Financial Results
Fiscal 2023

February 29, 2024

Dear shareholders and stakeholders,

Throughout 2023, we displayed our resiliency and drive towards business recovery to deliver for our employees, customers, shareholders, and communities, truly living up to NFI's purpose: To Move People, the world's most precious cargo.

With our focus on the long-term, we completed our comprehensive refinancing plan in August 2023, raising total gross proceeds of approximately $444 million, allowing us to improve our liquidity, strengthen our balance sheet, increase our financial flexibility, and establish a covenant profile matched to our projected financial trajectory. We took this support as a strong signal that NFI investors believe in our business and our future.

Supply disruption has plagued our industry since 2021, and, when combined with heightened inflation, led to a number of our competitors exiting the U.S. market. Through the dedicated actions of our team, we have navigated through these challenges and, in 2023 versus 2022, saw a 19% increase in year-over-year vehicle deliveries, improvements to weekly vehicle line entry rates, and a reduction in work-in-process inventory. We ended the year with only a handful of high-risk/high-impact suppliers and have seen significant improvement in on-time supply performance and parts availability. While labour markets have also been challenging, we managed to significantly reduce employee turnover in 2023, and added required labour to NFI's global team to support production ramp up.

The Aftermarket business, which supports over 100,000 vehicles in service, continued its extremely strong performance, delivering a record $500 million of revenue, $120 million of Adjusted EBITDA[NG] and $102 million of net earnings in 2023. The Aftermarket team was critical in keeping our customers operating as our customers' businesses and ridership also recovered.

NFI ended 2023 with a total backlog[NG] of over 10,500 equivalent units ("EUs") valued at nearly $8 billion, our highest level ever, with zero-emission buses ("ZEB") representing 36% of our total backlog[NG]. In 2023, we secured new ZEB orders in Toronto, Ottawa, Baltimore, Boston, Miami, Philadelphia, Phoenix, Washington, London (UK), Ireland, Scotland, Hong Kong, and from many others. At year end, we were also advised by customers that over 3,800 EUs were to be awarded to NFI with contractual documents not yet received and therefore not yet added to backlog[NG]. The demand environment remains healthy, and we expect the first quarter of 2024 to be even busier, with potential to record our highest number of quarterly awards ever, further enhancing our market-leading position.

Our teams continue to be relentless in their pursuit of deploying leading technology, seeking operational excellence, ensuring safety, and delivering the best for our customers, no matter the circumstances. During 2023, we launched several new models, including the game changing Alexander Dennis Enviro 400EV double deck, and the "big small bus" Enviro100EV, and relaunched double deck production for North America. We also met a critical milestone in 2023, surpassing over 150 million zero-emission miles driven by NFI buses and motor coaches, with nearly 450 chargers delivered since the inception of NFI Infrastructure Solutions™. We are extremely proud of our teams' efforts, and we thank you, our fellow stakeholders, for your ongoing support.

We remain committed to delivering a better product, a better workplace, and a better world through our environmental, social and governance ("ESG") initiatives. This included continuing to innovate and grow our broad portfolio of comprehensive mobility solutions to support our customers at various stages in their zero-emission journeys; maintaining our focus on safety; completing our third submission to CDP (formerly the Carbon Disclosure Project) and second submission to the S&P *(continued on next page ->)*

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

(-> continued) Global Corporate Sustainability Assessment; continued focus on talent acquisition and workforce developments efforts to meet higher production levels; a company-wide Employee Pulse Check survey; successful negotiation of two new collective bargaining agreements; an expanded supplier base and instating a Conflict and Critical Minerals Policy; and establishing a Sustainability Council, to give strategic leadership to NFI's ESG and sustainability programs. NFI was also proud to have ranked among Corporate Knights' Best 50 Corporate Citizens in Canada for the second year in a row.

As part of our ESG program, we are focused on driving and delivering long-term sustainable value for all our stakeholders. To ensure alignment, we evolved the executive performance share unit ("PSU") element of the long-term incentive plan ("LTIP") from being based solely on a return on invested capital ("ROIC") to now include a combination of ROIC, ESG, and Strategic performance targets.

