Financial Results
Second Quarter 2022

August 3, 2022

Leading the ZEvolution™

We provide comprehensive mobility solutions.

NEW FLYER. ARBOC SPECIALTY VEHICLES ALEXANDER DENNIS MCI PLAXTON

Buses and Coaches

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

Notes to readers

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS, 26-WEEKS, AND 53-WEEKS ENDED JULY 3, 2022

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. ("NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's unaudited condensed consolidated financial statements (including notes) (the "Financial Statements") for the 13-week and 26-week period ended July 3, 2022.

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

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

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

Notes to readers (continued)

assured, and the actual amount of dividends received by holders of common shares ("Shares") will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings, such as the Annual Information Form, available on SEDAR at www.sedar.com.

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.

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

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

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

NFI Leading the ZEvolution™

NFI is leading zero-emission electric mobility.

70M+
Electric service miles driven

59
ZEB EUs delivered in 2022 Q2

11%
of total deliveries in 2022 Q2 were ZEB EUs

2,293
ZEB EUs delivered since 2015

51%
of North American Public Bid Universe is ZEBs

1,900
ZEBs in backlog

20%
of total backlog is ZEBs

110+
Cities have NFI ZEBs in service or on order

6
Countries have NFI ZEBs in service or on order

8,000+
EUs annual ZEB production capacity

280+
EV chargers installed via Infrastructure Solutions™ since 2018

Leading the ZEvolution™

2022 Q2 Highlights (US$)

$398.0M
Total Revenue

562
EUs Delivered

$2.4M
Gross Profit

($21.3)M
Adjusted EBITDA [1]

$56.7M
Net Loss

($49.3)M
Free Cash Flow [1]

$8.4M
Cash Flow Generated By Operating Activities

$628.5M
Liquidity [2,3]

$0.74
Net Loss Per Share

$0.64
Adjusted Net Loss Per Share [4]

1,348 EUs
in New Orders

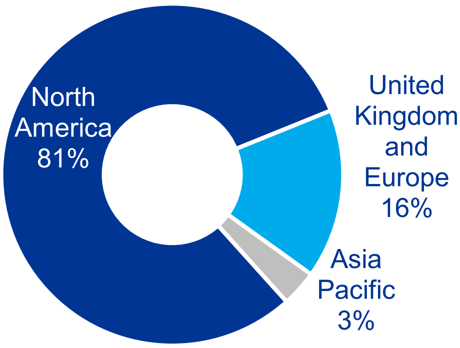
7,582 EUs
Active Bids

$15.1M
Adjusted EBITDA[1] Savings from NFI Forward

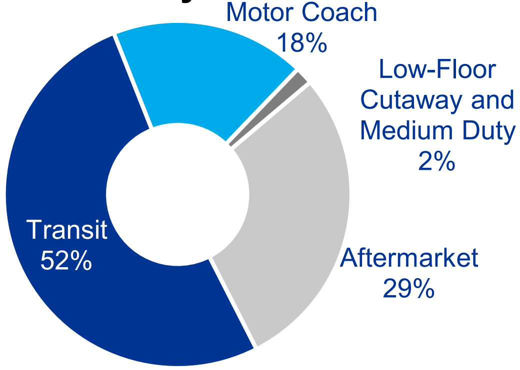
9,674 EUs
in Backlog (Value of $5.5B) [2]

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 $300 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

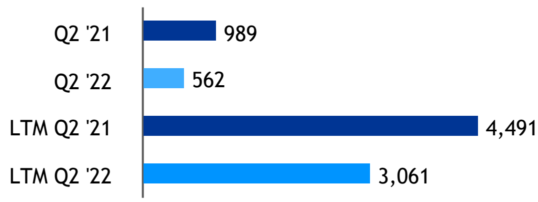


Revenue by Product

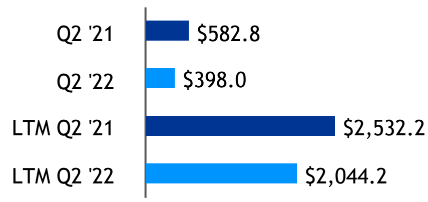


KEY PERFORMANCE INDICATORS

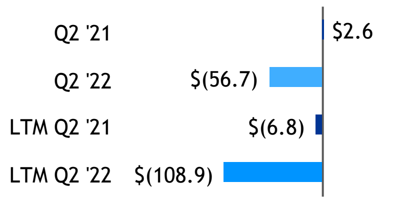
Deliveries (EUs)



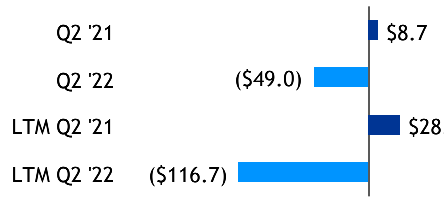
Revenue ($ millions)



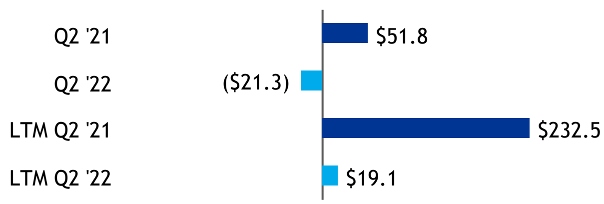
Net earnings (loss) ($ millions)



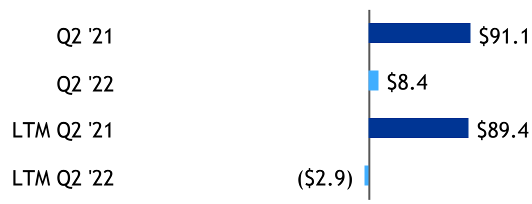
Adjusted Net Earnings (Loss)[1] ($ millions)



Adjusted EBITDA[1] ($ millions)

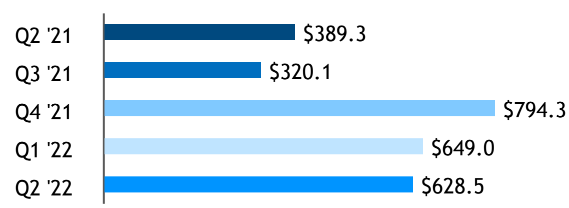


Net cash generated by (used in) operating activities ($ millions)

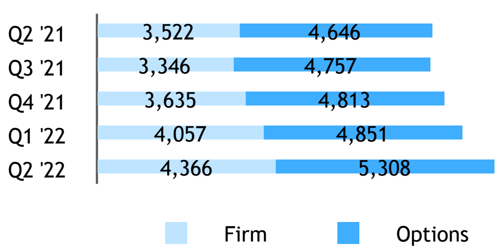


Working Capital Days[2]

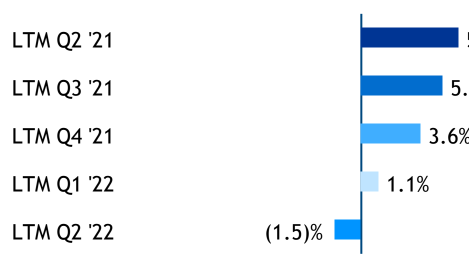
Total Liquidity[2] ($ millions)



Backlog (EUs)



ROIC[3]



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

FINANCIAL RESULTS

NFI's 2022 Q2 financial results were significantly impacted by continued global supply chain challenges, primarily attributable to the continuing COVID-19 pandemic. The Company reduced production rates and increased work-in-progress ("WIP") to manage supply chain shortages, which resulted in lower new vehicle deliveries and negative impacts to financial performance metrics within the Company's Manufacturing business segment ("Manufacturing"). The Company's end markets are recovering from the pandemic, which is demonstrated by recent order activity and unprecedented government funding for public transit. The Aftermarket business segment ("Aftermarket") experienced a small decline in year-over-year results due to a decrease in revenue and margins in North America, United Kingdom and Europe. The Company continues to generate significant savings from NFI Forward restructuring programs and expects to achieve its NFI Forward target for Adjusted EBITDA savings of $67 million (from 2019 levels) by the end of 2022, one year earlier than its original target for the end of 2023. In 2022 Q2, NFI Forward realized Adjusted EBITDA savings of approximately $15.1 million and $0.8 million of additional Free Cash Flow savings.

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

Deliveries (unaudited, EUs)	2022 Q2	2021 Q2	% Change	2022 Q2 LTM	2021 Q2 LTM	% Change
Transit buses	386	685	(43.6)%	2,268	3,328	(31.9)%
Motor coaches	129	193	(33.2)%	548	744	(26.3)%
Medium-duty and cutaway	47	111	(57.7)%	245	419	(41.5)%
New Vehicle Deliveries	562	989	(43.2)%	3,061	4,491	(31.8)%
Pre-owned coach	19	142	(86.6)%	112	532	(78.9)%
Zero-emission deliveries (included in the above totals)	59	83	(28.9)%	745	337	121.1 %

Revenue (unaudited, dollars in millions)	2022 Q2	2021 Q2	% Change	2022 Q2 LTM	2021 Q2 LTM	% Change
Transit buses	199.1	338.8	(41.2)%	1,195.8	1,609.9	(25.7)%
Motor coaches	71.3	96.2	(25.9)%	313.6	384.6	(18.5)%
Medium-duty and cutaway	6.6	11.1	(40.5)%	27.5	42.0	(34.5)%
Total new transit bus, coach and cutaway revenue	**277.0**	**446.1**	**(37.9)%**	**1,536.9**	**2,036.5**	**(24.5)%**
Pre-owned coach revenue	0.9	6.8	(86.8)%	5.6	28.4	(80.3)%
Infrastructure Solutions™	4.4	5.3	(17.0)%	13.4	22.1	(39.4)%
Fiberglass reinforced polymer components	1.5	1.2	25.0 %	5.8	5.5	5.5 %
Manufacturing Revenue	**283.8**	**459.3**	**(38.2)%**	**1,561.7**	**2,092.4**	**(25.4)%**
Aftermarket	114.2	123.5	(7.5)%	482.5	439.8	9.7 %
Total Revenue	**398.0**	**582.8**	**(31.7)%**	**2,044.2**	**2,532.2**	**(19.3)%**
North America	320.6	452.2	(29.1)%	1,506.9	1,997.6	(24.6)%
United Kingdom and Europe	63.8	93.7	(31.9)%	441.1	378.0	16.7 %
Asia Pacific	13.6	36.9	(63.1)%	96.1	156.8	(38.7)%
Other	—	—	— %	—	—	— %

Manufacturing revenue for 2022 Q2 decreased by $175.5 million, or 38.2%, compared to 2021 Q2. The decrease was primarily due to the reduction in deliveries in North America as a result of the global supply chain and logistics challenges. These challenges are largely the result of suppliers recovering from impacts of the COVID-19 pandemic, which has created numerous bottlenecks in the supply chain and disruptions to parts availability. During the quarter, WIP inventory increased by $113.6 million, of which $57.0 million or 117 EUs were related to a shortage of specific microprocessors as the Company worked to build units that will be delivered primarily in the second half of the year. Pre-owned coach sales remained low as the Company previously completed a contract to sell the majority of its North American pre-owned coach fleet. Quarterly revenue of the Company's Infrastructure Solutions™ division declined by $0.9 million, primarily due to the timing of revenue recognition on open contracts. Since its inception, Infrastructure Solutions™ has been responsible for the installation of 247 plug-in and 36 on-route charger projects for 46 different customers.

Aftermarket revenue for 2022 Q2 decreased by 7.5% to $114.2 million, compared to 2021 Q2. The decrease was driven by reduced volumes in North America, United Kingdom and Europe regions compared to 2021 Q2 when the revenue was driven by record volumes in the Asia Pacific region. The Company also continues to benefit from a multi-year retrofit program in the Asia-Pacific region, which will continue throughout 2022, but at a lower run rate, contributed to the year-over-year decline.

Adjusted EBITDA[1] (unaudited, dollars in millions)	2022 Q2	2021 Q2	% Change	2022 Q2 LTM	2021 Q2 LTM	% Change
Manufacturing	(42.4)	21.3	*(299.1)%*	(87.4)	156.0	*(156.0)%*
Aftermarket	22.3	24.9	*(10.4)%*	96.3	81.2	*18.6 %*
Corporate	(1.2)	5.6	*121.4 %*	10.2	(4.7)	*317.0 %*
Total Adjusted EBITDA[1]	**(21.3)**	**51.8**	***(141.1)%***	**19.1**	**232.5**	***(91.8)%***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	(14.9)%	4.6 %	*(423.9)%*	(5.6)%	7.5 %	*(174.7)%*
Aftermarket	19.5 %	20.2 %	*(3.5)%*	20.0 %	18.5 %	*8.1 %*
Total	**(5.4)%**	**8.9 %**	***(160.7)%***	**0.9 %**	**9.2 %**	***(90.2)%***

Net Earnings (Loss) [2] (unaudited, dollars in millions, except per share amounts)	2022 Q2	2021 Q2	% Change	2022 Q2 LTM	2021 Q2 LTM	% Change
Manufacturing	(60.7)	(7.6)	*(698.7)%*	(163.6)	(11.5)	*1,322.6 %*
Aftermarket	17.9	21.5	*(16.7)%*	79.9	65.8	*21.4 %*
Corporate	(13.9)	(11.4)	*(21.9)%*	(25.2)	(61.1)	*58.8 %*
Net (loss) earnings	**(56.7)**	**2.6**	***(2,280.8)%***	**(108.9)**	**(6.8)**	***(1,501.5)%***
Adjusted Net (Loss) Earnings [1]	(49.0)	8.7	*(663.2)%*	(116.7)	(28.7)	*(306.6)%*
Net (loss) earnings per Share	(0.74)	0.04	*(1,950.0)%*	(1.44)	(0.12)	*(1,100.0)%*
Adjusted Net (Loss) Earnings per Share[1]	(0.64)	0.12	*(633.3)%*	(1.60)	0.43	*472.1 %*

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

2022 Q2 Manufacturing Adjusted EBITDA decreased by $63.7 million, or 299.1%, compared to 2021 Q2. The decrease was driven by lower new vehicle deliveries, unfavorable sales mix, heightened inflation and operational inefficiencies resulting from global supply chain and logistics challenges. Also contributing, was escalating supply problems of critical electronic parts which caused, WIP inventory to increase by $57.0 million or 117 EUs as NFI worked to build units that will be delivered primarily in the second half of the year. Government grants, which were primarily received to assist with the retention of skilled personnel, decreased by $17.9 million in 2022 Q2 compared to the same period in 2021, as the programs were either discontinued or NFI was no longer eligible, resulting in lower Manufacturing Adjusted EBITDA. Manufacturing experienced a 2022 Q2 net loss of $60.7 million compared to a net loss of $7.6 million in 2021 Q2. The decrease in Manufacturing net earnings was mainly attributable to the same items that impacted Manufacturing Adjusted EBITDA.

2022 Q2 Aftermarket Adjusted EBITDA achieved $22.3 million, a $2.7 million, or 10.4%, year-over-year decrease. The decrease in EBITDA is due to reduced sales volumes in North America, United Kingdom and Europe regions and by inflationary impacts to both freight and part costs, where NFI was not fully able to pass along these impacts to its customers. In addition, in 2021 Q1 the

Company had record volumes in the Asia Pacific region driven by the retrofit program which has continued but at a lower run rate in 2022. 2022 Q2 Aftermarket net earnings decreased by $3.7 million, or 16.7%, primarily due to the same items that impacted Aftermarket Adjusted EBITDA.

