest paid[3]	29,246	14,536	73,058	60,106
Interest expense[3]	(25,920)	(16,301)	(87,469)	(70,055)
Income taxes (recovered) paid[3]	(1,367)	(884)	(1,905)	9,535
Current income tax recovery (expense)[3]	(973)	2,613	16,223	(7,537)
Repayment of obligations under lease	(5,078)	(4,842)	(24,771)	(15,989)
Cash capital expenditures	(2,987)	(6,208)	(18,150)	(34,023)
Acquisition of intangible assets	(1,461)	(1,315)	(10,358)	(4,063)
Proceeds from disposition of property, plant and equipment	139	1,085	741	4,953
Costs associated with assessing strategic and corporate initiatives[7]	—	—	—	(106)
Defined benefit funding[4]	817	1,035	4,047	3,638
Defined benefit expense[4]	(613)	(808)	(3,302)	(5,333)
Past service costs and other pension costs[11]	—	—	7,000	—
Expenses incurred outside of normal operations[16]	1,246	—	5,008	—
Equity hedge	692	—	(311)	—
Proportion of the total return swap realized[10]	—	(275)	—	(1,434)
Unrecoverable insurance costs and other[12]	—	411	8,077	3,125
Out of period costs[15]	—	1,264	(1,597)	2,498
Restructuring costs[8]	1,836	96	13,422	9,032
COVID-19 costs[13]	—	—	—	3,670
Foreign exchange gain (loss) on cash held in foreign currency[5]	185	564	392	(2,300)
Free Cash Flow[1]	(28,873)	(40,367)	(157,211)	(32,765)
U.S. exchange rate[2]	1.3515	1.2518	1.3437	1.2649
Free Cash Flow (C$)[1]	(39,022)	(50,531)	(211,244)	(41,444)
Free Cash Flow per Share (C$)[6]	(0.5057)	(0.6551)	(2.7305)	(0.5677)
Declared dividends on Shares (C$)	—	4,096	8,192	50,657
Declared dividends per Share (C$)[6]	—	0.0531	0.1068	0.6906

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 Q1 was 77,161,510 and 77,135,057 for 2022 Q1. The weighted average number of Shares outstanding for 2023 Q1 LTM and 2022 Q1 LTM are 77,362,993 and 73,007,524, 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 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.
11. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans. Q2 2022 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.
12. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.
13. 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.
14. Includes fair market value adjustments to interest rate swaps and the cash conversion option on the Convertible Debentures. 2023 Q1 includes a loss of $5.6 million and 2022 Q1 includes a gain of $22.5 million for the interest rate swaps. 2023 Q1 includes a gain of $2.6 million and 2022 Q1 includes a gain of $5.4 million on the cash conversion option.
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. 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.
17. Includes 2022 Q4 impairment charges with respect to ARBOC's goodwill of $23.2 million and the AD manufacturing cash generating unit ("CGU")'s goodwill of $80.7 million.

Liquidity

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

Backlog

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

Book-to-Bill Ratio

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

Working Capital Days

Working Capital Days is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines Working Capital Days as the calculated number of days to convert working capital to cash. It is calculated by the number of days in the last twelve months (2023 Q1 LTM - 364 days) divided by the working capital turnover ratio (total sales for the last twelve months divided by average working capital for the last thirteen months).

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

Payout Ratio

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

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

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

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

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

(U.S. dollars in thousands, except per Share figures)	2023 Q1	2022 Q1	52-Weeks Ended April 2, 2023	53-Weeks Ended April 3, 2022
Net loss	(45,964)	(27,795)	(294,326)	(49,312)
Adjustments, net of tax[1, 7]				
Fair value adjustments of total return swap[4]	—	657	—	1,166
Unrealized foreign exchange (gain) loss	(293)	3,289	(3,995)	7,503
Unrealized loss (gain) on interest rate swap	3,827	(15,533)	(6,659)	(22,580)
Unrealized gain on Cash Conversion Option	(1,793)	(3,703)	(9,529)	(8,668)
Portion of the total return swap realized[5]	—	(190)	—	(717)
Costs associated with assessing strategic and corporate initiatives[2]	—	—	—	(106)
Equity settled stock-based compensation	282	197	1,014	692
(Gain) loss on disposition of property, plant and equipment	(12)	(257)	(145)	(44)
Past service costs and other pension costs[6]	3,287	—	8,117	—
Unrecoverable insurance costs and other[11]	—	284	5,574	1,519
Expenses incurred outside of normal operations[12]	859	—	3,454	—
Other tax adjustments[9]	(246)	(180)	18,918	2,489
COVID-19 costs[8]	—	—	—	1,670
Out of period costs[10]	—	1,264	(2,366)	1,826
Accretion in carrying value of convertible debt and cash conversion option	1,269	1,300	5,241	1,574
Impairment loss on goodwill[13]	—	—	103,900	—
Restructuring costs[3]	1,268	66	13,928	4,205
Adjusted Net Loss	(37,516)	(40,601)	(156,874)	(58,783)
Loss per Share (basic)	(0.60)	(0.36)	(3.80)	(0.68)
Loss per Share (fully diluted)	(0.60)	(0.36)	(3.80)	(0.68)
Adjusted Net Loss per Share (basic)	(0.49)	(0.53)	(2.03)	(0.81)
Adjusted Net Loss per Share (fully diluted)	(0.49)	(0.54)	(2.03)	(0.81)