There are still headwinds in the market, including labour availability and overall supply chain health, two critical areas of management focus and attention, but, as we look to Fiscal 2024, we expect to see continued improvement in our financial results with significant growth in Adjusted EBITDA[NG], a return to net profit, and a reduction in debt leverage ratios.

Our guidance range for Fiscal 2024 Adjusted EBITDA[NG] of $240 million to $280 million reflects our expectations for bus and coach manufacturing recovery and continued strong performance from the Aftermarket segment. These positives will somewhat offset by the delivery of remaining legacy inflation-impacted contracts which are planned for the first half 2024, and operational labour inefficiencies experienced as we ramp manufacturing production to meet heightened demand and execute on our secured backlog[NG].

After 9 years as a director on NFI's Board of Directors ("Board") and Chair of the Audit Committee, Phyllis Cochran will be retiring from the Board in May 2024 at the Annual General Meeting of Shareholders (the "Shareholders' Meeting"). On behalf of the Board and management, we extend a sincere thank you to Phyllis for her contributions, dedication, and leadership as a Director, Audit Chair, and partner to NFI. Ms. Anne Marie O'Donovan, FCPA, FCA, ICD, will be nominated as a new independent Director on NFI's Board. If Ms. O'Donovan is elected to the Board, she will also become the Chairperson of the Audit Committee of NFI. The materials for the Shareholders' Meeting and voting instructions will be sent to shareholders in advance of the meeting and will also be available on NFI's website.

As always, we remain proud of our history, excited about our future, and inspired by the positive impact of NFI on the communities in which it operates. NFI is the leader in this industry, and we plan to keep it that way. Thank you for your continued support.

Wendy Kei,
Chair, Board of Directors,
NFI Group Inc.

Paul Soubry
President & Chief
Executive Officer
NFI Group Inc.

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

NFI continued to innovate in 2023.

We had a few big firsts.

MCI delivered its first battery-electric J4500 CHARGE™ coach to a Canadian customer

Universal COACH LINE

Alexander Dennis formally launched the Enviro100EV and Enviro400EV

KMB celebrated its 90th birthday with the launch of its 1st next-generation Alexander Dennis Enviro500EV

KMB

And we continued to strengthen relationships with our stakeholders.

There is high demand for our vehicles, infrastructure, and services.

Buses & Coaches

NEW FLYER
MCI
ALEXANDER DENNIS
ARBOC SPECIALTY VEHICLES
PLAXTON

Infrastructure Solutions

NFI Infrastructure Solutions™

Workforce Development & Training

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

NFI

Parts, Publications & Service

NFI Service
AD24
nfi.parts

Financing

NFI Financial Solutions™

Connected Vehicles & Diagnostics

NFI Connect™
CONNECT 360

In 2023, we concentrated on these ESG priorities :

A better product.
A better workplace.
A better world.

- Focused on the shared vision of a zero-emissions future to accelerate EV adoption and support employment in underserved and socially vulnerable communities through partnership and collaboration with thought leaders and industry groups across our value chains;
- Established a Sustainability Council to give strategic leadership to NFI's ESG and sustainability programs, expanding our sustainability governance approach with an emphasis on risk management and strategic alignment to advance sustainable growth and climate action;
- Successfully negotiated new collective bargaining agreements with Unifor and GMB/Unite;
- In accordance with our Freedom of Association commitments, reached three first agreements with the Communications Workers of America and United Steelworkers Unions at our Jamestown, Shepherdsville, and Anniston facilities;
- Completed a company wide Employee Pulse Check Survey with a 65% response rate;
- Continued to innovate and grow our broad portfolio of comprehensive mobility solutions to support our customers at various stages in their zero-emission journeys;
- Explored opportunities amid sourcing challenges by diversifying our supplier base and focusing efforts on human rights and critical minerals by enhancing our Supplier Code of Conduct to and instating a Conflict and Critical Minerals Policy;
- Confirmed alignment to SASB industry-specific topics and to several TCFD recommended disclosure topics to support investor decision-making;
- Focused on significant talent acquisition, recruitment and talent pipeline and workforce developments efforts to meet higher production levels, with concentrated efforts in electrical technician training and partnering with industry trade associations to address skilled trade shortages;
- Continued to retrain and upskill our workforce for high-demand skills to support the transition to a zero-emission future by investing nearly $10m in total organizational expenditure;
- Retained focus on maintaining the highest priority for the health, safety, and well-being of our employees through consistent improvement efforts and the addition of our Carfair Winnipeg fabrication site to our ISO 14001 and 45001 registration;
- Completed our third annual disclosure to the CDP Climate Change questionnaire and our second annual disclosure to the S&P Global Corporate Sustainability Assessment;
- Changed the PSU performance metric for the LTIP in the Executive Compensation Program from being based solely on a ROIC target to a combination of ROIC, an ESG target, and a Strategic target;
- Built Diversity, Equity and Inclusion (“DEI”) maturity across the business through our Group DEI strategic framework commitments; and
- Contributed to community well-being through several employee led programs, in addition to our 6th North American United Way Campaign raising $422,253 for United Way agencies throughout North America.