2022 Q2 Corporate Adjusted EBITDA decreased by $6.8 million compared to 2021 Q2, primarily as a result of foreign exchange revaluation adjustments to monetary balances. Corporate expenses included in the calculation of net earnings (loss) decreased by $2.5 million, or 21.9%, primarily due to higher mark-to-market adjustments to the Company's interest rate swaps and the fair value adjustment to the Company's convertible debenture cash conversion option.

Free Cash Flow[1] and net cash generated by operating activities (unaudited, dollars in millions, except per share amounts)	2022 Q2	2021 Q2	*% Change*	2022 Q2 LTM	2021 Q2 LTM	*% Change*
Net cash (used in) generated by operating activities	8.4	91.1	*(90.8)%*	(2.9)	89.4	*(96.8)%*
Free Cash Flow	(49.3)	14.8	*(433.1)%*	(97.2)	86.6	*(212.2)%*
Free Cash Flow (CAD dollars)	(63.6)	18.2	*(449.5)%*	(123.5)	111.5	*(210.8)%*
Declared Dividends (CAD dollars)	4.1	15.1	*(72.8)%*	39.7	56.7	*(30.0)%*
Free Cash Flow per Share (CAD dollars) [2]	(0.82)	0.26	*(415.4)%*	(1.89)	1.71	*(210.5)%*
Dividends per Share (CAD dollars)	0.05	0.21	*(76.2)%*	0.53	0.85	*(37.6)%*
Payout Ratio (Declared Dividends divided by Free Cash Flow) [2]	(6.4)%	83.0 %	*(107.7)%*	(32.1)%	50.9 %	*(163.1)%*

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

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

Free Cash Flow in 2022 Q2 decreased by $64.1 million, or 433.1%, compared to 2021 Q2, mainly due to a higher Adjusted EBITDA loss and higher outflows from changes in non-cash working capital. NFI Forward generated combined Adjusted EBITDA and additional Free Cash Flow savings of approximately $15.8 million in the quarter.

Net cash used in operating activities in 2022 Q2 was $8.4 million, a decrease of $82.7 million, or 90.7%, compared to 2021 Q2, mainly due to the increase in net loss for the period. The 2022 Q2 LTM net cash generated by operating activities decreased by 96.8%, mainly due to a increase in net losses and working capital.

	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2
Working Capital Days[1]	72	70	69	68	62
Liquidity ($ million)[1]	$ 628.5	$ 649.0	$ 794.3	$ 320.1	$ 389.3
Backlog (EUs)	9,674	8,908	8,448	8,103	8,168
ROIC[1]	(1.5)%	1.1 %	3.6 %	5.0 %	5.9 %

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

As part of the Company's increased focus on cash conversion and leverage reduction,the Company is actively focused on reducing Working Capital Days, especially as it navigates through supply related disruption to its operations. In 2022 Q2, Working Capital Days were 72 compared to 70 at the end of 2022 Q1 and 62 at the end of 2021 Q2. The increase in Working Capital Days in 2022 Q2 is attributable to supply chain challenges, leading to lower sales. Also contributing is an increase in average working capital balances, mostly attributable to the increase in WIP inventory as the Company builds units that will be delivered in the second half of the year due to a shortage of a specific microprocessor. This resulted in an additional 117 EUs ($57.0 million) in WIP at July 3, 2021, which were nearly complete and waiting for the microprocessor.

During 2022 Q1, the Company entered into an agreement with a Canadian banking partner to sell, without credit recourse, eligible receivables in order to decrease the time from sale to cash conversion. During 2022 Q2, trade receivables of $31.6 million were sold under the arrangement.

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 ($300 million) under the amended facilities, was strong, at $628.5 million as at the end of 2022 Q2, down $20.5 million from the end of 2022 Q1, primarily due to an increase in long-term debt (which was used to finance growth in inventory and other working capital balances) related to supply chain disruptions.

LTM 2022 Q2 ROIC decreased by 2.6% from LTM 2022 Q1, due to the decrease in Adjusted EBITDA offset by a lower invested capital base. The decrease in invested capital is primarily due to repayments of long-term debt and fair market value adjustments to the interest rate swaps that reduced the associated liability, partially offset by the issuance of convertible debentures (the "Debentures") which occurred in the last twelve months.

2022 Q2 HIGHLIGHTS

Similar to the first quarter of 2022, the second quarter of 2022 was a representation of the broader operating and economic environment, with numerous long-term positive indicators from increases in demand metrics, including increases in new orders, backlog and bid activity, offset by near-term challenges related to supply chain disruptions and heightened inflation. Manufacturing operations continued to experience inflation impacts and operational inefficiencies resulting from global supply chain and logistics challenges (largely the result of the continuing COVID-19 pandemic), which created bottlenecks and significant disruptions to NFI's operations. In response to these issues, NFI continued to operate at reduced new vehicle input rates, primarily by adjusting production rates to accommodate available parts. The Company also saw a build-up of work-in-progress inventory due to a shortage of control modules and other electrical components.

While the supply chain challenges had a significant impact on Manufacturing segment results, NFI continued to see very strong levels of demand for its products driven by record government investments in public transit and the demand for zero-emission transportation. This growth in demand was reflected in the Company's Book-to-Bill ratio of 158.4%, new order wins, and higher bid volumes.

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

NFI’s customers continue to be very accommodating to the supply chain issues that have adjusted the Company's production and delivery plans. NFI is continuously communicating with its customers to discuss schedule changes and coordinate delivery schedules based on supply availability. In response to rising input costs, NFI has been seeking vehicle price increases from customers and launched a detailed surcharge program in the second quarter in North America. The Company's customers have been supportive and these efforts will assist in offsetting some of the higher costs of direct materials NFI is experiencing in 2022 and expected in 2023.

Strong Market Demand and Increasing Procurements

The Company continued to see strong metrics that measure future demand and activity during the second quarter of 2022. In 2022 Q2, NFI recorded 1,348 EUs in new orders, an increase of 20.4% year-over-year. NFI also saw active bids within North America increase by 11.4% year-over-year. The Company's 2022 Q2 Book-to-Bill ratio was 158.4%.

The Total Public Bid Universe for North America was 29,147 EUs, up 16.5% year-over-year (see Appendix B). NFI had a record 1,900 ZEBs in the backlog, representing approximately 19.6% of the total backlog, up from 16.8% in 2022 Q1. As at 2022 Q2, 14,952 units, or 51.3%, of the Total Public Bid Universe is ZEBs, an increase of 58.0% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

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

Zero-Emission Mobility—The *ZE*volution™

In 2022 Q2, NFI received orders for 325 EUs of ZEBs, an increase of 103 EUs from the 222 EUs of ZEB orders received in 2022 Q1; these 325 EUs of ZEBs equates to 24.1% of all new firm and option orders received in the quarter.

As at the end of 2022 Q2, 1,098 EUs of new firm and option orders were pending from customers, where approval of the award to the Company had been made by the customer’s board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog. This is down slightly from the 1,192 EUs of pending new firm and option orders as of the end of 2022 Q1, due to the award of contracts. Bid award pending EUs position NFI for another quarter of backlog growth in the third quarter of 2022.

In 2022 Q2, the Company received ZEB orders from customers in Hong Kong, the United Kingdom, and the United States.

A few notable announcements in the quarter include the following:

- An order for up to 733 EUs in hybrid-electric buses from the Toronto Transit Commission;
- An option conversion order for 95 Xcelsior® buses from Washington, DC;

- Delivery of the 1,000th electric bus via the ADL and BYD partnership, the UK's leading electric bus producer; ADL and BYD UK have been working in partnership since 2015; while it took five years to reach the 500th BYD ADL electric bus, the partnership delivered its 1000th vehicle just one year later; and

- The commencement of live testing of Europe's most complex and ambitious public autonomous bus pilot (automated bus), the Project CAVForth pilot, in Scotland, by bus operator Stagecoach in partnership with Fusion Processing, ADL, and Transport Scotland.

Environmental, Social & Governance

In May 2022, NFI announced its election of directors, including new board member Wendy Kei. Ms. Kei is a corporate director and currently serves as chairperson of the board for Ontario Power Generation Inc. and also serves on the boards of Noranda Income Fund and Centerra Gold Inc. Ms. Kei previously served as Chief Financial Officer of Dominion Diamond Corporation (formerly Harry Winston Diamond Corporation and Aber Diamond Corporation). In 2022, Ms. Kei was honoured as a Fellow from the Institute of Corporate Directors (F.ICD), is a Fellow of the Chartered Professional Accountants of Ontario, and holds a Bachelor of Mathematics from the University of Waterloo.

In May 2022, NFI released its environmental, social, and governance ("ESG") Report for 2021, which provides updated key performance indicators, highlights for 2021, ESG priorities for 2022, as well as case studies outlining some of the specific projects and initiatives the Company undertook in the year. The ESG Report focuses on the three main components of NFI's Sustainability Pledge, first adopted in 2006: "Better Product. Better Workplace. Better World", which guides the Company's daily actions and long-term planning. The ESG Report highlights include:

- **Better Product:** From 2015 through to the end of 2021, NFI delivered 2,032 EUs zero-emission buses, or ZEBs, that have now travelled more than 70 million miles and prevented the emission of billions of pounds of CO_2 into the atmosphere.

- **Better Workplace**: NFI completed a diversity, equity, and inclusion ("DEI") survey of the organization to assess current state and areas for opportunity; formalized a Human Rights Statement, which includes Freedom of Association; invested $7 million in employee training; and conducted a living wage assessment of the Company's main transit bus production facilities, which determined that 99.78% of employees were at or above the living wage standard in their region. The Company takes pride in being an employer and partner of choice, with a focus on building a respectful, inclusive, and vibrant workplace culture. NFI's Board is now 40% female and 80% independent, and the executive leadership team is 21% female.

- **Better World**: In 2021, NFI submitted its first response to the CDP Climate Change Questionnaire; took part in a social innovation lab focused on Indigenous youth employment in the manufacturing industry; and completed ongoing projects to improve the Company's operational impact on climate change. NFI continued its strong relationship with United Way agencies across North America, raising more than $370,000 in 2021. Collectively, NFI has donated more than $3.1 million to the United Way from its workplace campaigns since 2009.

In June 2022, NFI announced that it had been ranked among Corporate Knights' 2022 Best 50 Corporate Citizens in Canada. The Best 50 Corporate Citizens represent a rising standard and ambition for corporate sustainability leadership in Canada. To determine the ranking, Corporate Knights analyzed 332 large Canadian organizations against domestic and global industry peers using a suite of 24 quantitative ESG key performance indicators. NFI received top quartile scores on water and nitrogen oxides ("NOx") productivity, clean revenue (earned from the production of zero-emission buses), clean investment, and above-average performance on board gender diversity.

NFI Forward Update

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

In 2022 Q2, NFI Forward realized Adjusted EBITDA savings of approximately $15.1 million and $0.8 million of additional Free Cash Flow savings. The majority of NFI Forward savings are related to restructuring and facility integrations with some of the savings subject to seasonality and product mix. The Company expects to achieve its NFI Forward target for Adjusted EBITDA savings of $67 million (from 2019 levels) by the end of 2022, one year earlier than its original target of the end of 2023. Since inception, the Company has invested $13.5 million of the proposed total investment of $15 million to $20 million (anticipated to be incurred to 2023) into NFI Forward projects.

With the majority of the original projects complete, the Company is now implementing a series of additional projects called "NFI Forward 2.0", that are expected to generate additional annualized Adjusted EBITDA 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. From this review, NFI made the decision to integrate its Delaware parts distribution facility (a legacy parts warehouse of NABI that NFI acquired in 2013) into its existing NFI Parts™ footprint during the third quarter of 2022, and to close the MCI coach manufacturing facility in Pembina, North Dakota, anticipated to occur by the end of 2022.

OUTLOOK

The global macroeconomic environment continues to face headwinds from supply chain challenges, heightened inflation and rising interest rates. Despite these broader issues, NFI's long-term outlook remains strong based on its backlog, growing demand for its products and historic funding levels in core markets. NFI has received significant new orders over the past 12 months that support the Company's plan to increase headcount and to ramp-up production late in 2022 and into 2023. The Company anticipates that it will be able to source the labor required to drive higher production and volume deliveries in 2023 with expectations that supply chains and parts availability will improve. New orders, combined with existing backlog, other recent bid activity, and continuing growth in government investments in transportation, are expected to drive significant revenue and Adjusted EBITDA growth for NFI from 2023 through 2025 and beyond.

As seen throughout the COVID-19 pandemic, public transit is an essential service in many major markets, with increasing focus on access and equality, reduction of urban congestion, and government funding. In addition, history has shown increased public transit ridership in periods of heightened inflation and economic slow downs, which has been helpful for both NFI's Manufacturing and Aftermarket segments.

In response to a specific microprocessor shortage impacting NFI's North American manufacturing business, as detailed in the Company's 2022 Q1 financial results, NFI has been building and holding a number of vehicles in inventory, which has grown inventory by 117 EUs ($57.0 million) on a temporary basis. NFI continues to have detailed discussions with the affected microprocessor supplier and fully expects to receive the required modules to meet NFI's latest guidance. Delivery of these vehicles is expected to occur in the third and fourth quarters of 2022. Some deliveries may, however, occur in the first quarter of 2023 due to the complexity of customer delivery acceptance processes. In addition, NFI continues to work with other suppliers and microprocessor sources to assist in production recovery plans and to provide alternative sourcing. Significant progress has been made on a new alternative microprocessor module that will be installed in some vehicles, helping to lower the risk of future supply disruptions.

Given NFI's expectations that supply impacts continue to be temporary and based on the strong signs of market recovery in all of NFI's end markets (discussed below), any cost and capital reductions will be balanced with the ability to continue to secure new orders, invest in new product development, and deliver on existing customer orders.

Similar to the entire global manufacturing industry, NFI is experiencing significantly increased inflation with respect to supplier pricing and wages, and through raw material commodities purchased directly by NFI. The Company embedded an anticipated level of inflation assumptions into its 2022 bidding and budget projections; however, inflation for certain components has exceeded those projections. A certain number of contracts have been repriced, and a number of contracts have clauses where a government purchase price index ("PPI") will be applied. Generally, when an option contract is exercised from NFI's North American backlog, a PPI adjustment is recorded to reflect the higher input costs of a new vehicle. For those contracts where these clauses are not being applied, NFI is seeking price increases and surcharges through negotiations with customers and surcharge letters. The Company has experienced success with these efforts and expects they will help offset some of the margin pressure facing the Company. NFI's financial guidance reflects the adverse impacts of inflation, with improved margins anticipated in 2023.