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

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

ROIC

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

Reconciliation of Shareholders' Equity to Invested Capital

(U.S. dollars in thousands)	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Shareholders' Equity	$ 533,756	577,575	710,984	783,905
Addback				
Long term debt	911,203	896,626	859,297	718,139
Obligation under lease	127,247	131,625	122,666	131,077
Convertible debentures	218,719	217,516	211,281	224,947
Senior unsecured debt	86,431	—	—	—
Derivatives	(17,164)	(21,620)	(18,904)	(8,179)
Cash	(59,375)	(49,987)	(39,832)	(50,274)
Bank indebtedness	—	—	—	—
Invested Capital	1,800,817	1,751,735	1,845,492	1,799,615
Average of invested capital over the quarter	1,776,276	1,798,614	1,822,554	1,838,086

	2022 Q1	2021 Q4	2021 Q3	2021 Q2
Shareholders' Equity	850,323	871,772	787,010	814,502
Addback				
Long term debt	677,996	586,411	1,049,273	963,630
Capital leases	139,129	143,675	150,212	153,967
Convertible debentures	229,673	225,768	—	—
Senior unsecured debt	—	—	—	—
Derivatives	4,806	31,883	20,920	21,609
Cash	(26,604)	(77,318)	(64,822)	(47,698)
Bank indebtedness	1,233	—	—	—
Invested Capital	1,876,556	1,782,191	1,942,593	1,906,010
Average of invested capital over the quarter	1,829,374	1,862,392	1,924,302	1,945,438

Capital Allocation Policy

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

<u>Maintaining Financial Flexibility</u>

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

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

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

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

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

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

The Credit Facility has a total borrowing limit of $1 billion, which includes a $100 million letter-of-credit facility subject to the Company being in compliance with its credit covenants. $60.9 million of outstanding letters-of-credit were drawn against the Credit Facility at April 2, 2023. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

The UK Facility has a total borrowing limit of £40 million which matures on June 30, 2023. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin.

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

	Total Leverage Ratio	Interest Coverage Ratio	Total Net Debt to Capitalization	Minimum Cumulative Adjusted EBITDA	Minimum Liquidity
January 2, 2023 - March 31, 2023	Waived	Waived	<0.62:1.00	>($28,000)	$25,000
April 1, 2023 - April 30, 2023	Waived	Waived	<0.62:1.00	>($31,000)	$25,000
May 1, 2023 - May 31, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
June 1 - June 30, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
July 3, 2023 - October 1, 2023	<4.50	>2.00	N/A	N/A	$25,000
October 2, 2023 - December 31, 2023	<4.00	>2.50	N/A	N/A	$25,000
January 1, 2024 and thereafter	<3.75	>3.00	N/A	N/A	$25,000

1. TLR is calculated as borrowings on the Credit Facilities, not including the Company's 5.0% convertible debentures, less unrestricted cash and cash equivalents, divided by Adjusted EBITDA, typically calculated on a trailing twelve-month basis. When the TLR is

reintroduced in 2023 Q3, Adjusted EBITDA will be annualized until a full rolling four quarters of results are available (i.e., period ending 2023 Q3);

2. ICR is calculated as the same trailing twelve month Adjusted EBITDA as the TLR divided by trailing twelve month interest expense on the Credit Facilities, the Debentures and other interest and bank charges.
3. Total Net Debt to Capitalization is calculated as borrowings on the Credit Facilities, less unrestricted cash and cash equivalents, divided by Shareholder's Equity, as shown on the Company's balance sheet, plus borrowings on the Credit Facilities. The calculation of shareholder's equity is adjusted to exclude up to $100 million of goodwill impairment.
4. Cumulative Adjusted EBITDA starting with 2023 Q1 results. The calculation is adjusted for the impact of the adoption of IFRS 16 in Fiscal 2019, per the amended facilities agreement.
5. Liquidity is calculated as unrestricted cash and cash equivalents plus the aggregate amount of credit available under the Credit Facilities.

US dollars in thousands	**April 2, 2023**	January 1, 2023
Liquidity Position (must be greater than $25 million)	$ 124,067	$ 143,454
Minimum Cumulative Adjusted EBITDA (must be greater than ($31,000) [2022: N/A])	$ 1,867	Waived
Net Debt to Capital Ratio (must be less than 0.62:1.00 [2022: N/A])	0.55	Waived

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

As of April 2, 2023, NFI's liquidity was $124.1 million, without consideration given to the minimum liquidity requirement of $25 million under the Amended Facilities. As part of the Company's efforts to improve working capital and liquidity, NFI requested prepayments and deposits from certain customers. As of April 2, 2023, the Company has received $88.3 million in prepayments and is continuing to work with other customers to help alleviate some of NFI's working capital investments while it navigates through the supply chain challenges.

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

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

NFI and its banking syndicate partners are now focused on finalizing amended long-term credit arrangements, and NFI is seeking agreements that provide appropriate capacity and covenants matched to the Company's anticipated financial performance and recovery. The Company is targeting completion of these changes prior to the end of the Waiver Period.

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

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

The Company remains focused on deleveraging its balance sheet and returning to its target leverage of 2.0x to 2.5x total debt to Adjusted EBITDA. Management had originally expected the Company to return to those levels 18 to 24 months following the acquisition of AD in May 2019, but the impact of COVID-19, inflation, higher rates of interest and the continuing supply chain disruptions, has extended the anticipated timing of deleveraging. Management believes it will achieve its longer-term leverage targets as the recovery from COVID-19 continues, the anticipated supply of parts and components slowly stabilizes, the Company achieves the benefits of the NFI Forward strategic cost reduction initiatives and the Company continues to focus on reducing working capital.