NFI’s 6th annual ESG Report will be released in May 2024.

Notes to readers

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 13-WEEKS AND 52-WEEKS ENDED DECEMBER 31, 2023

Information in this Management's Discussion and Analysis ("MD&A") relating to the financial condition and results of operations of NFI Group Inc. and its subsidiaries (collectively referred to as "NFI" or the "Company") is supplemental to, and should be read in conjunction with, NFI's audited consolidated financial statements (including notes) (the "Financial Statements") for the 52-week period ended December 31, 2023, and has been prepared as of February 28, 2024.

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

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

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

Specific references and definitions are used throughout this MD&A, please see the Non-IFRS and Other Financial Measures section. References to LTM mean last-twelve months ("LTM"). Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), Invested Capital, net operating profit after taxes ("NOPAT"), *(continued on next page ->)*

Notes to readers

(-> continued) return on invested capital ("ROIC"), Free Cash Flow, Free Cash Flow per Share, Adjusted Net Loss, Adjusted Net Loss per Share, Total Liquidity, Banking Covenant Liquidity, Working Capital Days, Payout Ratio, Book-to-Bill ratio, Backlog, Total Leverage Ratio, Interest Coverage Ratio, Total Net Debt to Capitalization, Minimum Cumulative Adjusted EBITDA and Senior Secured Net Leverage Ratio are non-IFRS measures and should not be considered substitutes or alternatives for IFRS measures. These are not defined terms under IFRS and do not have standard meanings, so may not be a reliable way to compare NFI to other companies. Non-IFRS measures in this MD&A have been denoted with an "NG".

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

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

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

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

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

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

Leader in zero-emission transportation

150M+
Electric service miles driven

236
ZEB EUs delivered in 2023 Q4 (19% of total EUs delivered)

878
ZEB EUs delivered in Fiscal 2023

22%
of new EUs delivered in Fiscal 2023 were ZEBs

52%
of North American Public Bid Universe is ZEBs

3,603
ZEB EUs delivered since 2015

3,779
ZEB EUs in backlog[NG]

36%
of total backlog[NG] is ZEB EUs

150+
Cities have NFI ZEBs in service or on order

6
Countries have NFI ZEBs in service or on order

445+
EV chargers and 72* megawatts delivered via Infrastructure Solutions™ since 2018

17
Zero-emission bus and coach models offered by NFI

* In the Company's 2023 Q3 financial report, the total number of megawatts (MW) of charging capacity installed by NFI Infrastructure Solutions™ was incorrectly stated as 82 MW due to a calculation error. As of 2023 Q4, the total number of MW installed by NFI Infrastructure Solutions™ is 72 MW.