Market Recovery Post-COVID-19 Pandemic

The Company’s bus and coach product lines (New Flyer, ARBOC, MCI and ADL) are primarily used for public transit, which remains a critical method of transportation and economic enabler for users in cities around the world. Within North American and UK heavy-duty transit and public coach markets, near- and longer-term demand has started to return, supported by the demand for transit agency and operators’ capital fleet investments and dedicated government funding. The importance of long-term government funding in key markets cannot be understated, as it allows public transit agencies to proceed with confidence regarding their multi-year fleet replacement plans and procurements. In addition to funding, ridership has started to recover, with APTA reporting an approximate increase of 60% in average weekly transit ridership in the U.S. for the first 26 weeks of 2022 (as compared to the first 26 weeks of 2021).

NFI is encouraged by the high volume of active competitions for bus and motor coach procurements during the second quarter of 2022 in both North American and international markets. The Company's North American active bids remained high at 7,582 EUs, a year-over-year increase of 11.4%. This bid activity is expected to drive backlog growth throughout 2022 and into 2023, and revenue growth in the medium and longer-term. Management expects active bids will continue to remain high as markets recover from several years of lower activity and announced government funding reaches transit agencies.

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

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

Strong Government Support for Recovery and Zero-Emission Transition

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

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

The Company also continues to grow its Infrastructure Solutions™ business. Since its inception, Infrastructure Solutions™ has been responsible for the installation of 247 plug-in and 36 on-route charger projects for 46 different customers. Currently, Infrastructure Solutions™ has projects-in-progress with 28 customers, which will add 3 on-route and 106 plug-in chargers in the second half of 2022 and first quarter of 2023.

United States - Historic Investments in Transit

The Infrastructure Investment and Jobs Act ("IIJA"), the successor to the Fixing America's Surface Transportation Act ("FAST Act"), is a $1.2 trillion bipartisan infrastructure bill that provides reauthorization of the U.S.'s surface transportation programs in addition to increased funding for transit, specifically the purchase of low-or zero-emission vehicles. The IIJA provides $86.9 billion in funding for the Federal Transit Administration ("FTA") over five years, and also authorizes an additional $21.2 billion in supplemental appropriations from general revenues, for a total of $108 billion. Generally, U.S. public agencies can secure up to 80% of the capital costs for a new transit bus from FTA funds, with the remaining 20% coming from state and local sources. The IIJA highlighted a maintenance backlog of more than 24,000 aged buses and over 200 stations for upgrade and replacement.

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

In March 2022, the FTA published a combined Notice of Funding Opportunity for the Low or No Emission ("Low-No") Grant Program with approximately $1.2 billion in competitive grants available in Fiscal 2022, an increase of 495% from 2021. Low-No awards are expected to be released in the third quarter of 2022.

Canada - Dedicated Annual Funding

The Canadian government has committed over C$17 billion to support Canadian public transit that is in place to 2027. The funding includes C$1.5 billion flowing through the Canada Infrastructure Bank ("CIB") to support the adoption of ZEBs and charging infrastructure. The CIB financing has started to be used to fund procurements in Canada, with large announcements made in Ottawa and Brampton in Ontario, and in Edmonton, Alberta. The proposed Canadian "Budget 2022", announced April 7, 2022, includes a total of C$900 million in new funding for charging infrastructure, including C$500 million through the CIB.

United Kingdom - Support for the Transition to Zero-Emission

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

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

Other International Markets

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

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

NFI Forward and NFI Forward 2.0

The Company expects to achieve its NFI Forward target for Adjusted EBITDA savings of $67 million (from 2019 levels) by the end of 2022, one year earlier than its original target of the end of 2023. The combined NFI Forward projects are expected to deliver an 8% to 10% reduction in both manufacturing overhead and SG&A expenses, based on 2019 production rates, with investments of approximately $15 million to $20 million (some of which have already been made) required to deliver these savings. The achievement of these goals is subject to the risks and other factors described in Forward-Looking Statements in Appendix A.

With the majority of the original NFI Forward projects completed, the Company is now implementing a series of additional projects called “NFI Forward 2.0”, that are expected to generate additional annualized Adjusted EBITDA savings in 2023 and beyond. NFI Forward 2.0 will be smaller in scale and financial impact when compared to the original NFI Forward initiatives. In total, the Company believes NFI Forward 2.0 will generate $5 million to $8 million in annual savings from one-time capital investments of $8 million to $10 million.

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

Financial Guidance and Targets

On April 29, 2022, NFI announced that it was lowering its financial guidance for Fiscal 2022 due to shortages of critical microprocessor modules expected to result in lower-than-planned deliveries in the second and third quarters of 2022. It is also important to note that NFI does not anticipate receiving any Canadian or UK government wage subsidy support in 2022, compared to the $56.4 million of wage subsidy grants received during Fiscal 2021.

NFI confirms its 2022 lowered financial guidance for revenue ($2.3 billion to $2.6 billion), ZEBs as a percentage of manufacturing sales (20% to 25%), Adjusted EBITDA ($15 million to $45 million) and expected seasonality, with negative Adjusted EBITDA in the third quarter and positive Adjusted EBITDA in the fourth quarter. The Company is updating its guidance for cash capital expenditures and has increased the range to $35 million to $45 million (from a previous range of $25 million to $35 million), in response to investments by the Company in electric innovation projects (both battery and fuel cell) for its ADL business in international markets and other EV growth projects in North America.

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

Russia's Invasion of Ukraine and COVID-19 Lockdowns

The revised guidance does not reflect potential escalated impact on supply chains or other factors arising directly or indirectly as a result of the Russian invasion of Ukraine, or disruption from COVID-19 related lockdowns in China and other jurisdictions. NFI has not seen any material impact on its supply chain from the invasion and NFI does not have direct suppliers based in Russia or Ukraine, but additional supply delays and possible shortages of critical components may arise as the conflict progresses and if certain suppliers’ operations and/or subcomponent supply from affected countries are disrupted further. In addition, there may also be general industry-wide price increase for components and raw materials used in vehicle production, as well as increases in the cost of labor and potential reductions in the supply of labor. NFI is following the developments in Ukraine and China closely, but rapid and unpredictable changes may occur. See “Forward Looking Statements”.

2025 Targets

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

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

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

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

Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA[1]	Earnings (loss) per Share
2022						
	Q2	397,952	(64,218)	(56,740)	(21,345)	(0.74)
	Q1	459,330	(41,763)	(28,068)	(16,942)	(0.36)
	Total	**857,282**	**(105,980)**	**(84,808)**	**(38,287)**	**(1.10)**
2021						
	Q4	694,843	(4,785)	(8,691)	26,154	(0.12)
	Q3	492,038	(2,797)	(15,415)	31,330	(0.22)
	Q2	582,794	26,675	2,588	51,856	0.04
	Q1	574,119	26,918	7,033	54,840	0.10
	Total	**2,343,794**	**46,011**	**(14,485)**	**164,180**	**(0.21)**
2020						
	Q4	711,523	32,531	8,465	64,956	0.14
	Q3	663,934	(16,453)	(24,912)	60,885	(0.40)
	Q2	333,334	(72,001)	(74,050)	(24,229)	(1.18)
	Q1	710,384	(25,406)	(67,239)	56,071	(1.08)
	Total	**2,419,175**	**(81,329)**	**(157,736)**	**157,683**	**(2.52)**

COMPARISON OF SECOND QUARTER 2022 RESULTS

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021	53-Weeks Ended July 3, 2022	52-Weeks Ended June 27, 2021
Statement of Earnings Data						
Revenue						
North America	231,203	361,859	468,131	749,793	1,146,339	1,669,778
United Kingdom and Europe	47,672	73,366	137,390	137,671	361,772	302,489
Asia Pacific	4,902	24,065	4,891	31,022	53,582	120,294
Other	—	—	—	—	—	—
Manufacturing operations	283,777	459,290	610,412	918,486	1,561,693	2,092,561
North America	89,351	90,314	186,456	174,119	360,583	327,773
United Kingdom and Europe	16,100	20,373	41,080	40,191	79,336	75,496
Asia Pacific	8,724	12,817	19,334	24,117	42,551	36,540
Other	—	—	—	—	—	—
Aftermarket operations	114,175	123,504	246,870	238,427	482,470	439,809
Total revenue	$ 397,952	$ 582,794	$ 857,282	$ 1,156,913	$ 2,044,163	$ 2,532,370
(Loss) earnings from operations	$ (64,218)	$ 26,675	$ (105,980)	$ 53,591	$ (113,564)	$ 69,669
(Loss) earnings before interest and income taxes	$ (65,205)	$ 24,557	$ (111,362)	$ 49,299	$ (126,553)	$ 72,669
Net (loss) earnings	$ (56,740)	$ 2,587	$ (84,808)	$ 9,620	$ (108,914)	$ (6,827)
Adjusted EBITDA[1]	$ (21,345)	$ 51,856	$ (38,287)	$ 106,696	$ 19,197	$ 232,537
Cash capital expenditures	$ 4,232	$ 9,558	$ 10,440	$ 15,257	$ 28,697	$ 29,331

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

Results of Operations

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

Revenue

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021
Manufacturing Revenue	283,777	459,290	610,412	918,486
Aftermarket Revenue	114,175	123,504	246,870	238,427
Total Revenue	397,952	582,794	857,282	1,156,913
(Loss) earnings from Operations	(64,218)	26,675	(105,980)	53,591
(Loss) earnings before interest and income taxes	(65,205)	24,557	(111,362)	49,299
(Loss) earnings before income tax expense	(74,335)	10,627	(111,148)	25,246
Net (loss) earnings	(56,740)	2,587	(84,808)	9,620

Manufacturing revenue for 2022 Q2 decreased by $175.5 million, or 38.2%, compared to 2021 Q2. Manufacturing revenue for 2022 Q2 YTD decreased by $303.9 million, or 33.4%, compared to 2021 Q2 YTD. Both quarter-to-date and year-to-date figures decreased primarily as a result of the reduction in deliveries resulting from global supply chain and logistics challenges, which are largely the result of the ongoing COVID-19 pandemic, which created numerous bottlenecks in the supply chain and disruptions to parts availability. During the quarter, due to a shortage of specific microprocessors, WIP inventory increased by $57.0 million or 117 EUs as the Company worked to build units that will be delivered primarily in the second half of the year.

Aftermarket revenue for 2022 Q2 decreased by $9.3 million, or 7.6%, compared to 2021 Q2. Aftermarket revenue for 2022 Q2 YTD increased by $8.4 million, or 3.5%, compared to 2021 Q2 YTD. The quarter-to-date decrease was driven by reduced volumes in North America, United Kingdom and Europe regions compared to 2021 Q2 when the revenue was driven by record volumes in the Asia Pacific region. The year-to-date increase was driven by surcharges and inflationary price increases, including increased freight costs.

Cost of sales

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021
Manufacturing				
Direct cost of sales	248,329	358,336	529,795	716,474
Depreciation and amortization	17,613	20,943	38,360	42,881
Other overhead	49,715	47,943	91,793	75,679
Manufacturing cost of sales	315,657	427,222	659,948	835,034
As percent of Manufacturing Sales	111.2 %	93.0 %	108.1 %	90.9 %
Aftermarket				
Direct cost of sales	77,250	83,498	171,654	161,345
Depreciation and amortization	2,669	2,560	5,272	5,186
Aftermarket cost of sales	79,919	86,058	176,926	166,531
As percent of Aftermarket Sales	70.0 %	69.7 %	71.7 %	69.8 %
Total Cost of Sales	395,577	513,280	836,874	1,001,565
As percent of Sales	99.4 %	88.1 %	97.6 %	86.6 %

The consolidated cost of sales for 2022 Q2 decreased by $117.7 million, or 22.9%, compared to 2021 Q2. The consolidated cost of sales for 2022 Q2 YTD decreased by $164.7 million, or 16.4%, compared to 2021 Q2 YTD.

Cost of sales from Manufacturing operations in 2022 Q2 was $315.7 million (111.2% of Manufacturing operations revenue) compared to $427.2 million (93.0% of Manufacturing operations revenue) in 2021 Q2, a decrease of $111.6 million, or 26.1%. Cost of sales from Manufacturing operations in 2022 Q2 YTD was $659.9 million (108.1% of Manufacturing operations revenue) compared to $835.0 million (90.9% of Manufacturing operations revenue) in 2021 Q2 YTD. Cost of sales increased as a percentage of revenue in both periods, mainly due to operational inefficiencies resulting from supply shortages, increasing inflation and COVID-19 impacts. Government grant programs, which were primarily received to assist with the retention of skilled personnel, ended and therefore resulted in no amounts being recorded in 2022 compared to the significant support received in the same period in 2021, resulting in lower cost of sales as a percentage of revenue in the prior quarter.

Cost of sales from Aftermarket operations in 2022 Q2 was $79.9 million (70.0% of Aftermarket revenue) compared to $86.1 million (69.7% of Aftermarket revenue) in 2021 Q2, an increase of 0.3% as a percentage of revenue. Cost of sales from Aftermarket operations in 2022 Q2 YTD was $176.9 million (71.7% of Aftermarket revenue) compared to $166.5 million (69.8% of Aftermarket revenue) in 2021 Q2 YTD. Cost of sales increased as a percentage of revenue in both periods primarily due to product mix and the effects of inflation, including freight costs that were not fully transferred to the end customer.

Gross Margins

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021
Manufacturing	(31,881)	32,068	(49,538)	83,452
Aftermarket	34,256	37,446	69,945	71,896
Total Gross Margins	2,375	69,514	20,407	155,348
As a percentage of sales				
Manufacturing	(11.2)%	7.0 %	(8.1)%	9.1 %
Aftermarket	30.0 %	30.3 %	28.3 %	30.2 %
	0.6 %	11.9 %	2.4 %	13.4 %

Manufacturing had a negative gross margin for 2022 Q2 of $31.9 million ((11.2%) of Manufacturing revenue), decreased by $63.9 million compared to a gross margin of $32.1 million (7.0% of revenue) for 2021 Q2. Manufacturing had a negative gross margins for 2022 Q2 YTD of $49.5 million ((8.1)% of Manufacturing revenue), decreased by $133.0 million, or 159.4%, compared to a gross margin $83.5 million (9.1% of Manufacturing revenue) in 2021 Q2 YTD.

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

Aftermarket gross margins for 2022 Q2 of $34.3 million (30.0% of Aftermarket revenue) decreased by $3.2 million, or 8.5%, compared to 2021 Q2 gross margins of $37.4 million (30.3% of Aftermarket revenue). Aftermarket gross margins for 2022 Q2 YTD of $69.9 million (28.3% of Aftermarket revenue) decreased by $2.0 million, or 2.7%, compared to 2021 Q2 YTD gross margins of $71.9 million (30.2% of Aftermarket revenue). The decrease in gross margins and gross margins as a percentage of revenue for both periods is mainly due to product mix and the effects of inflation as increases to labor, freight and product costs were not fully transferred to the end customer.

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

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021
Selling expenses	7,561	7,348	13,264	13,432
General and administrative expenses	56,803	42,663	108,006	93,594
Other costs	1,734	(217)	4,558	37
Total SG&A	66,098	49,794	125,828	107,063

The consolidated SG&A for 2022 Q2 of $66.1 million (16.6% of consolidated revenue) increased by $16.3 million, or 32.7%, compared to $49.8 million (8.5% of consolidated revenue) in 2021 Q2. The consolidated SG&A for 2022 Q2 YTD of $125.8 million (14.7% of consolidated revenue) increased by $18.8 million, or 17.5%, compared to $107.1 million (9.3% of consolidated revenue) in 2021 Q2 YTD.