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

Business Investment

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

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

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

Return of Capital to Shareholders

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

The Company's 2023 Q1 Free Cash Flow was (C$39.0) million with no dividends declared during this period. For 2022 Q1 Free Cash Flow was C$(50.5) million compared to declared dividends of C$4.1 million. This resulted in payout ratio[1] of nil% in 2023 Q1 compared to (8.1)% in 2022 Q1.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2023 Q1**	**2022 Q1**
Dividends paid	$ —	$ 3.3

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

Controls and Procedures

Internal Controls over Financial Reporting

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

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 April 2, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls

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

Appendix A - Meaning of Certain References

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

The Shares trade on the Toronto Stock Exchange (“TSX”) under the symbol NFI and the Convertible Debentures trade on the TSX under the symbol NFI.DB. As at April 2, 2023, 77,161,656 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI’s Annual Information Form and information circular, is available on SEDAR at www.sedar.com.

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 and objectives and the Company’s strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic, supply chain disruptions and plans to address them, and the Company's expectation of obtaining long-term credit arrangements and sufficient liquidity. The words “believes”, “views”, “anticipates”, “plans”, “expects”, “intends”, “projects”, “forecasts”, “estimates”, “guidance”, “goals”, “objectives” and “targets” and similar expressions of future events or conditional verbs such as “may”, “will”, “should”, “could”, “would” are intended to identify forward-looking statements. These forward-looking statements reflect management’s current expectations regarding future events (including the temporary nature of the supply chain disruptions and operational challenges, production improvement, labour supply shortages, the recovery of the Company’s markets and the expected benefits to be obtained through its “NFI Forward” initiatives) and the Company’s financial and operating performance and speak only as of the date of this MD&A. By their very nature, forward-looking statements require management to make assumptions and involve significant risks and uncertainties, should not be read as guarantees of future events, performance or results, and give rise to the possibility that management’s predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that the assumptions may not be correct and that the Company’s future growth, financial condition, ability to generate sufficient cash flow and maintain adequate liquidity, obtain long-term credit arrangements, and the Company’s strategic initiatives, objectives, plans, business prospects and opportunities, including the Company’s plans and expectations relating to the duration, impact of and recovery from the COVID-19 pandemic, supply chain disruptions, operational challenges, labour supply shortages and inflationary pressures, will not occur or be achieved.

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

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

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

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

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

Appendix B - 2023 First Quarter Order Activity

Demand for Transit Buses and Motor Coaches

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

NFI's end markets continued to show strong signs of recovery in the first quarter of 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 and 2022. As of 2023 Q1, active bids reached a record high for the third consecutive quarter, at 11,066 EUs, up 99.0% year-over-year. The Company ended 2023 Q1 with 2,833 bids in process, and another 8,233 bids submitted. Management expects active bids will continue to remain high through 2023 as markets recover during the continuing COVID-19 pandemic and new government funding is used by transit agencies.

The forecasted five-year North American industry procurement has rebounded from the lows of the first half of 2021. As of 2023 Q1, the Total Bid Universe is at an all-time high of 31,169 EUs. Year-over-year, the Total Bid Universe increased by 18.2%, or 4,798 EUs. NFI expects that the forecasted five-year North American industry procurement will remain high through 2023 as transit agencies continue to formalize their short- and long-term procurement plans linked to the multi-billion funding programs announced and/or launched by governments in Canada and the U.S.

As at 2023 Q1, 16,077 EUs, or 51.6%, of the Total Bid Universe are ZEBs, an increase of 43.7% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

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

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)[1]	Total Bid Universe (EUs)
2022 Q1	805	4,757	5,562	20,809	26,371
2022 Q2	4,477	3,105	7,582	21,565	29,147
2022 Q3	2,881	7,226	10,107	20,377	30,484
2022 Q4	5,169	5,338	10,507	20,277	30,784
2023 Q1	**2,833**	**8,233**	**11,066**	**20,103**	**31,169**

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

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

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

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

Europe with multi-year contracts in Ireland and Germany. The European market is highly fragmented with numerous players providing niche opportunities for AD in the future.

In Asia Pacific, the Hong Kong market is highly cyclical, and, following busier periods in 2015 through 2018, the market has declined as anticipated. As in other regions, Hong Kong was also impacted by the COVID-19 pandemic, but AD remains the leader in double-deck buses and retains deep customer relationships in Hong Kong. Management saw some recovery in 2022 and continues to expect the Hong Kong market to see stable annual deliveries and a slow recovery through 2023, including the delivery of Alexander Dennis' first battery-electric buses to key customers in Hong Kong as transit companies gear up for the transition to zero-emission buses. 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 Q1 totaled 1,873 EUs, an increase of 33.1% from 2022 Q1. The timing of new orders can vary based on transit agency procurement processes, with the fourth quarter typically being a busier period tied to agency and operator approval meetings. The new firm and option orders awarded to the Company for 2023 Q1 LTM were 6,252 EUs, an increase of 27.1% from 2022 Q1 LTM. The Company was successful at converting 44 EUs of options to firm orders during 2023 Q1, a decrease from the 118 EUs converted in 2022 Q4 and from the 218 EUs converted in 2022 Q1; option conversions vary quarter-to-quarter. These 44 EUs of option conversions contributed to the 464 EUs converted to firm orders for the 2023 Q1 LTM period. Option conversion declines in 2021, 2022, and the first quarter 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 Q1, NFI received orders for 1,091 EUs of battery-electric, zero-emission vehicles, a slight decrease from the 1,118 EUs of ZEB orders in 2022 Q4. These 1,091 EUs of ZEBs equate to 58.2% of all new firm and option orders for the quarter, which increased from 43.4% in 2022 Q4.

In addition, 425 EUs of new firm and option orders were pending from customers at the end of 2023 Q1, where approval of the award to the Company had been made by the customer’s board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog. This was down from the 806 EUs of pending new firm and option orders as of the end of 2022 Q4 as the Company converted numerous awards from 2022 Q4 into firm and option orders. NFI anticipates that the majority of the units currently in bid award pending will convert into backlog during 2023 Q2.