Fiscal 2023 Highlights (US$)

$2,685.2M
Total Revenue

$220.8M
Gross Profit

$136.2M
Net **Loss**

$63.8M
Cash Flow **Used In** Operating Activities

$1.48
Net **Loss** Per Share

6,121 EUs
in LTM New Orders

10,586 EUs
In Backlog[2]

4,001
EUs Delivered

$69.2M
Adjusted EBITDA[1]

($101.4)M
Free Cash Flow[1]

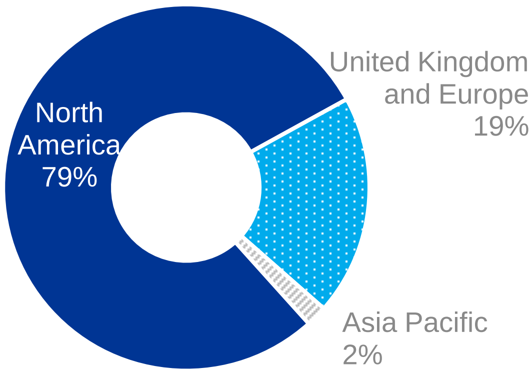
$188.2M
Liquidity [2][3]

$1.27
Adjusted Net **Loss** Per Share[4]

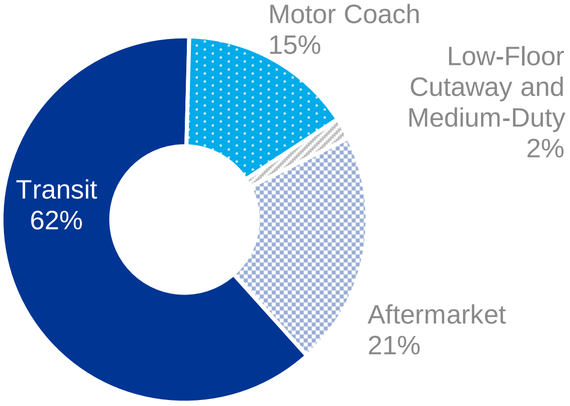
8,732 EUs
Active Bids

$7.9B
Value of Backlog[2]

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



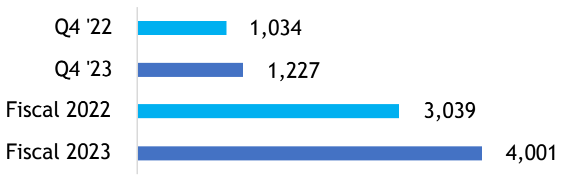
Revenue by Geography



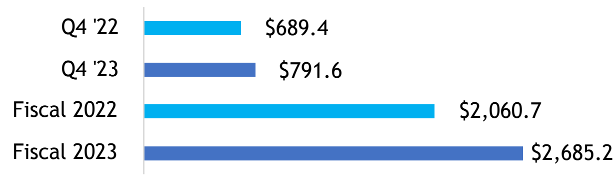
Revenue by Product

Key Performance Indicators

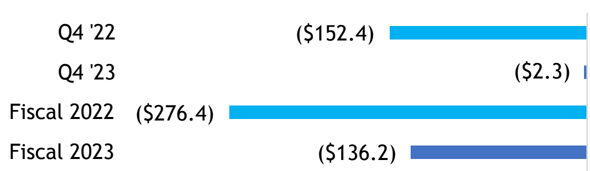
Deliveries (EUs)



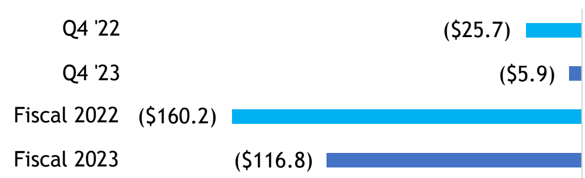
Revenue ($ millions)



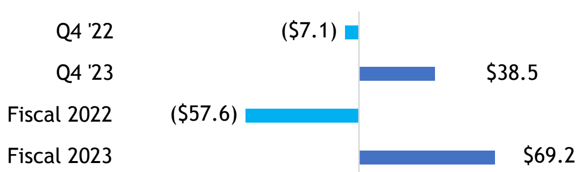
Net Loss ($ millions)



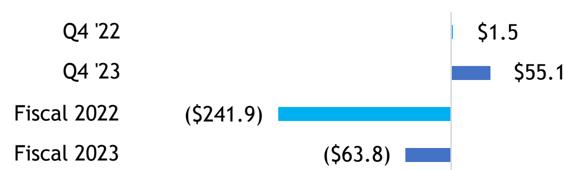
Adjusted Net Loss[NG] ($ millions)