The increase in both periods was mostly due to a $7.0 million legal settlement during 2022 Q2, Q2 2022 also includes $7.0 million for the liability related to the closure of the Pembina facility and withdrawal from the multi-employer pension plan and government grants of $2.8 million offsetting the 2021 Q2 amounts, and government grants of $5.2 million offsetting the 2021 Q2 YTD. As at the end of 2021, the Company was no longer eligible for government grants, which were primarily received to assist with the retention of skilled personnel. This resulted in no amounts being recorded in 2022 Q2 compared to the significant support received in the same period in 2021, resulting in higher SG&A as a percentage of revenue.

Government Grants

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

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021
Cost of sales	—	15,100	—	34,500
Selling, general and administration costs and other operating expenses	—	2,800	—	5,200
Total government grants	—	17,900	—	39,700

Realized foreign exchange loss/gain

In 2022 Q2 , the Company recorded a realized foreign exchange gain of $0.5 million compared to a loss of $7.0 million in 2021 Q2. In 2022 Q2 YTD, the Company recorded a realized foreign exchange gain $0.6 million compared to a loss of $5.3 million in 2021 Q2 YTD.

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

Earnings (loss) from operations

Consolidated losses from operations in 2022 Q2 were $64.2 million ((16.1%) of consolidated revenue) compared to earnings of $26.7 million (4.6% of consolidated revenue) in 2021 Q2, a decrease of $90.9 million or 340.4%. Consolidated losses from operations in 2022 Q2 YTD were $106.0 million ((12.4)% of consolidated revenue) compared to earnings of $53.6 million (4.6% of consolidated revenue) in 2021 Q2 YTD.

2022 Q2 losses from operations attributable to the Manufacturing Segment were $78.4 million ((27.6%) of Manufacturing revenue) compared to earnings of $0.5 million (0.1% of Manufacturing revenue) in 2021 Q2. Losses from Manufacturing operations in 2022 Q2 YTD were $133.9 million ((21.9)% of Manufacturing revenue) compared to earnings of $16.1 million (1.8% of Manufacturing revenue) in 2021 Q2 YTD, a decrease of $150.0 million or 113.2%. The decrease as a percentage of revenue in 2022 Q1 was primarily attributable to lower new vehicle deliveries, heightened inflation and operational inefficiencies resulting from global supply chain and logistics challenges, which are largely the result of the ongoing COVID-19 pandemic.

Earnings from operations related to Aftermarket operations in 2022 Q2 were $17.9 million (15.7% of Aftermarket revenue) compared to $21.5 million (17.4% of Aftermarket revenue) in 2021 Q2. Earnings from operations related to Aftermarket operations in 2022 Q2 YTD were $36.5 million (14.8% of Aftermarket revenue) compared to $39.9 million (16.7% of Aftermarket revenue) in 2021 Q2 YTD. Earnings from Aftermarket operations over both periods were lower due to sales volumes, product mix and inflationary increases that were not fully passed through to the customer.

Unrealized foreign exchange gain/loss

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

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021
Unrealized loss on forward foreign exchanges contracts	(3,839)	(2,344)	(6,291)	(5,668)
Unrealized gain on other long-term monetary assets/liabilities	2,794	237	478	1,032
	(1,045)	(2,107)	(5,813)	(4,636)

At July 3, 2022, the Company had $32.3 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 $2.2 million (January 2, 2022: $0.4 million asset) is recorded on the unaudited interim condensed consolidated statement of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the unaudited interim condensed consolidated statements of net loss and total comprehensive loss.

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

In 2022 Q2 , the Company recorded an EBIT loss of $65.2 million compared to EBIT of $24.6 million in 2021 Q2. In 2022 Q2 YTD, the Company recorded EBIT loss of $111.4 million compared to EBIT of $49.3 million in 2021 Q2 YTD.

Interest and finance costs

The interest and finance charges for 2022 Q2 of $9.1 million decreased by $4.8 million compared 2021 Q2. The interest and finance income for 2022 Q2 YTD of $0.2 million increased by $24.3 million compared to 2021 Q2 YTD. The quarterly decrease is primarily due to a higher fair market value gain on the adjustment to the Company's interest rate swaps and the fair market value gain on the adjustment for the cash conversion option from the convertible debentures. The Company had a fair market value gain on the interest rate swap of $5.8 million in 2022 Q2 compared to a gain of $3.8 million in 2021 Q2, and a fair market value gain on the cash conversion option of $6.0 million in 2022 Q2 compared to $nil in 2021 Q2. The Company had a fair market value gain on the interest rate swap of $28.3 million in 2022 Q2 YTD compared to a gain of $11.5 million in 2021 Q2 YTD. The Company had a fair market value gain on the cash conversion option of $11.3 million in 2022 Q2 YTD compared to $nil in 2021 Q2 YTD.

The fair market value adjustments on the interest rate swaps relate to risk management activities management has undertaken to reduce the uncertainty related to the Company's cost of borrowing. The Company's first interest rate swap fixes the interest rate which the Company will pay on $540.0 million of its long-term debt at 2.27% plus an applicable margin. The fixed portion amortizes $20 million annually and matures in October 2023.

The Company has a second interest rate swap on $200 million of its long-term debt on which the Company will pay 0.243% plus an applicable margin and matures in July 2025. The swap begins amortizing on December 9, 2022 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 fair value of the interest rate swap asset of $18.4 million at July 3, 2022 (January 2, 2022: liability of $30.5 million) was recorded on the unaudited interim condensed consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded in finance costs for the reported period.

Earnings (loss) before income taxes (“EBT”)

EBT loss for 2022 Q2 of $74.3 million decreased by $84.9 million compared to EBT of $10.6 million in 2021 Q2. EBT loss for 2022 Q2 YTD of $111.1 million decreased by $136.3 million compared to EBT of $25.2 million in 2021 Q2 YTD. The primary drivers of the changes to EBT are addressed in the Earnings (loss) from Operations and interest and finance costs sections above.

Income tax expense

The income tax recovery for 2022 Q2 is $17.6 million, compared to an expense of $8.0 million in 2021 Q2. The income tax recovery for 2022 Q2 YTD is $26.3 million, compared to a $15.6 million expense in 2021 Q2 YTD. The decrease in expense quarter-over-quarter is due to mostly to lower earnings before tax, and the benefit arising from the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%. The year-to-date recovery is due to mostly to lower earnings before tax, the absence of base erosion and anti-abuse tax ("BEAT") and foreign tax credits ("FTC") write-off, combined with the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%, which negatively impacted the 2021 Q2 YTD ETR.

The effective tax rate ("ETR") for 2022 Q2 was 23.7%, compared to 75.6% in 2021 Q2. The ETR for 2022 Q2 YTD was also 23.7% and the ETR for 2021 Q2 YTD was 61.9%. The 2022 Q2 YTD ETR is positively impacted by the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%, combined with the absence of the detrimental impact due to BEAT and FTC write-off which negatively impacted 2021 Q2 YTD.

Net loss

The Company reported net losses of $56.7 million in 2022 Q2 a decrease of $59.3 million, or 2293.3%, compared to net earnings of $2.6 million in 2021 Q2. The Company reported net losses of $84.8 million in 2022 Q2 YTD, a decrease of $94.4 million, or 981.6%, compared to net earnings of $9.6 million in 2021 Q2 YTD. The decrease is a result of the items discussed above including no government subsidies for CJRS and CEWS.

Net loss (U.S. dollars in millions, except per Share figures)	**2022 Q2**	**2021 Q2**	**26-Weeks Ended July 3, 2022**	**26-Weeks Ended June 27, 2021**
(Loss) earnings from operations	(64.2)	26.7	(106.0)	53.6
Gain on disposition of property, plant and equipment	0.1	—	0.4	0.3
Unrealized foreign exchange loss on monetary items	(1.0)	(2.1)	(5.8)	(4.6)
Interest and finance costs	(9.1)	(13.9)	0.2	(24.0)
Income tax recovery (expense)	17.6	(8.1)	26.3	(15.7)
Net (loss) earnings	(56.7)	2.6	(84.8)	9.6
Net (loss) earnings per Share (basic)	(0.74)	0.04	(1.10)	0.14
Net (loss) earnings per Share (fully diluted)	(0.74)	0.04	(1.10)	0.14

The Company recorded net loss per Share for 2022 Q2 of $0.74 compared to net earnings per Share of $0.04 in 2021 Q2. The Company's net loss per Share for 2022 Q2 YTD of $1.10 decreased from net earnings per Share of $0.14 in 2021 Q2 YTD. The per share amount decreased in both periods as a result of decreased earnings during the period, offset by increased Shares outstanding as discussed below.

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)	**2022 Q2**	**2021 Q2**	**26-Weeks Ended July 3, 2022**	**26-Weeks Ended June 27, 2021**
Cash (used in) generated by operating activities before non-cash working capital items and interest and income taxes paid	(37,159)	50,425	(55,124)	104,769
Interest paid	(12,961)	(14,697)	(27,497)	(33,351)
Income taxes paid	(2,974)	(6,430)	(2,090)	(15,561)
Cash flow (invested in) provided by working capital	61,534	61,841	(29,974)	(52,382)
Net cash (used in) generated by operating activities	8,440	91,139	(114,685)	3,475
Net cash generated by (used in) financing activities	23,566	(62,178)	96,439	(3,339)
Net cash used in investing activities	(6,218)	(4,295)	(7,244)	(8,143)

Cash flows from operating activities

The 2022 Q2 net operating cash used of $8.4 million is comprised of $53.1 million of net cash loss and $61.5 million of cash generated by changes in working capital. The 2021 Q2 net operating cash inflow of $91.1 million is comprised of $29.3 million of net cash earnings and $61.8 million of cash generated by working capital. Change in working capital generated cash flow within the quarter. Despite an increase in inventory balances, related to a buildup of WIP, mostly due to shortages of certain microprocessors, NFI was able to offset this with a decrease in accounts receivable and increase customer deposits.

The 2022 Q2 YTD net operating cash used of $114.7 million is comprised of $84.7 million of net cash loss and $30.0 of cash invested in working capital. The 2021 Q2 YTD net operating cash inflow of $3.5 million is comprised of net cash earnings of $55.9 million and $52.4 million of cash generated by working capital.

Cash flow from financing activities

The cash inflow of $23.6 million during 2022 Q2 is comprised mainly of proceeds of revolving credit facilities of $34.1 million which was partially offset by repayment of short-term debt of $1.2 million, dividend payments of $3.3 million and lease obligation payments of $6.0 million. The cash generated of $96.4 million during 2022 Q2 YTD is due to the proceeds from revolving credit facilities of $123.6 million, which was offset by dividend payments of $16.2 million, lease obligation repayments of $10.9 million and $8.2 million of costs associated with equity transaction costs.

Cash flow from investing activities

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021
Acquisition of intangible assets	(2,214)	(604)	(3,529)	(604)
Proceeds from disposition of property, plant and equipment	228	704	1,313	3,018
Long-term restricted deposits	—	5,163	5,412	4,700
Acquisition of property, plant and equipment	(4,232)	(9,558)	(10,440)	(15,257)
Cash used in investing activities	(6,218)	(4,295)	(7,244)	(7,539)

Cash used in investing activities was higher in 2022 Q2 , primarily due to increased investment of intangible assets and property, plant and equipment.

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 or the current supply chain challenges.

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

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

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

U.S. dollars in thousands	**July 3, 2022**	January 2, 2022
Current, including holdbacks	247,426	375,056
Past due amounts but not impaired		
1 – 60 days	13,996	15,857
Greater than 60 days	5,746	5,892
Less: allowance for doubtful accounts	(99)	(270)
Total accounts receivables, net	267,069	396,535

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

Commitments and Contractual Obligations

The following table describes the Company’s maturity analysis of the undiscounted cash flows of leases and accrued benefit liabilities as at July 3, 2022:

U.S. dollars in thousands	Total	2022	2023	2024	2025	2026	Post 2026
Leases	245,924	16,115	28,617	23,726	19,962	17,313	140,191
Accrued benefit liability	5,512	5,512					
	251,436	21,627	28,617	23,726	19,962	17,313	140,191

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

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

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

As at July 3, 2022, letters of credit in the UK totaling $36.9 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 $25.3 million of letters of credit outstanding outside of the Credit Facility.

As at July 3, 2022, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at July 3, 2022.

Share Option Plan

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

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(490,356)	—	—	—	March 26, 2021	$10.20	$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	$10.57	$1.44
December 28, 2014	499,984	(252,233)	(11,368)	(236,383)	—	December 28, 2022	$13.45	$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	$26.75	$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	$42.83	$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	$40.84	$7.74
January 2, 2018	152,883	—	(29,198)	(123,685)	—	January 2, 2026	$54.00	$9.53
January 2, 2019	284,674	—	(59,186)	(169,118)	56,370	January 2, 2027	$33.43	$5.01
July 15, 2019	2,835	—	—	(1,418)	1,417	July 15, 2027	$35.98	$4.90
December 31, 2019	519,916	—	(78,772)	(220,577)	220,567	December 31, 2027	$26.81	$3.36
December 28, 2020	258,673	—	(25,279)	(58,351)	175,043	December 28, 2028	$24.70	$6.28
February 10, 2021	1,894	—	—	(474)	1,420	December 28, 2028	$28.74	$6.28
August 16, 2021	601	—	—	—	601	August 16, 2029	$30.79	$6.28
January 3, 2022	311,892	—	—	—	311,892	January 3, 2022	$20.26	$6.10
April 1, 2022	1,728	—	—	—	1,728	April 3, 2022	$16.25	$6.51
	3,512,964	(1,366,150)	(227,493)	(1,150,283)	769,038		$27.38	

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

The following reconciles the Share options outstanding:

	2022 Q2		2021 Q2	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,617,759	C$28.82	1,503,117	C$29.32
Granted during the period	313,620	C$20.24	260,567	C$24.73
Expired during the period	(12,058)	C$34.94	(12,410)	C$37.17
Exercised during the period	—	C$0.00	(7,326)	C$10.20
Balance at end of period	1,919,321	C$27.38	1,743,948	C$28.66

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 14,313 director restricted Share units ("Director RSUs"), with a total value of $186 thousand, in 2022 Q2 . Approximately $70 thousand of the issued Director RSUs were exercised and exchanged for 5,372 Shares.