	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 Q1	1,407	4,524	218	1,051
2022 Q2	1,348	4,660	85	859
2022 Q3	453	3,993	217	674
2022 Q4	2,578	5,786	118	638
2023 Q1	**1,873**	**6,252**	**44**	**464**

Options

In 2023 Q1, 142 options expired, as compared to 831 options in 2022 Q4, and as compared to 284 options that expired in 2022 Q1. 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 2023 Q1; on an LTM basis, 6,252 EUs in new firm and option orders were added to backlog. Overall demand remains at record levels and will support future option orders.

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

	2018	2019	2020	2021	2022	2023 YTD	2024	2025	2026	2027	2028	Total
A) Options Expired (EUs)	741	512	1,202	819	1,920	142						5,336
B) Options Exercised (EUs)	1,795	1,518	953	1,110	638	44						6,058
C) Current Options by year of expiry (EUs)						597	268	506	1,437	1,722	631	5,161
D) Conversion rate % = B / (A+B)	**71 %**	**75 %**	**44 %**	**58 %**	**25 %**							

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

In addition to contracts for identified public customers, the Company has increased its focus on purchasing schedules (state and national contracts, cooperative agency purchasing agreements) with the objective of having multiple available schedules, from which customers within a prescribed region or from defined list, can purchase. The Company is currently named on over 35 of these purchasing schedules, either directly or through its dealers. These schedules are not recorded in backlog as they do not have defined quantities allocated to the Company or any other original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order. The Company has received more than 1,070 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 Q1 Book-to-Bill[1] ratio (defined as new firm orders and exercised options divided by new deliveries) was 149.0%, a decrease from 164.4% in 2022 Q1. This decrease in Book-to-Bill was driven by higher deliveries and lower exercised options, offset by an 31% increase in year-over-year firm orders. 2023 Q1 LTM Book-to-Bill was 131.3%, an increase from 124.8% for 2022 Q1 LTM.

Backlog

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

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas, diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses, represent approximately 67.4% of the total backlog as of the end of 2023 Q1, up from 63.6% as of the end of 2022 Q4. As at the end of 2023 Q1, there were 3,661 EUs of ZEBs in the backlog, representing a record at 36.4% of the total backlog, up from the previous record of 28.6% in 2022 Q4.

Footnotes

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

	2023 Q1			2022 Q4			2022 Q1		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	4,576	4,610	9,186	4,153	4,352	8,505	3,635	4,813	8,448
New orders	1,136	737	1,873	1,371	1,207	2,578	867	540	1,407
Options exercised	44	(44)	—	118	(118)	—	218	(218)	—
Shipments[1]	(792)	—	(792)	(1,034)	—	(1,034)	(660)	—	(660)
Cancelled/expired	(54)	(142)	(196)	(32)	(831)	(863)	(3)	(284)	(287)
End of period	**4,910**	**5,161**	**10,071**	**4,576**	**4,610**	**9,186**	**4,057**	**4,851**	**8,908**
Consisting of:									
Heavy-duty transit buses	3,994	4,887	8,881	3,602	4,342	7,944	3,018	4,577	7,595
Motor coaches	323	274	597	347	268	615	364	274	638
Cutaway and medium-duty buses	593	—	593	627	—	627	675	—	675
Total Backlog	**4,910**	**5,161**	**10,071**	**4,576**	**4,610**	**9,186**	**4,057**	**4,851**	**8,908**

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

At the end of 2023 Q1, the Company's total backlog (firm and options) of 10,071 EUs (valued at a record $6.7 billion[2]), increased 9.6% on a unit basis and 19.6% in total value compared to the end of 2022 Q4. The increase was driven by high levels of new awards in North American and UK transit operations in the quarter, offset by lower deliveries and some option expiries. In addition, 425 EUs of new firm and option orders were in bid award at the end of 2023 Q1.

The average price of an EU in backlog is now $669.4 thousand, a 20.6% increase from 2022 Q1.

The summary of the values is provided below.

	2023 Q1		2022 Q4		2022 Q1	
		EUs		EUs		EUs
Total firm orders	$ 2,849.1	4,910	$ 2,514.4	4,576	$ 2,209.3	4,057
Total options	3,892.2	5,161	3,123.0	4,610	2,735.3	4,851
Total backlog[2]	**$ 6,741.3**	**10,071**	**$ 5,637.4**	**9,186**	**$ 4,944.6**	**8,908**

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

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

April 2, 2023

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NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS
13-Weeks Ended April 2, 2023 ("2023 Q1") and 13-Weeks Ended April 3, 2022 ("2022 Q1")
(in thousands of U.S. dollars except per share figures)

	2023 Q1	2022 Q1 restated (note 2.6)
Revenue (note 16)	$ 524,411	$ 459,330
Cost of sales (note 4)	488,174	441,299
Gross profit	36,237	18,031
Sales, general and administration costs and other operating expenses	57,757	59,446
Foreign exchange loss	229	66
(Loss) earnings from operations	(21,749)	(41,481)
Gain on disposition of property, plant and equipment and right-of-use asset	17	373
Unrealized foreign exchange gain (loss) on monetary items	424	(4,767)
(Loss) earnings before interest and income taxes	(21,308)	(45,875)
Interest and finance costs		
Interest on long-term debt	18,743	10,354
Interest on convertible debt	2,620	3,414
Interest on senior unsecured debt	2,107	—
Accretion in carrying value of long-term debt (note 10)	1,367	358
Accretion in carrying value of convertible debt (note 11)	1,840	1,884
Accretion in carrying value of senior unsecured debt (note 6)	144	—
Interest expense on lease liability	1,504	1,486
Other interest and bank charges	946	1,047
Fair market value loss (gain) on interest rate swap	5,546	(22,512)
Fair market value gain on cash conversion option (note 15)	(2,599)	(5,366)
	32,218	(9,335)
Loss before income tax expense	(53,526)	(36,540)
Income tax recovery (note 9)	(7,562)	(8,745)
Net loss for the period	$ (45,964)	$ (27,795)
Other comprehensive loss		
Actuarial (loss) gain on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	(2,957)	15,243
Unrealized foreign exchange gain (loss) on translation of foreign operations - this item will not be reclassified subsequently to profit or loss	4,542	(5,663)
Net loss on equity hedge of restricted share plan	115	—
Total comprehensive loss for the period	(44,264)	(18,215)
Net loss per share (basic) (note 13)	$ (0.60)	$ (0.36)
Net loss per share (diluted) (note 13)	$ (0.60)	$ (0.36)