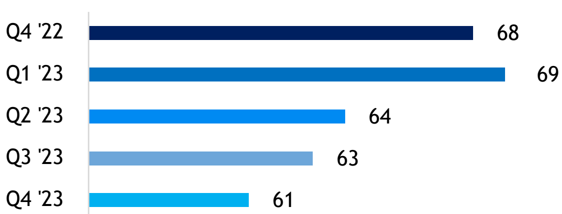
Adjusted EBITDA[NG] ($ millions)



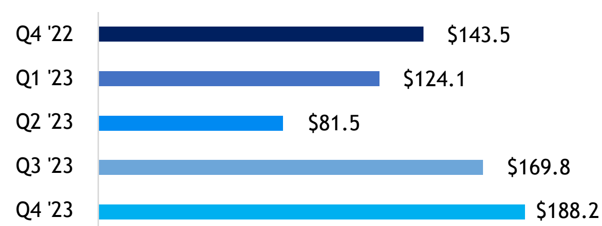
Net cash generated by (used in) operating activities ($ millions)



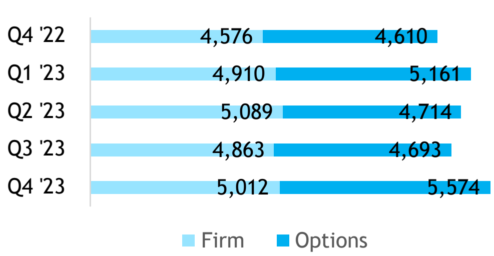
Working Capital Days[NG]



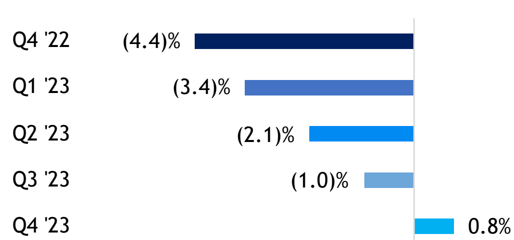
Total Liquidity[NG] ($ millions)



Backlog[NG] (EUs)



ROIC[NG]



Financial Results

NFI's 2023 fourth quarter financial results saw sequential and year-over-year improvement with increases in vehicle deliveries, revenue and gross profit. NFI continued to increase production rates in the fourth quarter of 2023 as the Company recovers from the impacts of global supply chain challenges, labour supply challenges, and associated production inefficiencies. This increase in production saw improvements to efficiencies supporting stronger absorption of overhead. NFI's financial performance in 2023 Q4 and throughout Fiscal 2023 was impacted by the aforementioned supply and labour challenges and production inefficiencies, and the impacts of inflation and rapid foreign exchange movements on select legacy contracts bid in 2020 and 2021. The remaining legacy contracts are expected to be completed in the first half of 2024. While these challenges negatively impacted results, there was significant improvement when compared to the same period in 2022, as overall supply chains showed improvement, and there were fewer production inefficiencies, supporting stronger absorption of overheads.

The Company's end markets remain strong, with significant order and award activity, a robust North American public bid environment, and unprecedented continued government funding for public transit across multiple markets. The Aftermarket segment experienced another strong period of performance, with year-over-year revenue and Adjusted EBITDA[NG] growth. Fiscal 2023 saw Aftermarket deliver its highest revenue and Adjusted EBITDA[NG] performance in NFI's history.

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

Deliveries (EUs)	2023 Q4	2022 Q4	*% Change*	Fiscal 2023	Fiscal 2022	*% Change*
Transit buses	923	764	*20.8 %*	2,942	2,253	*30.6 %*
Motor coaches	202	169	*19.5 %*	635	524	*21.2 %*
Medium-duty and cutaway	102	101	*1.0 %*	424	262	*61.8 %*
New vehicle deliveries	1,227	1,034	*18.7 %*	4,001	3,039	*31.7 %*
Pre-owned coach	37	68	*(45.6 %)*	236	190	*24.2 %*
Zero-emission deliveries (included in the above totals)	236	328	*(28.0 %)*	878	693	*26.7 %*
Zero-emission deliveries as a percentage of total new vehicle deliveries	19.2 %	31.7 %	*(39.4 %)*	21.9 %	22.8 %	*(3.8 %)*