Critical accounting estimates and judgments

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

New and amended standards adopted by the Company

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

NON-IFRS AND OTHER FINANCIAL MEASURES

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

Adjusted EBITDA and Net Operating Profit after Taxes

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

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

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

(U.S. dollars in thousands)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021	53-Weeks Ended July 3, 2022	52-Weeks Ended June 27, 2021
Net (loss) earnings	(56,740)	2,587	(84,808)	9,620	(108,914)	(6,827)
Addback						
Income taxes	(17,595)	8,040	(26,340)	15,626	(32,410)	25,599
Interest expense[15]	9,130	13,930	(214)	24,055	14,769	53,899
Amortization	20,282	23,503	43,633	48,067	92,720	100,565
Loss (gain) on disposition of property, plant and equipment	(58)	10	(431)	(345)	25	(793)
Fair value adjustment for total return swap[9]	—	(264)	952	(702)	2,335	(2,279)
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	1,045	2,107	5,813	4,636	12,968	(2,208)
Costs associated with assessing strategic and corporate initiatives[7]	—	—	—	—	(106)	165
Past service costs and other pension costs[11]	7,000	—	7,000	—	7,000	7
Proportion of the total return swap realized[10]	—	91	(275)	538	(1,525)	1,482
Equity settled stock-based compensation	243	502	528	1,152	1,114	2,356
Unrecoverable insurance costs and other[12]	7,913	718	8,324	718	8,324	718
Prior year sales tax provision [13]	—	—	—	40	1,996	310
COVID-19 costs[14]	—	465	—	754	3,205	30,559
Out of period costs[16]	—	—	—	—	1,234	—
Restructuring costs [8]	7,435	167	7,531	2,538	16,462	28,981
Adjusted EBITDA	(21,345)	51,856	(38,287)	106,696	19,197	232,534
Depreciation of property, plant and equipment and right of use assets	(12,346)	(15,253)	(27,558)	(31,617)	(60,350)	(67,999)
Tax at 31%	10,444	(11,347)	20,412	(23,274)	12,757	(51,006)
NOPAT	(23,247)	25,256	(45,433)	51,805	(28,396)	113,529
Adjusted EBITDA is comprised of:						
Manufacturing	(42,380)	21,297	(81,839)	57,167	(87,353)	156,044
Aftermarket	22,256	24,936	45,090	47,417	96,342	81,169
Corporate	(1,221)	5,623	(1,538)	2,112	10,208	(4,679)

(Footnotes on page 29 and 30)

Free Cash Flow and Free Cash Flow per Share

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

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

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

(U.S. dollars in thousands, except per Share figures)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021	53-Weeks Ended July 3, 2022	52-Weeks Ended June 27, 2021
Net cash generated by (used in) operating activities	8,440	91,139	(114,685)	3,474	(2,926)	89,400
Changes in non-cash working capital items(3)	(61,534)	(61,841)	29,974	52,382	(68,237)	(6,945)
Interest paid(3)	12,961	14,697	27,497	33,351	58,370	65,947
Interest expense(3)	(18,561)	(16,518)	(34,853)	(33,196)	(72,088)	(65,766)
Income taxes paid(3)	2,974	6,430	2,090	15,561	6,079	29,806
Current income tax (expense) recovery(3)	2,824	(7,818)	5,437	(20,098)	3,105	(34,237)
Repayment of obligations under lease	(6,029)	(3,296)	(10,871)	(10,341)	(18,722)	(21,673)
Cash capital expenditures	(4,232)	(9,558)	(10,440)	(15,257)	(28,697)	(29,331)
Acquisition of intangible assets	(2,214)	(604)	(3,529)	(604)	(5,673)	(604)
Proceeds from disposition of property, plant and equipment	228	704	1,313	3,018	4,477	5,633
Costs associated with assessing strategic and corporate initiatives(7)	—	—	—	—	(106)	165
Defined benefit funding(4)	1,261	388	2,296	1,437	4,511	3,902
Defined benefit expense(4)	(1,745)	(364)	(2,553)	(2,239)	(6,734)	(4,533)
Past service costs and other pension costs(11)	7,000	—	7,000	—	7,000	7
Equity Hedge	(124)	—	(124)	—	(124)	—
Proportion of the total return swap realized(10)	—	91	(275)	538	(1,525)	1,482
Unrecoverable insurance costs and other (12)	7,913	718	8,314	718	8,314	718
Out of period costs(16)	—	—	1,264	—	2,498	—
Prior year sales tax provision (13)	—	—	—	40	1,996	313
Restructuring costs(8)	3,627	167	3,723	747	12,492	21,866
COVID-19 costs(14)	—	465	12	754	3,217	30,559
Foreign exchange loss on cash held in foreign currency(5)	(2,118)	(34)	(1,554)	(67)	(4,384)	(111)
Free Cash Flow(1)	(49,330)	14,766	(89,964)	30,218	(97,158)	86,598
U.S. exchange rate(2)	1.2883	1.2294	1.2719	1.2438	1.2710	1.2874
Free Cash Flow (C$)(1)	(63,552)	18,153	(114,421)	37,585	(123,488)	111,486
Free Cash Flow per Share (C$)(6)	(0.8238)	0.2557	(1.6824)	0.5526	(1.8921)	1.7082
Declared dividends on Shares (C$)	4,096	15,085	8,192	30,169	39,668	56,743
Declared dividends per Share (C$)(6)	0.0531	0.2125	0.1062	0.4250	0.5312	0.8500

(1) Free Cash Flow is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS.

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

(3) Changes in non-cash working capital are excluded from the calculation of Free Cash Flow as these temporary fluctuations are managed through the credit facilities which are available to fund general corporate requirements, including working capital

requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the consolidated statements of cash flows net of interest and income taxes paid.

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

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

(6) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2022 Q2 was 77,140,467 and 70,985,041 for 2021 Q2. The weighted average number of Shares outstanding for the 52-weeks ended July 3, 2022 and 52-weeks ended June 27, 2021 are 74,517,345 and 65,264,409, respectively. Per Share calculations for declared dividends (C$) 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, right-of-use asset impairments and inventory impairments associated with NFI Forward restructuring initiatives. Free Cash Flow reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.

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

(12) Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible. Q2 2022 includes the costs associated with a legal settlement, which was not recoverable under insurance.

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

(14) Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. During 2022, management determined costs related to sanitization and masks were an operating cost and would no longer be included in the definition.

(15) Includes fair market value adjustments to interest rate swaps and the cash conversion option on the Convertible Debentures. 2022 Q2 includes a gain of $5.8 million and 2021 Q2 includes a gain of $3.8 million for the interest rate swaps. 2022 Q2 includes a gain of $6.0 million and 2021 Q2 includes a gain of $nil for the cash conversion option.

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

Liquidity

Liquidity is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines liquidity as cash on-hand plus available capacity under its credit facilities, 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.

Working Capital Days

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

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

Payout Ratio

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

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

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

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

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

(U.S. dollars in thousands, except per Share figures)	2022 Q2	2021 Q2	26-Weeks Ended July 3, 2022	26-Weeks Ended June 27, 2021	53-Weeks Ended July 3, 2022	52-Weeks Ended June 27, 2021
Net (loss) earnings	(56,740)	2,587	(84,808)	9,620	(108,914)	(6,827)
Adjustments, net of tax [1] [7]						
Fair value adjustments of total return swap[4]	—	(120)	657	(319)	1,286	(1,408)
Unrealized foreign exchange loss (gain)	722	958	4,011	2,109	7,267	(2,613)
Unrealized gain on interest rate swap	(4,010)	(1,736)	(19,543)	(5,227)	(24,854)	(9,406)
Unrealized gain on Cash Conversion Option	(4,122)	—	(7,825)	—	(12,790)	—
Portion of the total return swap realized[5]	—	42	(190)	245	(759)	897
Costs associated with assessing strategic and corporate initiatives[2]	—	—	—	—	(106)	164
Equity settled stock-based compensation	167	228	364	524	631	1,355
Loss (gain) on disposition of property, plant and equipment	(40)	5	(297)	(157)	(89)	(466)
Past service costs and other pension costs[6]	4,830	—	4,830	—	4,830	4
Unrecoverable insurance costs and other[12]	5,460	327	5,744	327	7,214	327
Prior year sales tax provision[8]	—	—	—	18	—	204
Other tax adjustments[10]	(1,700)	6,118	(1,880)	6,118	(5,329)	6,118
COVID-19 costs[9]	—	212	—	343	1,458	20,909
Out of period costs[11]	—	—	1,264	—	1,264	—
Accretion in carrying value of convertible debt and cash conversion option	1,309	—	2,609	—	2,883	—
Restructuring costs[3]	5,130	76	5,196	1,155	9,259	19,401
Adjusted Net Earnings (Loss)	(48,993)	8,697	(89,868)	14,756	(116,749)	28,659
Earnings (Loss) per Share (basic)	(0.74)	0.04	(1.10)	0.14	(1.44)	(0.12)
Earnings (Loss) per Share (fully diluted)	(0.74)	0.04	(1.10)	0.14	(1.44)	(0.12)
Adjusted Net Earnings (Loss) per Share (basic)	(0.64)	0.12	(1.17)	0.21	(1.60)	0.43
Adjusted Net Earnings (Loss) per Share (fully diluted)	(0.64)	0.12	(1.17)	0.21	(1.60)	0.43

1. Addback items are derived from the historical financial statements of the Company.

2. Normalized to exclude non-operating expenses related to the costs of assessing strategic and corporate initiatives.
3. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, inefficient labour costs, right-of-use asset impairments and inventory impairments associated with NFI Forward restructuring initiatives.
4. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted Net Earnings (Loss). 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 excluded from Adjusted Net Earnings (Loss) 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.
7. The Company has utilized a rate of 54.5% to tax effect the adjustments in periods related to Fiscal 2021. A rate of 31.0% has been used to tax effect the adjustments for all other periods.
8. Provision for sales taxes as a result of a state tax review.
9. Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. During 2022, management determined costs related to sanitization and masks were an operating cost and would no longer be included in the definition.
10. Includes the impact of changes in deferred tax balances as a result of substantively enacted tax rate changes. The 2021 and 2022 amounts include the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25% in 2021 Q2. The 2020 amounts result from the reversal of previously enacted UK tax rate decline in 2020 Q2.
11. Includes adjustments made related to expenses that pertain to prior years. 2022 Q1 includes expenses related to tax amounts owed from fiscal years 2016 - 2018. 2021 Q4 includes expenses related to amounts owed from fiscal years 2016 - 2020, and expenses related to amounts owed from fiscal years 2014 - 2020.
12. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible. Q2 2022 includes the costs associated with a legal settlement, which was not recoverable under insurance

ROIC

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

Reconciliation of Shareholders' Equity to Invested Capital

(U.S. dollars in thousands)	**2022 Q2**	**2022 Q1**	**2021 Q4**	**2021 Q3**
Shareholders' Equity	783,905	850,323	871,772	787,010
Addback				
Long term debt	718,139	677,996	586,411	1,049,273
Capital leases	131,077	139,129	143,675	150,212
Convertible Debentures	224,947	229,673	225,768	—
Derivatives	(8,179)	4,806	31,883	20,920
Cash	(50,274)	(26,604)	(77,318)	(64,822)
Bank indebtedness	—	1,233	—	—
Invested Capital	1,799,615	1,876,556	1,782,191	1,942,593
Average of invested capital over the quarter	1,838,086	1,829,374	1,862,392	1,924,303

	2021 Q2	**2020 Q4**	**2020 Q3**	**2020 Q2**
Shareholders' Equity	814,502	824,643	620,141	602,178
Addback				
Long term debt	963,630	1,008,733	1,125,685	1,123,281
Capital leases	153,967	150,553	150,577	152,912
Convertible Debentures	—	—	—	—
Derivatives	21,609	23,996	29,656	35,493
Cash	(47,695)	(23,063)	(55,769)	(1,176)
Bank indebtedness	—	1	—	10,000
Invested Capital	1,906,013	1,984,863	1,870,290	1,922,688
Average of invested capital over the quarter	1,945,438	1,927,576	1,896,489	1,928,807

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

On December 2, 2021, the Company amended the Credit Facility and the UK Facility (together the "amended facilities") to provide the Company with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. NFI provided the lenders security on certain of its assets, including a general security agreement on NFI's personal property, but excluding security on real property.

The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. $11.8 million of outstanding letters-of-credit were drawn against the Credit Facility at July 3, 2022. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

The £50 million revolving UK Facility matures on December 23, 2023. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin.

Under the terms of the December 2, 2021 amendments, the total leverage and interest coverage ratios for 2022 and 2023 were relaxed and the total net debt to capitalization ratio was to be phased out in the third quarter of 2022. The company received consent from its lenders to waive compliance with the total leverage and interest coverage ratio for the second quarter of the year and until the period ending August 2, 2022.

In Q2 2022, the Company was required to maintain coverage ratios and minimum liquidity as described below:

	Total Leverage Ratio	**Interest Coverage Ratio**
January 3, 2022 - May 31, 2022	N/A	N/A
June 1, 2022 - August 2, 2022	N/A	N/A

	July 3, 2022	January 2, 2022
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2021: 0.70:1.00])	0.46	0.37

US dollars in thousands	**July 3, 2022**	January 2, 2022
Liquidity Position[(1)] (must be greater than $300 million)	$ 628,532	$ 794,332

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

Subsequent to quarter-end on July 29, 2022, NFI amended the Credit Facility and the UK Facility (together the "new amended facilities"). The new amended facilities provide the Company with relaxed covenants through 2023 as the Company navigates supply chain disruptions, heightened inflation, and other impacts of the COVID-19 pandemic.

Under the terms of the new amended facilities, the Company's banking partners have relaxed the Total Leverage Ratio and Interest Coverage Ratio for the remainder of 2022 and Fiscal 2023. In addition, NFI will have to meet three additional covenants, within different time frames: minimum cumulative Adjusted EBITDA, minimum liquidity, and net debt to capitalization.

The terms of the new amended facilities will not restrict the payment of dividends, provided the Company is in compliance with the financial covenants, a cumulative Free Cash Flow test, and the dividend payments remain at the current level for the remainder of the agreements (maturing in August 2024). The terms of the amended Credit Facilities do not permit any acquisitions until 2024 and permit a maximum of $50 million in annual capital expenditures.

As of July 3, 2022, NFI's liquidity was $628.5 million, without consideration given to the minimum liquidity requirement of $300 million under the amended facilities. As part of the Company's efforts to improve working capital and liquidity, NFI had significant discussions on prepayments and deposits with customers. The Company has received some prepayments and is continuing to work with other customers on plans that would help alleviate some of NFI's working capital investments while it navigates through the supply chain challenges.

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

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

	Total Leverage Ratio[1]	Interest Coverage Ratio[2]	Total Net Debt to Capitalization[3]	Minimum Cumulative Adjusted EBITDA[4]	Minimum Liquidity[5]
July 4, 2022 - October 2, 2022	N/A	N/A	<.70	N/A	$250,000
October 3, 2022 - January 1, 2023	<5.00	>1.50	<.60	>$45,000	$250,000
January 2, 2023 - April 2, 2023	<5.00	>1.50	N/A	>$80,000	$250,000
April 3, 2023 - July 2, 2023	<5.00	>1.50	N/A	>$125,000	$250,000
July 3, 2023 - October 1, 2023	<4.50	>2.00	N/A	N/A	$250,000
October 2, 2023 - December 31, 2023	<4.00	>2.50	N/A	N/A	$250,000
January 1, 2024 - March 31, 2024 and thereafter	<3.75	>3.00	N/A	N/A	$50,000

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 2022 Q4, Adjusted EBITDA will be annualized until a full rolling four quarters of results are available (i.e., period ending 2023 Q3); a detailed schedule for the Adjusted EBITDA calculation is below:
    a. 2022 Q4 compliance Adjusted EBITDA: 2022 Q4 * 4
    b. 2023 Q1 compliance Adjusted EBITDA: (2022 Q4 + 2023 Q1) * 2
    c. 2023 Q2 compliance Adjusted EBITDA: (2022 Q4 + 2023 Q1 + 2023 Q2) * 4/3
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 Company's 5.0% convertible 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.
4. Cumulative Adjusted EBITDA starting with 2022 Q4 results.
5. Liquidity is calculated as unrestricted cash and cash equivalents plus the aggregate amount of credit available under the Credit Facilities.