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

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

		April 2, 2023		January 1, 2023 restated (note 2.6)
Assets				
Current				
Cash	$	59,375	$	49,987
Accounts receivable (note 3, 15d)		381,070		354,826
Inventories (note 4)		836,421		732,096
Income tax receivable		37,375		40,142
Derivative financial instruments (note 15a, b)		425		1,720
Prepaid expenses and deposits		21,206		23,452
		1,335,872		1,202,223
Property, plant and equipment		192,747		195,783
Right-of-use asset		104,235		107,631
Derivative financial instruments (note 15a, b)		22,255		27,800
Goodwill and intangible assets		984,520		986,421
Accrued benefit asset		6,288		14,747
Other long-term assets (note 5)		49,774		32,126
Deferred tax assets		21,527		17,665
	$	2,717,218	$	2,584,396
Liabilities				
Current				
Accounts payable and accrued liabilities		497,238		453,793
Derivative financial instruments (note 15a, b)		2,953		2,837
Senior unsecured debt (note 6)		86,431		—
Current portion of long-term debt (note 10)		49,209		17,901
Current portion of long-term liabilities (note 7)		212,136		167,251
		847,967		641,782
Accrued benefit liability		4,456		2,927
Obligations under leases		109,380		114,044
Deferred compensation obligation		1,585		1,497
Deferred revenue		22,927		20,776
Provisions (note 8)		65,215		67,576
Deferred tax liabilities		48,656		56,914
Derivative financial instruments (note 11, 15 a,b)		2,563		6,067
Long-term debt (note 10)		861,994		878,725
Convertible debentures (note 11)		218,719		216,513
	$	2,183,462	$	2,006,821
Commitments and contingencies (note 17)				
Shareholders' equity				
Share capital (note 12)		988,288		988,218
Stock option and restricted share unit reserve		11,659		11,285
Accumulated other comprehensive loss	$	(1,279)	$	(2,979)
Deficit		(464,912)		(418,949)
	$	533,756	$	577,575
	$	2,717,218	$	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 April 2, 2023

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, January 2, 2022 (restated) (note 2.6)	**$ 987,943**	**$ 10,105**	**$ 5,921**	**$ (133,380)**	**$ 870,589**
Net loss (restated) (note 2.6)	—	—	—	(27,795)	(27,795)
Other comprehensive income	—	—	9,580	—	9,580
Dividends declared on common shares	—	—	—	(3,270)	(3,270)
Equity transaction cost	(2)	—	—	—	(2)
Share-based compensation, net of deferred income taxes	—	311	—	—	311
Shares issued	71	(71)	—	—	—
Balance, April 3, 2022 (restated) (note 2.6)	**$ 988,012**	**$ 10,345**	**$ 15,501**	**$ (164,445)**	**$ 849,413**
Net loss (restated) (note 2.6)	—	—	—	(248,360)	(248,360)
Other comprehensive loss	—	—	(18,480)	—	(18,480)
Dividends declared on common shares	—	—	—	(6,143)	(6,143)
Share-based compensation, net of deferred income taxes	—	1,144	—	—	1,144
Shares issued	206	(204)	—	—	2
Balance, January 1, 2023 (restated) (note 2.6)	**$ 988,218**	**$ 11,285**	**$ (2,979)**	**$ (418,948)**	**$ 577,576**
Net loss	—	—	—	(45,964)	(45,964)
Other comprehensive loss	—	—	1,700	—	1,700
Share-based compensation, net of deferred income taxes	—	444	—	—	444
Shares issued	70	(70)	—	—	—
Balance, April 2, 2023	**$ 988,288**	**$ 11,659**	**$ (1,279)**	**$ (464,912)**	**$ 533,756**

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 Ended April 2, 2023 ("2023 Q1") and 13-Weeks Ended April 3, 2022 ("2022 Q1")

(in thousands of U.S. dollars)

		2023 Q1	2022 Q1 restated (note 2.6)
Operating activities			
Net loss for the period	$	(45,964)	$ (27,795)
Income tax recovery		(7,562)	(8,745)
Depreciation of plant and equipment		13,036	15,212
Amortization of intangible assets		7,865	8,139
Share-based compensation		409	285
Interest and finance costs recognized in profit or loss		34,817	(3,976)
Fair value adjustment for total return swap		(692)	952
Unrealized foreign exchange (gain) loss on monetary items		(424)	4,767
Foreign exchange gain on cash held in foreign currency		(185)	(564)
Gain on fair value adjustment for cash conversion option		(2,599)	(5,366)
Loss on disposition of property, plant and equipment		(17)	(373)
Past service cost		4,764	—
Defined benefit expense		613	808
Defined benefit funding		(817)	(1,035)
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid		3,244	(17,691)
Changes in non-cash working capital items (note 14)		(41,744)	(101,483)
Cash used in operating activities before interest and income taxes paid		(38,500)	(119,174)
Interest paid		(29,246)	(14,538)
Income taxes recovered		1,367	884
Net cash used in operating activities		(66,379)	(132,828)
Financing activities			
Repayment of obligations under lease		(5,078)	(4,842)
Proceeds from revolving credit facilities		15,997	89,457
Share issuance		—	(2)
Proceeds from senior unsecured debt		86,996	—
Proceeds from short-term debt		—	1,233
Dividends paid		—	(3,270)
Net cash generated by financing activities		97,915	82,576
Investing activities			
Acquisition of intangible assets		(1,461)	(1,315)
Proceeds from disposition of property, plant and equipment		139	1,085
Investment in long-term restricted deposits		(18,024)	5,412
Acquisition of property, plant and equipment		(2,987)	(6,208)
Net cash used in investing activities		(22,333)	(1,026)
Effect of foreign exchange rate on cash		185	564
Increase (decrease) in cash		9,388	(50,714)
Cash — beginning of period		49,987	77,318
Cash — end of period	$	59,375	$ 26,604