Revenue ($ millions)	2023 Q4	2022 Q4	*% Change*	Fiscal 2023	Fiscal 2022	*% Change*
Transit buses	506.1	448.6	*12.8 %*	1,647.2	1,219.3	*35.1 %*
Motor coaches	121.7	97.7	*24.6 %*	390.8	296.2	*31.9 %*
Medium-duty and cutaway	14.4	12.8	*12.5 %*	50.7	31.7	*59.9 %*
Total New Vehicle Revenue	**642.2**	**559.1**	***14.9 %***	**2,088.7**	**1,547.2**	***35.0 %***
Pre-owned coach	5.8	5.2	*11.5 %*	21.6	12.8	*68.8 %*
Infrastructure Solutions™	5.1	2.7	*88.9 %*	11.0	8.5	*29.4 %*
Fiberglass reinforced polymer components	2.8	2.2	*27.3 %*	8.9	7.0	*27.1 %*
Manufacturing Revenue	**655.9**	**569.2**	***15.2 %***	**2,130.2**	**1,575.5**	***35.2 %***
Aftermarket	135.7	120.2	*12.9 %*	555.0	485.2	*14.4 %*
Total Revenue	**791.6**	**689.4**	***14.8 %***	**2,685.2**	**2,060.7**	***30.3 %***
North America	605.3	510.1	*18.7 %*	2,112.1	1,561.8	*35.2 %*
United Kingdom and Europe	164.2	165.2	*(0.6 %)*	523.4	440.8	*18.7 %*
Asia Pacific	22.1	14.1	*56.7 %*	49.7	58.1	*(14.5 %)*

Manufacturing revenue for 2023 Q4 increased by $86.7 million, or 15.2%, compared to 2022 Q4. The increase was largely driven by higher new vehicle deliveries and contribution from Infrastructure Solutions™. Quarterly deliveries saw improvement both year-over-year and sequentially for the fourth consecutive quarter. Manufacturing production and deliveries in 2023 Q4 and Fiscal 2023 were impacted by supply chain challenges, labour supply challenges, and related production inefficiencies, which created numerous bottlenecks and disruptions to parts availability. NFI has seen significant improvement in supplier performance and on-time production during the quarter, supporting NFI's continued ramp-up in vehicle production rates.

In Fiscal 2023, Manufacturing deliveries increased by 962 EUs, or 31.7%, with increases in all product categories driving a 35.4% increase in new vehicle revenue.

For Fiscal 2023, overall zero-emission bus and coach deliveries increased by 26.7%, but were down year-over-year in the fourth quarter, reflecting sales mix with higher diesel and compressed natural gas deliveries in the period. ZEBs as a percentage of total new vehicle deliveries declined slightly for Fiscal 2023 as the Company increased total deliveries by 31.7%. Growth in motor coach and medium-duty cutaway deliveries, which are earlier in the transition to zero-emission technology and utilize more traditional propulsion systems, contributed to this overall lower percentage.

Quarterly revenue of the Company's Infrastructure Solutions™ division increased by $2.4 million. The increase is primarily due to the timing of revenue recognition on open contracts. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 415 plug-in and 35 overhead charger projects, for 64 different customers.

Aftermarket revenue for 2023 Q4 increased by $15.5 million, or 12.9% compared to 2022 Q4. The increase is mainly related to increased volume in the North America region and dynamic pricing adjustments due to heightened inflation on parts. In Fiscal 2023, the Aftermarket segment delivered its highest revenue performance ever. During this period, the Company also benefitted from retrofit programs in North America and continued to benefit from a multi-year retrofit program in the Asia-Pacific region, but at a lower run rate than those seen in Fiscal 2022.