Management believes that, the Company's cash position and capacity under its new 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, dividend payments 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 ADL in May 2019, but the impact of COVID-19 and the continuing supply chain disruptions has extended the expected timing of deleveraging. Management now expects to reduce the Company's total leverage to its target leverage of 2.0x to 2.5x total debt to Adjusted EBITDA by the end of 2024 as the recovery from COVID-19 continues, the anticipated supply of parts and components slowly stabilizes, the Company achieves the benefits of the NFI Forward strategic cost reduction initiatives and the Company continues to focus on reducing working capital.

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

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in common systems and lean manufacturing operations to improve quality and cost effectiveness, while also investing to expand the Company's expertise in 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 longer-term transition to a more electrified fleet. New Flyer now has the capability to manufacture ZEBs at all of its North American facilities. ADL is the market leader in ZEBs with production capabilities at all of its UK facilities, MCI has invested in its electric coach offering for both public and private customers and ARBOC commenced production of its medium-duty Equess CHARGE™ electric bus in the second half of 2021. NFI is planning for the roll-out of next generation battery technology through a second battery supplier for a fourth quarter 2022 launch based on projects that originally kicked off in 2020. ADL is also making further investments in its battery and fuel-cell electric vehicles for United Kingdom and other international markets. To support customers making the transition to zero-emission fleets, NFI launched its Infrastructure Solutions™ business in 2018. Infrastructure Solutions™ has helped numerous agencies develop and launch infrastructure installation projects.

The Company has automated bus projects in development with specialized partners who have a deep understanding of artificial intelligence and ADAS. As part of this program to advance automated vehicles and ADAS, on January 29, 2021, NFI announced the launch of the New Flyer Xcelsior AV™, North America's first automated Level 4 transit bus. The first vehicles using this technology went into production in Q4 2021. In April 2022, NFI announced that ADL was commencing live testing of an automated bus pilot in Scotland ahead of passenger services starting later in 2022. NFI has also made numerous investments into telematics solutions to ensure customers can track detailed performance and maintenance metrics associated with their vehicles.

NFI has also made investments to reduce the company's overall manufacturing footprint and integrate operations through its NFI Forward and NFI Forward 2.0 initiatives. These investments have generated significant annualized cost savings that will positively contribute to NFI's financial results going forward.

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

Return of Capital to Shareholders

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

The Company's 2022 Q2 Free Cash Flow was (C$64.6) million compared to declared dividends of C$4.1 million during this period. For 2021 Q2 Free Cash Flow was C$18.2 million compared to declared dividends of C$15.1 million. This resulted in a payout ratio(1) of (6.4%) in 2022 Q2 compared to 83.0% in 2021 Q2.

The Board has declared a dividend of C$0.0531 per Share for the period April 1, 2022 to June 30, 2022 on the Shares of the Company, reflecting the view that supply and logistics disruptions impacting the Company are temporary.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2022 Q2**	**2021 Q2**
Dividends paid	$ 3.2	$ 10.3

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

Controls and Procedures

Internal Controls over Financial Reporting

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

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 2, 2022 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

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

There have been no changes in our internal control over financial reporting during the quarter ended July 3, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls

Management is responsible for establishing and maintaining disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required to be disclosed is reported within time periods prescribed by applicable securities legislation. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's CEO and CFO have concluded that disclosure controls and procedures as at July 3, 2022, were effective.

Appendix A - Meaning of Certain References

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

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 July 3, 2022, 77,140,526 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 objectives and the Company's strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic, and supply chain disruptions. The words "believes", "views", "anticipates", "plans", "expects", "intends", "projects", "forecasts", "estimates", "guidance", "goals", "objectives" and "targets" and similar expressions of future events or conditional verbs such as "may", "will", "should", "could", "would" are intended to identify forward-looking statements. These forward-looking statements reflect management's current expectations regarding future events (including the temporary nature of the supply chain disruptions, the recovery of the Company's markets and the expected benefits to be obtained through its "NFI Forward" 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 performance and objectives and the Company's strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic and supply chain disruptions, will not occur or be achieved. There can be no assurance that dividends will continue to be paid.

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

Factors relating to the global COVID-19 pandemic include: the magnitude and duration of the global, national and regional economic and social disruption being caused as a result of the pandemic; the impact of national, regional and local governmental laws, regulations and "shelter in place" or similar orders relating to the pandemic which may materially adversely impact the Company's ability to continue operations; partial or complete closures of one, more or all of the Company's facilities and work locations or the reduction of production rates (including due to government mandates and to protect the health and safety of the Company's employees or as a result of employees being unable to come to work due to COVID-19 infections with respect to them or their family members or having to isolate or quarantine as a result of coming into contact with infected individuals); production rates may be further decreased as a result of the pandemic; ongoing and future supply delays and shortages of parts and components, and shipping and freight delays, and disruption to labor supply as a result of the pandemic; the pandemic will likely adversely affect operations of suppliers and customers, and reduce and delay, for an unknown period, customers' purchases of the Company's products and the supply of parts and components by suppliers; the anticipated recovery of the Company's markets in the future may be delayed or increase in demand may be lower than expected as a result of the continuing effects of the pandemic; the Company's ability to obtain access to additional capital if required; and the Company's financial performance and condition, obligations, cash flow and liquidity and its ability to maintain compliance with the covenants under its credit facilities, which may also negatively impact the ability of the Company to pay dividends. There can be no assurance that the Company will be able to maintain sufficient liquidity for an extended period, 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 initiatives 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 initiatives 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 initiatives; the estimated amount of savings generated under the initiatives may not be sufficient to achieve the planned benefits; combining business units and/or reducing the number of production or parts facilities may not achieve the efficiencies anticipated; and the impact of the continuing global COVID-19 pandemic, supply chain issues and inflationary pressures. There can be no assurance that the Company will be able to achieve the anticipated financial and operational benefits, cost savings or other benefits of the initiatives.

Factors relating to the Company's financial guidance and targets disclosed in this MD&A include, in addition to the factors set out above, the degree to which actual future events accord with, or vary from, the expectations of, and assumptions used by, NFI's management in preparing the financial guidance and targets and the Company's ability to successfully execute the "NFI Forward" 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 - 2022 Second 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 half of 2022. Active bids increased significantly during the first half of 2020, followed by large declines in the second half of 2020 as a result of the pandemic delaying orders in core markets. Active bids rebounded significantly in 2021, averaging 6,850 EUs from 2021 Q2 through 2021 Q4. As of 2022 Q2, active bids reached 7,582 EUs, the highest since 2017 Q2. The Company ended 2022 Q2 with 4,477 bids in process, and another 3,105 bids submitted, which puts active bids up 11.4% year-over-year. Management expects active bids will continue to remain high throughout 2022 as markets recover from the COVID-19 pandemic and new government funding begins to reach transit agencies.

The forecasted five-year North American industry procurement has started to rebound from the lows of the first half of 2021. Year-over-year, this metric increased by 18.4%, or 3,354 EUs. NFI expects that the forecasted five-year North American industry procurement will continue to increase as transit agencies start to formalize their short- and long-term procurement plans as they recover from the COVID-19 pandemic, and as they investigate and are able to access the multi-billion funding programs announced and/or launched by governments in Canada and the U.S.

As at 2022 Q2, 14,952 units, or 51.3%, of the Total Bid Universe is ZEBs, an increase of 58.0% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

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

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)(1)	Total Bid Universe (EUs)
2021 Q2	3,590	3,215	6,805	18,211	25,016
2021 Q3	594	6,307	6,901	19,954	26,855
2021 Q4	1,783	5,062	6,845	19,468	26,313
2022 Q1	805	4,757	5,562	20,809	26,371
2022 Q2	**4,477**	**3,105**	**7,582**	**21,565**	**29,147**

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

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

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

ADL does not currently have a Bid Universe metric for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe. Management does not believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2019, and was expected to increase in 2020 after that period of decline. The UK market was hit disproportionately hard by the COVID-19 pandemic, with bus ridership down by nearly 80% at its worst point in 2020. While management saw signs of recovery in 2021 and the first half of 2022, supply chain challenges have continued to disrupt the market. Going forward, management expects stronger recovery based on customers' fleet recovery plans, a government focus on the green recovery, expected government funding and an aging UK vehicle fleet. ADL continues to grow in Europe with multi-year contracts in Ireland and Germany. The European market is highly fragmented with numerous players providing niche opportunities for ADL in the future.

In Asia Pacific, the Hong Kong market is highly cyclical, and, following busier periods in 2015 through 2018, the market has declined as anticipated. As in other regions, Hong Kong was also impacted by the COVID-19 pandemic, but ADL remains the leader in double-deck buses and retains deep customer relationships in Hong Kong. Management continues to expect the market to see stable annual deliveries and a slow recovery through 2022. New Zealand and Singapore remain highly cyclical markets with more predictable purchasing expectations based on vehicle age; both markets saw increased activity in 2017, 2018 and 2019, but were impacted by the COVID-19 pandemic in 2020 and 2021. Recovery in 2022 is expected to be driven by market demand for double-deck buses to Singapore, and demand for zero-emission buses in New Zealand.

Order activity

New orders (firm and options) during 2022 Q2 totaled 1,348 EUs, an increase of 20.4% from 2021 Q2. The timing of new orders can vary based on transit agency procurement processes, with the fourth quarter typically being a busier period tied to agency and operator approval meetings. The new firm and option orders awarded to the Company for LTM 2022 Q2 were 5,147 EUs, an increase of 28.2% from LTM 2021 Q2. The Company was successful at converting 85 EUs of options to firm orders during 2022 Q2, a decrease from the 218 EUs converted in 2022 Q1 and from the 402 EUs converted in 2021 Q2; option conversions tend to vary quarter-to-quarter. These 85 EUs of option conversions contributed to the 734 EUs converted to firm orders during LTM 2022 Q2.

In 2022 Q2, NFI received orders for 325 EUs of battery-electric, zero-emission vehicles, an increase of 103 EUs from 2022 Q1; these 325 EUs of ZEBs equates to 24.1% of all new firm and option orders for the quarter.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)(1)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs) (1)
2021 Q2	1,120	4,014	402	1,092
2021 Q3	785	4,115	154	1,004
2021 Q4	1,607	4,724	277	1,110
2022 Q1	1,407	4,919	218	1,051
2022 Q2	**1,348**	**5,147**	**85**	**734**

(1) *LTM New Orders and LTM Option Conversions for 2021 Q2 and 2021 Q3 have been restated due to a previous calculation error.*

Options

In 2022 Q2, one option expired, compared to the 284 options that expired in 2022 Q1, and 519 options that expired in 2021 Q2. Some agencies have been letting a portion of their options expire as they re-evaluate their longer-term fleet planning decisions with an increased focus on the procurement of ZEBs rather than traditional internal combustion engine propulsion.

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

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
A) Options Expired (EUs)	331	741	512	1,202	819	285						3,890
B) Options Exercised (EUs)	1,404	1,795	1,518	953	1,110	303						7,083
C) Current Options by year of expiry (EUs)						1,841	439	258	664	1,628	478	5,308
D) Conversion rate % = B / (A+B)	**81 %**	**71 %**	**75 %**	**44 %**	**58 %**							

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

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 20 of these purchasing schedules, either directly or through its dealers. These schedules are not recorded in backlog as they do not have defined quantities allocated to the Company or any other original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order. The Company has received more than 950 vehicle awards from these schedules since the start of 2018, showing their growing use by transit agencies as a procurement alternative in North America.

The Company's 2022 Q2 Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 158.4%, an increase from 124.8% in 2021 Q2. This significant increase in Book-to-Bill was driven by a 20.4% increase in year-over-year orders combined with lower deliveries.

In addition, 1,098 EUs of new firm and option orders were pending from customers at the end of 2022 Q2, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog. This is down slightly from the 1,192 EUs of pending new firm and option orders as of the end of 2022 Q1, due to the award of contracts. NFI anticipates that the majority of these units in bid award pending will convert into backlog during 2022 Q3.

Backlog

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

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas, diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses, represent approximately 57.0% of the total backlog as of the end of 2022 Q2, up from 52.5% as of the end of 2022 Q1. As at the end of 2022 Q2, there were a record 1,900 ZEBs in the backlog, representing approximately 19.6% of the total backlog, up from 16.8% in 2022 Q1.

	2022 Q2			2022 Q1			2021 Q2		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	4,057	4,851	8,908	3,635	4,813	8,448	3,307	5,279	8,586
New orders	805	543	1,348	867	540	1,407	832	288	1,120
Options exercised	85	(85)	—	218	(218)	—	402	(402)	—
Shipments[1]	(562)	—	(562)	(660)	—	(660)	(989)	—	(989)
Cancelled/expired	(19)	(1)	(20)	(3)	(284)	(287)	(30)	(519)	(549)
End of period	**4,366**	**5,308**	**9,674**	**4,057**	**4,851**	**8,908**	**3,522**	**4,646**	**8,168**
Consisting of:									
Heavy-duty transit buses	3,296	5,036	8,332	3,018	4,577	7,595	2,621	4,172	6,793
Motor coaches	395	272	667	364	274	638	405	474	879
Cutaway and medium-duty buses	675	—	675	675	—	675	496	—	496
Total Backlog	**4,366**	**5,308**	**9,674**	**4,057**	**4,851**	**8,908**	**3,522**	**4,646**	**8,168**

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

At the end of 2022 Q2, the Company's total backlog (firm and options) of 9,674 EUs (valued at \$5.5 billion[2]), increased compared to 8,908 EUs (valued at \$4.9 billion[2]) at the end of 2022 Q1. The increase was driven by new awards within North American and UK transit operations, offset by deliveries. The average price of an EU in backlog is now \$568.0 thousand, an increase of 9% from 2021 Q2. The summary of the values is provided below.

	2022 Q2		2022 Q1		2021 Q2	
		Equivalent Units		Equivalent Units		Equivalent Units
Total firm orders	$ 2,375.6	4,366	$ 2,209.3	4,057	$ 1,842.7	3,522
Total options	3,119.1	5,308	2,735.3	4,851	2,411.8	4,646
Total backlog[2]	**$ 5,494.7**	**9,674**	**$ 4,944.6**	**8,908**	**$ 4,254.5**	**8,168**

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

Unaudited Interim Condensed Consolidated Financial Statements of

NFI GROUP INC.

July 3, 2022

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NFI GROUP INC.