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

1. CORPORATE INFORMATION

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

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on May 3, 2023.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

2.2 Basis of preparation

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

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

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

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

NFI and its banking syndicate partners are finalizing amended long-term credit arrangements, and the Company is seeking agreements that provide appropriate capacity and covenants matched to the Company's anticipated financial performance and recovery. The Company is targeting completion of these new agreements before July 1, 2023, although there is no assurances that such agreements will become available.

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

2.3 Principles of consolidation

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

Subsidiaries

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

(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 use 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 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 $273 for the Q1 2022 period, $1,607 for the 2022 fiscal period, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

The transition adjustment 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)

IAS 1 - Presentation of Financial Statements:

Disclosure of Accounting policies which amends IAS 1, Presentation of financial statements was issued in February 2021, with amendments issued October 2022, effective for annual reporting periods beginning on or after January 1, 2023. The amendments to the standard clarify some requirements relating to materiality, order of notes, subtotals, accounting policies and disaggregation. The amended paragraphs require entities to disclose their material accounting policy information rather than significant accounting policies, as well as provided a four-step materiality process to determine which accounting policy disclosures are required. Management assessed that this standard did not have a material impact on its consolidated financial statements.

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

		April 2, 2023		January 1, 2023 restated (note 2.6)
Trade, net of allowance for doubtful accounts (note 15c)	$	347,322	$	322,200
Other		33,748		32,626
	$	381,070	$	354,826

4. INVENTORIES

		April 2, 2023		January 1, 2023
Raw materials	$	314,261	$	329,388
Work in process		438,584		343,424
Finished goods		83,576		59,284
	$	836,421	$	732,096

		2023 Q1		2022 Q1
Cost of inventories recognized as expense and included in cost of sales	$	475,668	$	396,853
Write-down of inventory to net realizable value in cost of sales		560		3,186

5. OTHER LONG-TERM ASSETS

		April 2, 2023		January 1, 2023
Long-term restricted deposit(s)	$	43,373	$	25,351
Long-term accounts receivable		6,401		6,775
	$	49,774	$	32,126

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

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

6. SENIOR UNSECURED DEBT

On January 20, 2023, the Company finalized agreements with Manitoba Development Corporation ("MDC") for a C$50 million debt facility, for general corporate purposes, and with Export Development Canada ("EDC") for two credit facilities of up to $150 million, to support supply chain financing ("supply chain financing facility") for $50 million and surety and performance bonding requirements for new contracts ("bonding support facility") for up to $100 million. 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") Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024

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

	Face Value	Unamortized Transaction Costs	**Net Book Value April 2, 2023**	Net Book Value January 1, 2023
MDC	36,996	226	36,770	—
EDC	50,000	339	49,661	—
	86,996	565	86,431	—

7. CURRENT PORTION OF LONG-TERM LIABILITIES

	April 2, 2023	January 1, 2023
Deferred revenue	$ 181,262	$ 128,426
Provisions (note 8)	12,817	20,708
Deferred compensation obligation	190	536
Obligations under leases	17,867	17,581
	$ 212,136	$ 167,251

8. PROVISIONS

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

The restructuring provision consists of employee termination benefits associated with the "NFI Forward" restructuring initiative that was announced on July 27, 2020 (note 18).

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)

The movements in the provisions are as follows:

	Insurance Risk Retention	Restructuring	Warranty	Onerous Contracts	Total
January 2, 2022	$ 25,243	2,485	$ 55,920	—	83,648
Net adjustments due to IFRS 17	(3,723)	—	—	—	(3,723)
Additions	6,720	7,000	53,333	3,705	70,758
Amounts used/realized	(5,690)	(2,485)	(50,027)	(1,582)	(59,784)
Unused provision	(248)	—	—	(351)	(599)
Unwinding of discount and effect of changes in the discount rate	—	—	17	—	17
Exchange rate differences	4	—	(2,050)	14	(2,032)
January 1, 2023	$ 22,306	$ 7,000	$ 57,193	$ 1,786	$ 88,285
Additions	2,001	—	8,398	—	10,399
Amounts used/realized	(2,889)	—	(17,214)	(409)	(20,512)
Unused provision	—	—	—	—	—
Unwinding of discount and effect of changes in the discount rate	—	—	(10)	—	(10)
Exchange rate differences	—	—	(128)	(2)	(130)
	21,418	7,000	48,239	1,375	78,032
Less current portion (note 7)	782	—	10,660	1,375	12,817
April 2, 2023	$ 20,636	$ 7,000	$ 37,579	$ —	$ 65,215

9. INCOME TAX RECOVERY

The income tax recovery for 2023 Q1 was $7.6 million compared to $8.7 million in 2022 Q1. The income tax recovery is primarily due to reduced earnings before taxes, offset by the detrimental impact of Base Erosion Anti-Abuse Tax (“BEAT”), and the non-recognition of deferred tax assets associated with Canadian loss carryforwards, and restricted interest in the UK.