Net Earnings (Loss) ($ millions, except per share amounts)	2023 Q4	2022 Q4	*% Change*	Fiscal 2023	Fiscal 2022	*% Change*
Manufacturing	8.9	(147.1)	*106.1 %*	(96.5)	(309.5)	*68.8 %*
Aftermarket	24.7	18.6	*32.8 %*	101.7	67.0	*51.8 %*
Corporate	(35.9)	(23.9)	*(50.2 %)*	(141.4)	(33.9)	*(317.1 %)*
Net Loss	**(2.3)**	**(152.4)**	***98.5 %***	**(136.2)**	**(276.4)**	***50.7 %***
Adjusted Net Loss[NG]	(5.9)	(25.7)	*77.0 %*	(116.8)	(160.2)	*27.1 %*
Net Loss per Share	(0.02)	(1.98)	*99.0 %*	(1.48)	(3.58)	*58.7 %*
Adjusted Net Loss per Share[NG]	(0.05)	(0.33)	*84.8 %*	(1.27)	(2.08)	*38.9 %*

Adjusted EBITDA[NG] ($ millions)	2023 Q4	2022 Q4	*% Change*	Fiscal 2023	Fiscal 2022	*% Change*
Manufacturing	11.1	(30.5)	*136.4 %*	(42.1)	(149.2)	*71.8 %*
Aftermarket	29.5	22.9	*28.8 %*	120.2	86.2	*39.4 %*
Corporate	(2.1)	0.5	*(520.0 %)*	(8.9)	5.4	*(264.8 %)*
Total Adjusted EBITDA[NG]	**38.5**	**(7.1)**	***642.3 %***	**69.2**	**(57.6)**	***220.1 %***
Adjusted EBITDA[NG] as a percentage of revenue						
Manufacturing	1.7 %	(5.4 %)	*131.6 %*	(2.0 %)	(9.5 %)	*79.1 %*
Aftermarket	21.7 %	19.1 %	*14.1 %*	21.7 %	17.8 %	*21.9 %*
Total	**4.9 %**	**(1.0 %)**	***572.2 %***	**2.6 %**	**(2.8 %)**	***192.2 %***

In 2023 Q4, Manufacturing Adjusted EBITDA^NG increased by $41.6 million, or 136.4%, compared to 2022 Q4. The increase was driven by significantly improved gross margins from higher overall deliveries, favourable sales mix, and a lower number of legacy inflation-impacted contracts. Manufacturing experienced net earnings of $8.9 million in 2023 Q4 compared to a net loss of $147.1 million in 2022 Q4. The change in Manufacturing net earnings from 2022 Q4's net loss was primarily due to a goodwill impairment charge of $103.9 million related to ARBOC and AD recognized in 2022 Q4 and the Company's decision not to close MCI's Pembina facility, which resulted in a reversal of $7 million of closure costs in 2023 Q4. Also contributing to the improvement are the same items that impacted Manufacturing Adjusted EBITDA^NG. The increase in Fiscal 2023 Manufacturing Adjusted EBITDA^NG is attributable to the same items that impacted quarterly increases.

The 2023 Q4 Aftermarket segment achieved record Adjusted EBITDA^NG of $29.5 million, a $6.6 million, or 28.8%, year-over-year increase. The increase in Adjusted EBITDA^NG was primarily due to improved sales volume and favourable product mix. Dynamic pricing, reduced freight costs, and higher demand for parts has also contributed to the increase in Adjusted EBITDA^NG. The 2023 Q4 Aftermarket net earnings increased by $6.1 million, or 32.8%, primarily due to the same items that impacted Aftermarket Adjusted EBITDA^NG. Increases in net earnings and Adjusted EBITDA^NG for Fiscal 2023 are primarily due to the same items that impacted quarterly increases.

The 2023 Q4 Corporate Adjusted EBITDA^NG decreased by $2.6 million compared to 2022 Q4, primarily due to increased professional fees, insurance, and incentive compensation, partially offset by a decrease in realized foreign exchange gains. Corporate net loss increased by $12.0 million compared to 2022 Q4, primarily due to increased interest on long-term debt, and unfavourable fair value adjustments to the Company's convertible debenture cash conversion option, offset by accounting gains on the debt modification of the Company's Secured Facilities[1] as a result of Refinancing. In Fiscal 2023, Corporate Adjusted EBITDA^NG decreased due to the same items that impacted quarterly results. The Fiscal 2023 net loss increased due to higher interest and finance costs incurred compared to Fiscal 2022 offset by an accounting gain on the debt modification of Secured Facilities, as discussed above.