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

13-weeks and 26-weeks ended July 3, 2022 ("2022 Q2" and "2022 Q2 YTD", respectively) and 13-weeks and 26-weeks ended June 27, 2021 ("2021 Q2" and "2021 Q2 YTD", respectively)

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

	2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
Revenue (note 16)	$ 397,952	$ 582,794	$ 857,282	$ 1,156,913
Cost of sales (note 4)	395,577	513,280	836,875	1,001,565
Gross profit	2,375	69,514	20,407	155,348
Sales, general and administration costs and other operating expenses	66,098	49,794	125,826	107,063
Foreign exchange loss (gain)	495	(6,954)	561	(5,307)
(Loss) earnings from operations	(64,218)	26,674	(105,980)	53,592
Gain (loss) on disposition of property, plant and equipment	58	(10)	431	345
Unrealized foreign exchange loss on monetary items	(1,045)	(2,107)	(5,813)	(4,636)
(Loss) earnings before interest and income taxes	(65,205)	24,557	(111,362)	49,301
Interest and finance costs				
Interest on long-term debt	11,007	13,855	21,362	26,678
Interest on convertible debt	3,371	—	6,785	—
Accretion in carrying value of long-term debt (note 10)	458	1,229	815	2,347
Accretion in carrying value of convertible debt and cash conversion option (note 11)	1,897	—	3,782	—
Interest expense on lease liability	1,381	1,630	2,867	3,311
Other interest and bank charges	2,801	1,033	3,838	3,208
Fair market value gain on interest rate swap	(5,811)	(3,817)	(28,323)	(11,489)
Fair market value gain on cash conversion option	(5,974)	—	(11,340)	—
	9,130	13,930	(214)	24,055
(Loss) earnings before income tax expense	(74,335)	10,627	(111,148)	25,246
Income tax (recovery) expense (note 9)	(17,595)	8,040	(26,340)	15,626
Net (loss) income for the period	$ (56,740)	$ 2,587	$ (84,808)	$ 9,620
Other comprehensive (loss) income				
Actuarial gain (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	11,927	(3,147)	27,170	9,836
Unrealized foreign exchange (loss) gain on translation of foreign operations - this item will not be reclassified subsequently to profit or loss	(18,395)	2,484	(24,058)	7,634
Net loss on equity hedge	(301)	—	(301)	—
Total comprehensive (loss) income for the period	(63,509)	1,924	(81,997)	27,090
Net (loss) income per share (basic) (note 12)	$ (0.74)	$ 0.04	$ (1.10)	$ 0.14
Net (loss) income per share (diluted) (note 12)	$ (0.74)	$ 0.04	$ (1.10)	$ 0.14

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at July 3, 2022
(in thousands of U.S. dollars)

		July 3, 2022		January 2, 2022
Assets				
Current				
Cash	$	50,274	$	77,318
Accounts receivable (note 3, 15c)		267,069		396,535
Inventories (note 4)		770,201		567,698
Income tax receivable		30,883		21,396
Derivative financial instruments (note 15 a,b)		2,190		442
Prepaid expenses and deposits		17,650		7,549
		1,138,267		1,070,938
Property, plant and equipment		205,271		221,338
Right-of-use asset		109,659		121,761
Derivative financial instruments (note 15 a,b)		18,415		—
Goodwill and intangible assets (note 5)		1,100,203		1,144,963
Accrued benefit asset		23,763		4,116
Other long-term assets (note 6)		30,582		36,504
	$	2,626,160	$	2,599,620
Liabilities				
Current				
Accounts payable and accrued liabilities		466,344		458,864
Income tax payable		1,876		1,104
Derivative financial instruments (note 15 a,b)		2,202		1,799
Current portion of long-term liabilities (note 7)		181,577		142,860
		651,999		604,627
Accrued benefit liability		3,647		11,211
Obligations under leases		112,076		120,414
Deferred compensation obligation		1,942		2,769
Deferred revenue		19,376		19,818
Provisions (note 8)		58,499		63,498
Deferred tax liabilities		41,406		62,806
Derivative financial instruments (note 11, 15 a,b)		10,224		30,526
Long-term debt (note 10)		718,139		586,411
Convertible debentures (note 11)		224,947		225,768
	$	1,842,255	$	1,727,848
Commitments and contingencies (note 17)				
Shareholders' equity				
Share capital (note 12)		988,080		987,943
Stock option and restricted share unit reserve		10,548		10,105
Accumulated other comprehensive income		8,732		5,921
Deficit		(223,455)		(132,197)
	$	783,905	$	871,772
	$	2,626,160	$	2,599,620

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period ended July 3, 2022

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, December 27, 2020	**$ 681,405**	**$ 8,400**	**$ (1,113)**	**$ (68,551)**	**$ 620,141**
Net earnings	—	—	—	9,620	9,620
Other comprehensive income	—	—	17,470	—	17,470
Dividends declared on common shares	—	—	—	(24,263)	(24,263)
Equity Transaction Cost	(8,592)	—	—	—	(8,592)
Share-based compensation, net of deferred income taxes	—	1,275	—	—	1,275
Shares issued	198,994	(143)	—	—	198,851
Balance, June 27, 2021	**$ 871,807**	**$ 9,532**	**$ 16,357**	**$ (83,194)**	**$ 814,502**
Net loss	—	—	—	(24,104)	(24,104)
Other comprehensive income	—	—	(10,436)	—	(10,436)
Dividends declared on common shares	—	—	—	(24,899)	(24,899)
Equity Transaction Cost	(1,556)	—	—	—	(1,556)
Share-based compensation, net of deferred income taxes	—	916	—	—	916
Shares issued	117,692	(343)	—	—	117,349
Balance, January 2, 2022	**$ 987,943**	**$ 10,105**	**$ 5,921**	**$ (132,197)**	**$ 871,772**
Net loss	—	—	—	(84,808)	(84,808)
Other comprehensive income	—	—	2,811	—	2,811
Dividends declared on common shares	—	—	—	(6,450)	(6,450)
Equity transaction cost	(2)	—	—	—	(2)
Share-based compensation, net of deferred income taxes	—	582	—	—	582
Shares issued	139	(139)	—	—	—
Balance, July 3, 2022	**$ 988,080**	**$ 10,548**	**$ 8,732**	**$ (223,455)**	**$ 783,905**

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

NFI GROUP INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

13-weeks and 26-weeks ended July 3, 2022 ("2022 Q2" and "2022 Q2 YTD, respectively) and 13-weeks and 26-weeks ended June 27, 2021 ("2021 Q2" and "2021 Q2 YTD", respectively)

(in thousands of U.S. dollars)

	2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
Operating activities				
Net (loss) earnings for the period	$ (56,740)	$ 2,587	$ (84,808)	$ 9,620
Income tax (recovery) expense	(17,595)	8,040	(26,340)	15,626
Depreciation of plant and equipment	12,346	15,253	27,558	31,617
Amortization of intangible assets	7,936	8,250	16,075	16,450
Share-based compensation	243	502	528	1,151
Interest and finance costs recognized in profit or loss	15,104	13,930	11,126	24,055
Fair value adjustment for total return swap	124	(264)	1,076	(702)
Unrealized foreign exchange loss on monetary items	1,045	2,107	5,813	4,636
Foreign exchange loss on cash held in foreign currency	2,118	34	1,554	67
Gain on fair value adjustment for cash conversion option	(5,974)	—	(11,340)	—
(Gain) loss on disposition of property, plant and equipment	(58)	10	(431)	(345)
Impairment loss on property, plant and equipment	2,554	—	2,554	—
Impairment loss on right-of-use asset	1,254	—	1,254	1,792
Defined benefit expense	1,745	364	2,553	2,239
Defined benefit funding	(1,261)	(388)	(2,296)	(1,437)
Cash (used in) generated by operating activities before non-cash working capital items and interest and income taxes paid	(37,159)	50,425	(55,124)	104,769
Changes in non-cash working capital items (note 14)	61,534	61,841	(29,974)	(52,382)
Cash (used in) generated by operating activities before interest and income taxes paid	24,375	112,266	(85,098)	52,387
Interest paid	(12,961)	(14,697)	(27,497)	(33,351)
Income taxes paid	(2,974)	(6,430)	(2,090)	(15,561)
Net cash (used in) generated by operating activities	8,440	91,139	(114,685)	3,475
Financing activities				
Repayment of obligations under lease	(6,029)	(3,296)	(10,871)	(10,341)
Proceeds from (repayment of) revolving credit facilities	34,100	(46,523)	123,557	(160,935)
Share issuance	—	—	(2)	198,849
Equity transaction cost	—	(364)	—	(8,592)
Repayment of short-term debt	(1,233)	—	—	—
Dividends paid	(3,272)	(11,995)	(16,245)	(22,320)
Net cash generated by (used in) financing activities	23,566	(62,178)	96,439	(3,339)
Investing activities				
Acquisition of intangible assets	(2,214)	(604)	(3,529)	(604)
Proceeds from disposition of property, plant and equipment	228	704	1,313	3,018
Investment in long-term restricted deposits	—	5,163	5,412	4,700
Acquisition of property, plant and equipment	(4,232)	(9,558)	(10,440)	(15,257)
Net cash used in investing activities	(6,218)	(4,295)	(7,244)	(8,143)
Effect of foreign exchange rate on cash	(2,118)	(34)	(1,554)	(67)
Increase (decrease) in cash	23,670	24,632	(27,044)	(8,074)
Cash — beginning of period	26,604	23,063	77,318	55,769
Cash — end of period	$ 50,274	$ 47,695	$ 50,274	$ 47,695

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

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

1. CORPORATE INFORMATION

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

These unaudited interim condensed consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on August 2, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

The Statements are unaudited and have been prepared in accordance with 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.

2.3 Principles of consolidation

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

Subsidiaries

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

Inter-company transactions between subsidiaries are eliminated on consolidation.

2.4 Fiscal Periods

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2.6 Share-based compensation plans

The Company operates a cash-settled share-based compensation plans under which restricted share units ("RSUs") are granted to senior management. The expense is determined based on the fair value of the liability at the end of the reporting period until the awards are settled.

The impact due to changes in the price of Shares in respect of cash-settled share-based compensation under the RSU is hedged through the use of derivatives. The Company applies hedge accounting to certain designated derivatives related to the cash flow hedge. The effective portion of the change in fair value of these derivatives is recognized in other comprehensive income and is reclassified into " Sales, general and administration costs and other operating expenses", within the unaudited interim condensed consolidated statements of net (loss) earnings and total comprehensive (loss) income, over the period that the hedged awards impact the net earnings. The ineffective portion of the change in fair value of the hedging derivatives is recognized immediately as it arises in the consolidated statement of net (loss) earnings.

3. ACCOUNTS RECEIVABLE

		July 3, 2022		January 2, 2022
Trade, net of allowance for doubtful accounts (note 15c)	$	241,169	$	368,548
Other		25,900		27,987
	$	267,069	$	396,535

In the normal course of its business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible receivables to such financial institutions. As at July 3, 2022 trade receivables of $2.0 million (January 2, 2022 - nil) were derecognized under these facilities. Accounts receivable are derecognized under this arrangement as financial assets when the rights to receive cash flows have been transferred and substantially all of the risks and rewards of the asset have been transferred.

4. INVENTORIES

		July 3, 2022		January 2, 2022
Raw materials	$	283,942	$	281,826
Work in process		411,802		246,364
Finished goods		74,457		39,508
	$	770,201	$	567,698

		2022 Q2		2021 Q2		2022 Q2 YTD		2021 Q2 YTD
Cost of inventories recognized as expense and included in cost of sales	$	251,951	$	502,330	$	682,310	$	965,654
Write-down of inventory to net realizable value in cost of sales		4,377		1,756		7,563		2,698
Reversals of a previous write-down in inventory		388		—		388		—

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

5. GOODWILL

At the end of each period during the second quarter, management conducted a review to assess whether indicators of impairment existed and concluded that indicators of impairment existed at the ARBOC, bus/coach manufacturing, ADL aftermarket parts operations and ADL manufacturing. Accordingly, management performed an interim quantitative impairment test for the identified CGUs.

In performing the second quarter interim quantitative impairment test and consistent with prior practice, the Company determined the recoverable amount of each cash generating unit ("CGU"), or groups of CGUs, based on value-in-use calculations. These calculations use estimated cash flow projections based on financial plans approved by the Board covering a five-year period and discount rates based on weighted average cost of capital of like businesses that range between 9.10% and 15.0% per annum for the ADL and bus/motor coach manufacturing CGUs, between 13.2% and 16.6% for the ARBOC CGU, and between 10.9% and 14.5% per annum for the ADL parts CGUs. Cash flows beyond the five-year forecast period are extrapolated using a steady estimated growth rate based on the long-term average annual growth rate of 3% for each industry in which the CGUs operate. Management has determined planned gross margins based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risk relating to the relevant CGUs.

Management has determined that the recoverable amount of each CGU, or group of CGUs, to which goodwill has been allocated exceeded the carrying amount as at the test date and, as a result, a goodwill impairment charge was not recorded in the second quarter.

Sensitivity testing was conducted as part of the impairment tests. Management believes that any reasonable change in the key assumptions used to determine the recoverable amounts would not result in an impairment at bus/coach manufacturing, ARBOC, ADL aftermarket parts operations.

Impairment of the ARBOC CGU may result if one of the following occurs:

- the cash flow projections are lower by 4.3% annually;
- the long-term annual growth rate is decreased by 0.7%; or
- the discount rate is increased by 0.5%.

Impairment of the ADL parts CGU may result if one of the following occurs:

- the cash flow projections are lower by 11.3% annually;
- the long-term annual growth rate is decreased by 2.3%; or
- the discount rate is increased by 1.4%.

Impairment of the ADL manufacturing CGU may result if one of the following occurs:

- the cash flow projections are lower by 5.9% annually;
- the long-term annual growth rate is decreased by 2.2%; or
- the discount rate is increased by 0.6%.

6. OTHER LONG-TERM ASSETS

	July 3, 2022	January 2, 2022
Long-term restricted deposit (note 17c)	$ 25,300	$ 30,712
Long-term accounts receivable	5,282	5,792
	$ 30,582	$ 36,504

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

7. CURRENT PORTION OF LONG TERM LIABILITIES

	July 3, 2022	January 2, 2022
Deferred revenue	$ 144,063	$ 98,408
Provisions (note 8)	18,103	20,151
Deferred compensation obligation	410	1,040
Obligations under leases	19,001	23,261
	$ 181,577	$ 142,860

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

8. PROVISIONS

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

The restructuring provision consists of employee termination benefits associated with the "NFI Forward" restructuring initiative that was announced on July 27, 2020 (note 19).

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

The movements in the provisions are as follows:

	Insurance Risk Retention	Restructuring	Warranty	Total
December 27, 2020	$ 23,179	3,706	$ 57,928	84,813
Additions	7,785	3,114	44,837	55,736
Amounts used/realized	(4,745)	(3,695)	(46,975)	(55,415)
Unused provision	(974)	(654)	—	(1,628)
Unwinding of discount and effect of changes in the discount rate	—	—	39	39
Exchange rate differences	(2)	14	92	104
January 2, 2022	$ 25,243	2,485	$ 55,921	$ 83,649
Additions	3,601	—	19,968	23,569
Amounts used/realized	(2,432)	(2,384)	(24,066)	(28,882)
Unused provision	—	—	—	—
Unwinding of discount and effect of changes in the discount rate	—	—	29	29
Exchange rate differences	—	—	(1,763)	(1,763)
	26,412	101	50,089	76,602
Less current portion (note 7)	—	101	18,002	18,103
July 3, 2022	$ 26,412	$ —	$ 32,087	$ 58,499

9. INCOME TAX EXPENSE

The income tax recovery for 2022 Q2 is $17.6 million compared to income tax expense of $8.0 million in 2021 Q2. The income tax recovery is primarily due to reduced earnings before taxes, and the benefit arising from the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%.