The Effective Tax Rate ("ETR") for 2023 Q1 was 14.1% and the ETR for 2022 Q1 was 23.9%. The 2023 Q1 ETR is negatively impacted by the non-recognition of Canadian loss carryforwards, restricted interest in the UK and BEAT.

10. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value April 2, 2023**	Net Book Value January 1, 2023
Revolving Credit Facility, Secured (“Credit Facility”)	865,000	3,006	861,994	878,725
Revolving Credit Facility, Secured ("UK Facility")	49,611	402	49,209	17,901
	914,611	3,408	911,203	896,626
Less current portion	49,611	402	49,209	17,901
	865,000	3,006	861,994	878,725

The Credit Facility has a total borrowing limit of $1 billion, which includes a $100 million letter-of-credit facility. At April 2, 2023, the Credit Facility included a $25 million minimum liquidity requirement. The $67.6 million of outstanding letters-of-credit were drawn against the Credit Facility at April 2, 2023. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

The UK facility has a total borrowing limit of £40 million to support AD's operations in the UK. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin. The UK Facility matures on June 30, 2023.

On December 29, 2022, the Company amended the Credit Facility and the UK Facility (together the "amended facilities"). The amended facilities provide the Company with certain covenant relief until June 30, 2023 as it recovers from the impacts of COVID-19 pandemic, and the related global supply chain disruptions.

11. CONVERTIBLE DEBENTURES

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

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

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

	Face Value	Unamortized Transaction Costs	**Net Book Value April 2, 2023**	Net Book Value January 1, 2023
Convertible Debt	226,293	7,574	218,719	216,512
Cash Conversion Option	2,563	—	2,563	5,150
	228,856	7,574	221,282	221,662

12. SHARE CAPITAL

	April 2, 2023	January 1, 2023
Authorized - Unlimited		
Issued - 77,161,656 Common Shares (January 1, 2023: 77,155,016)	$ 988,288	$ 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	7	70
Balance – April 2, 2023	77,162	$ 988,288

13. LOSS PER SHARE

	2023 Q1	**2022 Q1**
Net loss attributable to equity holders	$ (45,964)	$ (27,795)
Weighted average number of Shares in issue	77,161,510	77,135,057
Weighted average number of Shares for diluted earnings per Share	77,161,510	77,135,057
Net loss per Share (basic)	$ (0.60)	$ (0.36)
Net loss per Share (diluted)	$ (0.60)	$ (0.36)

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)

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)		2023 Q1		2022 Q1 restated (note 2.6)
Accounts receivable	$	(24,341)	$	(1,111)
Income tax receivable		427		(1,778)
Inventories		(104,379)		(68,319)
Prepaid expenses and deposits		3,648		(7,637)
Accounts payable and accrued liabilities		39,765		(23,072)
Income tax payable		—		700
Deferred revenue		54,435		7,621
Provisions		(11,594)		(3,570)
Other		295		(4,317)
	$	(41,744)	$	(101,483)

Included in other category is $273, which represents the net impact of the adoption of IFRS 17 (note 2.6).

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value measurement of financial instruments

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

	April 2, 2023				
	Fair value level		Carrying amount		Fair value
Financial assets recorded at fair value					
Cash	Level 1	$	59,375	$	59,375
Long-term restricted deposit	Level 1	$	43,373	$	43,373
Foreign exchange forward contracts	Level 2		425	$	425
Derivative financial instrument assets - current		$	425	$	425
Interest Rate Swap	Level 2		22,255	$	22,255
Derivative financial instrument asset - long term		$	22,255	$	22,255
Financial liabilities recorded at fair value					
Equity Hedge	Level 2		2,953	$	2,953
Derivative financial instrument liabilities - current		$	2,953	$	2,953
Cash Conversion Option	Level 2		2,563		2,563
Derivative financial instrument liabilities - long term		$	2,563	$	2,563

	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 asset - long term		$	27,800	$	27,800
Financial liabilities recorded at fair value					
Equity Hedge	Level 2	$	2,837	$	2,837
Derivative financial instrument liabilities - current		$	2,837	$	2,837
Cash Conversion Option	Level 2		5,150	$	5,150
Equity Hedge	Level 2	$	917	$	917
Derivative financial instrument liabilities - long term		$	6,067	$	6,067

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Risk Management

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

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

As at April 2, 2023, the Company held a position of 191,993 Shares at a weighted average price of C$28.68.

At April 2, 2023, the Company had $47 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). These foreign exchange contracts range in expiry dates from April 2023 to September 2023. The related asset of $0.4 million (January 1, 2023: $1.7 million) is recorded on the statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net loss and total comprehensive loss.

(c) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At April 2, 2023 the Company had a cash balance of $59.4 million (January 1, 2023: $50.0 million), $865.0 million drawn under the Credit Facility due in 2024 (January 1, 2023: $882 million), and $60.9 million of outstanding letters of credit (January 1,2023: $22.5 million). The liquidity position as at April 2, 2023 is $124.1 million, without consideration given to the minimum liquidity requirement under the amended facilities of $25.0 million. In addition, as at April 2, 2023 the Company had $49.6 million drawn under the UK Facility (January 1, 2023: $18.3 million), and $48.2 million of the letters of credit outstanding outside of the Credit Facility. The Credit Facility has a total borrowing limit of $1.0 billion, which includes a $100 million letter-of-credit facility. The UK Facility has a total borrowing limit of £40.0 million.