The income tax recovery for 2022 Q2 YTD is $26.3 million, compared to a $15.6 million expense in 2021 Q2 YTD.The increase in the overall income tax recovery is primarily due to reduced earnings before taxes, the absence of base erosion and anti-abuse tax and foreign tax credit write-off, combined with the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%, which negatively impacted the 2021 Q2 YTD Effective Tax Rate ("ETR").

The ETR for 2022 Q2 was 23.7% and the ETR for 2021 Q2 was 75.6%. The ETR for 2022 Q2 YTD was also 23.7% and the ETR for 2021 Q2 YTD was 61.9%. The 2022 Q2 YTD ETR is positively impacted by the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25%, combined with the absence of the detrimental impact due to base erosion and anti-abuse tax and foreign tax credit write-off which negatively impacted 2021 Q2 YTD.

10. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value July 3, 2022**	Net Book Value January 2, 2022
Revolving Credit Facility, Secured (“Credit Facility”)	690,000	2,039	687,961	586,649
Revolving Credit Facility, Secured ("UK Facility")	30,413	235	30,178	(238)
	720,413	2,274	718,139	586,411

10. LONG-TERM DEBT (Continued)

The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. At July 3, 2022, the Credit Facility included a $300 million minimum liquidity requirement. $11.8 million of outstanding letters-of-credit were drawn against the Credit Facility at July 3, 2022. The Credit Facility bears interest at a rate equal to LIBOR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on August 2, 2024.

On May 4, 2020 NFI entered into the £50 million secured, revolving UK Facility to support ADL's operations in the UK. Amounts drawn under the UK Facility bear interest at a rate equal to LIBOR plus an applicable margin. The UK Facility matures on December 23, 2023.

On December 2, 2021, the Company amended the Credit Facility and the UK Facility (together the "amended facilities"). The amended facilities provide the Company with certain relaxed financial covenants as it recovers from the impacts of the COVID-19 pandemic. On July 29, 2022, the Company amended the Credit Facility and the UK Facility. (Note 20)

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

	Face Value	Unamortized Transaction Costs	**Net Book Value July 3, 2022**	Net Book Value January 2, 2022
Convertible Debt	233,097	8,150	224,947	225,768
Cash Conversion Option	10,494	1,169	9,325	20,618
	243,591	9,319	234,272	246,386

12. SHARE CAPITAL

	July 3, 2022	January 2, 2022
Authorized - Unlimited		
Issued - 77,140,526 Common Shares (January 2, 2022: 77,130,747)	$ 988,080	$ 987,943

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

Shares	Number (000s)	Net Book Value
Balance - January 2, 2022	77,131	$ 987,943
Director RSUs exercised	10	137
Balance - July 3, 2022	77,141	$ 988,080

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

13. (LOSS) EARNINGS PER SHARE

	2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
Net (loss) earnings attributable to equity holders	$ (56,740)	$ 2,587	$ (84,808)	$ 9,620
Weighted average number of Shares in issue	77,140,467	70,985,041	77,137,762	68,010,530
Add: net incremental Shares from assumed conversion of stock options, exercise of Director RSUs and Share issuance	—	166,002	—	184,260
Weighted average number of Shares for diluted earnings per Share	77,140,467	71,151,043	77,137,762	68,194,790
Net (loss) earnings per Share (basic)	$ (0.7355)	$ 0.0364	$ (1.0994)	$ 0.1414
Net (loss) earnings per Share (diluted)	$ (0.7355)	$ 0.0364	$ (1.0994)	$ 0.1411

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

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

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
Accounts receivable	$ 121,531	$ 49,715	$ 120,420	$ 50,199
Income tax receivable	(183)	—	(1,961)	—
Inventories	(130,865)	(20,006)	(199,184)	(7,537)
Prepaid expenses and deposits	(2,722)	(3,992)	(10,359)	(6,181)
Accounts payable and accrued liabilities	45,303	24,824	22,231	(81,616)
Income tax payable	72	—	772	—
Deferred revenue	39,308	17,021	46,929	846
Provisions	(3,477)	(1,581)	(7,047)	(4,395)
Other	(7,433)	(4,140)	(1,775)	(3,698)
	$ 61,534	$ 61,841	$ (29,974)	$ (52,382)

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.

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	July 3, 2022		
	Fair value level	Carrying amount	Fair value
Financial assets recorded at fair value			
Cash	Level 1	$ 50,274	$ 50,274
Long-term restricted deposit	Level 1	$ 25,300	$ 25,300
Foreign exchange forward contracts	Level 2	$ 2,190	$ 2,190
Derivative financial instrument assets - current		$ 2,190	$ 2,190
Interest Rate Swap	Level 2	$ 18,415	$ 18,415
Derivative financial instrument asset - long term		$ 18,415	$ 18,415
Financial liabilities recorded at fair value			
Equity Hedge	Level 2	$ 2,202	$ 2,202
Derivative financial instrument liabilities - current		$ 2,202	$ 2,202
Cash Conversion Option	Level 2	$ 9,326	$ 9,326
Equity Hedge	Level 2	$ 898	$ 898
Derivative financial instrument liabilities - long term		$ 10,224	$ 10,224

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

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 RSUs and a portion of the outstanding performance share units ("PSUs"), and deferred share units ("DSUs"). The total return swaps have a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company.

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

As at July 3, 2022, the Company held a position of 257,612 Shares at a weighted average price of C$28.93.

At July 3, 2022, the Company had $32.3 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, or GBP). These foreign exchange contracts range in expiry dates from July 2022 to December 2022. The related asset of $2.2 million (January 2, 2022: $0.4 million) is recorded on the statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net (loss) income and total comprehensive (loss) income.

(c) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At July 3, 2022 the Company had a cash balance of $50.3 million (January 2, 2020: $77.3 million), $690.0 million under the Credit Facility due in 2024 (January 2, 2022: $588.8 million), $30.4 million under the UK Facility (January 2, 2022: $nil), and $11.8 million of outstanding letters of credit (January 2,2022: $11.8 million). In addition, there are $61.5 million of the letters of credit outstanding outside of the Credit Facility. The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. The UK Facility has a total borrowing limit of £50.0 million. The liquidity position as at July 3, 2022 is $628.5 million, without consideration given to the minimum liquidity requirement under the Facilities of $300 million.

The Company's principal sources of funds are cash generated from its operating activities, share and other issuances and borrowing capacity remaining under the credit facilities. At July 3, 2022, the Company was in detailed discussions with its banking partners to obtain covenant relief extending into the first half of 2023. Management believes that, with the anticipated covenant relief, these sources of funds together with access to equity and debt markets and other borrowings will provide NFI with sufficient liquidity and capital resources to meet its current and future financial obligations as they come due, as well as to provide for its financing requirements, capital expenditures and other needs for the foreseeable future.

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

US dollars in thousands	Total	2022	2023	2024	2025	2026	Post 2026
Leases	245,924	16,115	28,617	23,726	19,962	17,313	140,191
Accrued benefit liability	5,512	5,512					
	$ 251,436	$ 21,627	$ 28,617	$ 23,726	$ 19,962	$ 17,313	$ 140,191

Credit risk

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

		July 3, 2022		January 2, 2022
Current, including holdbacks	$	247,426	$	375,056
Past due amounts but not impaired				
1 – 60 days		13,996		15,857
Greater than 60 days		5,746		5,892
Less: Allowance for doubtful accounts		(99)		(270)
Total accounts receivables, net	$	267,069	$	396,535

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

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

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2022 and 2023 have been relaxed, furthermore, the total net debt to capital ratio will no longer be required starting in the third quarter of 2022. During the quarter, the Company received consent from its lenders to waive compliance with the total leverage and interest coverage ratio until August 2, 2022.

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

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

The calculation of the liquidity position, without consideration given to the minimum liquidity requirements under the amended facilities at July 3, 2022 is provided below. As at July 3, 2022, the Company was in compliance with the requirements under the amended facilities.

	July 3, 2022	January 2, 2022
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2021: 0.70:1.00])	0.46	0.37

US dollars in thousands		**July 3, 2022**		January 2, 2022
Liquidity Position (must be greater than $300 million)	$	628,532	$	794,332

Due to the ongoing uncertainty created by continuing supply chain disruptions, including near-term electronic control modules operated with microprocessors shortages, related inflationary pressures, and the impact of a fire disrupting the Company's battery supplier, the Company expected its ability to comply with certain financial covenants in Fiscal 2022 to be challenged. On July 29, 2022, the Company has agreed to amend the credit facilities with its banking partners (note 20) .

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.

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

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 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 Manufacturing Operations segment has recorded vendor rebates of $252 (Q2 2021: $1,344), which have been recognized into earnings during 2022, but for which the full requirements for entitlement to these rebates have not yet been met.

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

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

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

Segment information about profits and assets is as follows:

	2022 Q2			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 283,778	$ 114,174	—	$ 397,952
Operating costs and expenses	362,101	96,292	13,894	472,287
(Loss) earnings before income tax expense	(78,323)	17,882	(13,894)	(74,335)
Total assets	1,859,940	470,273	295,947	2,626,160
Addition of capital expenditures	959	3,273	—	4,232
Addition of goodwill and intangibles assets	2,214	—	—	2,214
Indefinite-life intangible assets	243,956	18,284	—	262,240
Goodwill	325,895	187,780	—	513,675

	2022 Q2 YTD			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 610,413	$ 246,869	—	$ 857,282
Operating costs and expenses	743,869	210,385	14,176	968,430
(Loss) earnings before income tax expense	(133,456)	36,484	(14,176)	(111,148)
Total assets	1,859,940	470,273	295,947	2,626,160
Addition of capital expenditures	7,167	3,273	—	10,440
Addition of goodwill and intangibles assets	3,529	—	—	3,529
Indefinite-life intangible assets	243,956	18,284	—	262,240
Goodwill	325,895	187,780	—	513,675

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

16. SEGMENT INFORMATION (Continued)

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

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

The Company's revenue by geography is summarized below:

	2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
North America	$ 320,554	$ 452,174	$ 654,587	$ 923,913
UK and Europe	63,772	93,738	178,470	177,862
Asia Pacific	13,626	36,882	24,225	55,138
Other	—	—	—	—
Total	$ 397,952	$ 582,794	$ 857,282	$ 1,156,913

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

	2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
Transit buses	$ 199,143	338,763	$ 463,857	$ 697,511
Motor coaches	71,259	96,159	122,048	170,047
Medium-duty and cutaway buses	6,550	11,128	14,495	22,330
Pre-owned coach	929	6,786	1,701	16,822
Infrastructure solutions	4,364	5,273	4,975	9,170
Fiberglass reinforced polymer components	1,533	1,181	3,337	2,605
Manufacturing revenue	$ 283,778	$ 459,290	$ 610,413	$ 918,485

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 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 July 3, 2022 range from July 2022 to December 2026.

At July 3, 2022, outstanding surety bonds guaranteed by the Company totaled $342.9 million (January 2, 2022: $375.9 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

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

As at July 3, 2022, letters of credit in the UK totaling $36.9 million were outstanding as security obligations of the Company outside of the UK facility (January 2, 2022: $40.6 million). Additionally, there are $25.3 million of letters of credit outstanding outside of the Credit Facility.

As at July 3, 2022, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

(d) Through the normal course of operations, the Company has guaranteed payments and residual values to third party lenders on behalf of customers. As at July 3, 2022, the Company had guaranteed $3.0 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. GOVERNMENT GRANTS

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

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

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

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

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

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

18. GOVERNMENT GRANTS (Continued)

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

		2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
Canada Emergency Wage Subsidy (CEWS)					
Cost of sales	$	—	13,400	—	29,800
Selling, general and administration costs and other operating expenses	$	—	2,100	—	4,400
Total	$	—	15,500	—	34,200
Coronavirus Job Retention Scheme (CJRS)					
Cost of sales	$	—	1,700	—	4,700
Selling, general and administration costs and other operating expenses	$	—	0	—	100
Total	$	—	1,700	—	4,800
Canada Emergency Rent Subsidy (CERS)					
Selling, general and administration costs and other operating expenses	$	—	700	—	700
Total	$	—	700	—	700
Total government grants - cost of sales	$	—	15,100	—	34,500
Total government grants - selling, general and administration costs and other operating expenses	$	—	2,800	—	5,200
Total government grants	$	—	17,900	—	39,700

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

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

19. RESTRUCTURING

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

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.

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

19. RESTRUCTURING (Continued)

The items included in net loss for NFI Forward and NFI Forward 2.0 are as follows:

	2022 Q2	2021 Q2	2022 Q2 YTD	2021 Q2 YTD
Employee termination benefits	$ 632	$ 97	$ 676	$ 486
Right-of-use asset and property, plant and equipment impairments	3,808	—	3,808	1,661
Write-down of inventory to net realizable value	—	—	—	208
Pension liability	7,000	—	7,000	—
Other	1,595	69	1,647	183
Total restructuring costs	$ 13,035	$ 166	$ 13,131	$ 2,538

20. SUBSEQUENT EVENT

On July 29, 2022, the Company amended the Credit Facility and the UK Facility (together the "new amended facilities"). The new amended facilities provide the Company with relaxed covenants through 2023 as the Company navigates supply chain disruptions, heightened inflation, and other impacts of the COVID-19 pandemic.

The terms of the new amended facilities will not restrict the payment of dividends, provided the Company is in compliance with the financial covenants, a cumulative Free Cash Flow test that begins in 2023 Q2, and the dividend payments remain at the current level for the remainder of the agreements (expiring in August 2024). The terms of the amended Credit Facilities do not permit any acquisitions until 2024 and permit a maximum of $50 million in annual capital expenditures.

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

	Total Leverage Ratio	Interest Coverage Ratio	Total Net debt to Capitalization	Minimum Cumulative Adjusted EBITDA	Minimum Liquidity
July 4, 2022 - October 2, 2022	N/A	N/A	<.70	N/A	$250,000
October 3, 2022 - January 1, 2023	<5.00	>1.50	<.60	>$45,000	250,000
January 2, 2023 - April 2, 2023	<5.00	>1.50	N/A	>$80,000	250,000
April 3, 2023 - July 2, 2023	<5.00	>1.50	N/A	>$125,000	250,000
July 3, 2023 - October 1, 2023	<4.50	>2.00	N/A	N/A	250,000
October 2, 2023 - December 31, 2023	<4.00	>2.50	N/A	N/A	250,000
January 1, 2024 - March 31, 2024 and thereafter	<3.75	>3.00	N/A	N/A	50,000

The Company has determined that this event is a non-adjusting subsequent event. Accordingly, the financial position and results of operations as of and for the 13- and 26-weeks ended July 3, 2022 have not been adjusted to reflect their impact.