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

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

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

	Total Leverage Ratio	Interest Coverage Ratio	Total Net Debt to Capitalization	Minimum Cumulative Adjusted EBITDA	Minimum Liquidity
January 1, 2023	Waived	Waived	Waived	Waived	$25,000
January 2, 2023 - March 31, 2023	Waived	Waived	<0.62:1.00	>($28,000)	$25,000
April 1, 2023 - April 30, 2023	Waived	Waived	<0.62:1.00	>($31,000)	$25,000
May 1, 2023 - May 31, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
June 1 - June 30, 2023	Waived	Waived	<0.62:1.00	>($35,000)	$25,000
July 3, 2023 - October 1, 2023	<4.50	>2.00	N/A	N/A	$25,000
October 2, 2023 - December 31, 2023	<4.00	>2.50	N/A	N/A	$25,000
January 1, 2024 and thereafter	<3.75	>3.00	N/A	N/A	$25,000

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

US dollars in thousands		**April 2, 2023**		January 1, 2023
Liquidity Position (must be greater than $25 million)	$	124,067	$	143,454
Minimum Cumulative Adjusted EBITDA (must be greater than ($31,000) [2022: N/A])	$	1,867		Waived
Net Debt to Capital Ratio (must be less than 0.62:1.00 [2022: N/A])		0.55		Waived

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

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

US dollars in thousands	Total	2023	2024	2025	2026	2027	Post 2027
Leases	205,392	19,707	21,241	16,849	14,287	12,931	120,377
Accrued benefit liability	2,838	2,838	—	—	—	—	—
	$ 208,230	$ 22,545	$ 21,241	$ 16,849	$ 14,287	$ 12,931	$ 120,377

(d) Credit risk

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

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	April 2, 2023	January 1, 2023
Current, including holdbacks	$ 360,123	$ 333,522
Past due amounts but not impaired		
1 – 60 days	15,196	15,931
Greater than 60 days	5,970	5,480
Less: Allowance for doubtful accounts	(219)	(107)
Total accounts receivables, net	$ 381,070	$ 354,826

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

16. SEGMENT INFORMATION

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

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

The Manufacturing Operations segment has recorded vendor rebates of $415 (2022 Q1: $266), which have been recognized into earnings during 2023, but for which the full requirements for entitlement to these rebates have not yet been met.

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

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

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

Segment information about profits and assets is as follows:

	2023 Q1			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 385,329	$ 139,082		$ 524,411
Operating costs and expenses	434,391	114,266	29,280	577,937
(Loss) earnings before income tax expense	(49,062)	24,816	(29,280)	(53,526)
Total assets	1,917,024	481,665	318,529	2,717,218
Addition of capital expenditures	3,989	66	—	4,055
Addition of goodwill and intangibles assets	1,461	—	—	1,461
Indefinite-life intangible assets	244,668	18,398	—	263,066
Goodwill	222,195	188,444	—	410,639

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

16. SEGMENT INFORMATION (Continued)

	2022 Q1 restated (note 2.6)			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 326,635	$ 132,695	—	$ 459,330
Operating costs and expenses	381,496	114,092	282	495,870
(Loss) earnings before income tax expense	(54,861)	18,603	(282)	(36,540)
Total assets	1,840,455	476,865	267,076	2,584,396
Addition of capital expenditures	6,208	—	—	6,208
Addition of goodwill and intangibles assets	1,315	—	—	1,315
Indefinite-life intangible assets	246,949	18,763	—	265,712
Goodwill	333,681	190,570	—	524,251

The Company's revenue by geography is summarized below:

	2023 Q1	2022 Q1
North America	$ 414,641	$ 334,034
UK and Europe	102,264	114,697
Asia Pacific	7,506	10,599
Other	—	—
Total	$ 524,411	$ 459,330

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

	2023 Q1	2022 Q1
Transit buses	$ 270,348	$ 264,714
Motor coaches	91,791	50,789
Medium-duty and cutaway buses	14,414	7,945
Pre-owned coach	5,846	772
Infrastructure solutions	451	611
Fiberglass reinforced polymer components	2,479	1,804
Manufacturing revenue	$ 385,329	$ 326,635

17. COMMITMENTS AND CONTINGENCIES

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

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

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

At April 2, 2023, outstanding surety bonds guaranteed by the Company totaled $361.0 million (January 1, 2023: $375.6 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

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

17. COMMITMENTS AND CONTINGENCIES (Continued)

(c) The Company has a letter of credit sub-facility of $100.0 million as part of the Credit Facility (January 1, 2023: $100.0 million). As at April 2, 2023, letters of credit totaling $60.9 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility.

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

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

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

As at April 2, 2023, there are no amounts outstanding under the bonding support facility.

As at April 2, 2023, letters of credit in the UK totaling $16.2 million were outstanding as security obligations of the Company outside of the UK facility (January 1, 2023: $18.3 million). Additionally, there are $32.0 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the Credit Facility.

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

(d) Through the normal course of operations, the Company has guaranteed payments and residual values to third party lenders on behalf of customers. As at April 2, 2023, the Company had guaranteed $2.7 million of these arrangement. The Company has not provided for any of these costs, as it does not believe they will have to pay out on any of these arrangements.

18. RESTRUCTURING

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

With the majority of the original projects completed, the Company is now implementing a series of additional projects called "NFI Forward 2.0", that are expected to generate additional savings in 2023 and beyond. Within NFI Forward 2.0, the Company completed a detailed review of its remaining North American footprint with a view to match production capacity and facility investments to customer demand, local labor availability and zero-emission fleet investment plans. 2023 Q1 includes the reversal of the $7.0 million, as management made the decision to extend the use of MCI's Pembina facility. The items included in net loss for NFI Forward and NFI Forward 2.0 are as follows:

	2023 Q1	2022 Q1
Employee termination benefits	$ —	$ 31
Other	51	52
Total restructuring costs	$ 51	$ 83