Free Cash Flow^NG and net cash generated by (used in) operating activities ($ millions, except per share amounts)	2023 Q4	2022 Q4	*% Change*	Fiscal 2023	Fiscal 2022	*% Change*
Net cash generated by (used in) operating activities	55.1	1.5	*3,573.3 %*	(63.8)	(241.9)	*73.6 %*
Free Cash Flow^NG	2.7	(23.9)	*111.3 %*	(101.4)	(169.0)	*40.0 %*
Free Cash Flow^NG (CAD dollars)	3.6	(32.3)	*111.1 %*	(134.8)	(223.1)	*39.6 %*
Declared Dividends (CAD dollars)	-	-	*0.0 %*	-	12.3	*(100.0 %)*
Free Cash Flow per Share^NG (CAD dollars)	0.03	(0.42)	*107.1 %*	(1.47)	(2.89)	*49.1 %*
Dividends per Share (CAD dollars)	-	0.00	*0.0 %*	-	0.16	*(100.0 %)*
Payout Ratio^NG (Declared Dividends divided by Free Cash Flow)	0.0 %	0.0 %	*0.0 %*	0.0 %	(5.5 %)	*100.0 %*

Free Cash Flow^NG in 2023 Q4 increased by $26.6 million, or 111.3%, compared to 2022 Q4, mainly due to increased cash generated by operating activities for the period offset by an increase in interest paid, income taxes, and cash capital expenditures.

Cash generated by operating activities in 2023 Q4 was $55.1 million, an increase of $53.6 million or 3,573.3%, compared to cash generated by operating activities in 2022 Q4 of $1.5 million. The increase is mainly due to a significant decrease in net losses. Also contributing is an increase in changes to non-cash working capital offset by increases in interest paid. The Fiscal 2023 net cash used in operating activities decreased by 73.6% compared to Fiscal 2022, primarily due to a decrease in net losses offset by interest paid, income taxes, and cash capital expenditures.

	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4
Working Capital Days^NG	61	63	64	69	68
Total Liquidity^NG ($ million)	$188.2	$169.8	$81.5	$124.1	$143.5
Backlog^NG (EUs)	10,586	9,556	9,803	10,071	9,186
ROIC^NG	0.8 %	(1.0 %)	(2.1 %)	(3.4 %)	(4.4 %)

Footnotes:

1. As described in the Capital Allocation section on page 36

As part of the Company's increased focus on cash conversion and leverage reduction, the Company is actively focused on reducing Working Capital Days[NG]. In 2023 Q4, Working Capital Days[NG] were 61, compared to 63 at the end of 2023 Q3, and 68 at the end of 2022 Q4. The decrease in Working Capital Days[NG] in 2023 Q4 compared to 2023 Q3 is mostly attributable to the increase in sales over the last twelve months, offset by an increase in average working capital balances. The increase of average working capital is primarily due to increases in accounts receivable as the Company had higher deliveries compared to 2023 Q3. As a result of these higher deliveries, work-in-progress has decreased from 2023 Q3, while raw materials has increased to support increased production levels. NFI is continuing focused efforts to lower work-in-process inventory and accelerate customer acceptance programs to lower working capital balances and improve Working Capital Days[NG].

The Company's liquidity[NG] position, which combines cash on-hand plus available capacity under its Secured Facilities[1], without consideration given to the minimum banking liquidity[NG] requirement of $50 million under the Secured Facilities[1], was $188.2 million at the end of 2023 Q4, up $18.4 million from the end of 2023 Q3. Total liquidity[NG] improved as cash generated by operating activities being used to make repayments on the Company's North American and UK Secured Facilities[1].

At the end of 2023 Q4, the Company's total backlog[NG] (firm and options) was 10,586 EUs, a 10.8% increase compared to 9,556 EUs at the end of 2023 Q3, and an increase of over 1,000 EUs from 2022 Q4. The year-over-year increase was driven by higher awards in the period and less cancellations/expiry of options. Backlog[NG] for 2023 Q4 had a total dollar value of $7.9 billion. In addition, there were 3,832 EUs of new firm and option orders that were in bid award pending at the end of 2023 Q4, up from the 1,834 EUs as of the end of 2023 Q3. These are orders where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet received by the Company and therefore not recorded in Backlog[NG].

Fiscal 2023 ROIC[NG] increased by 5.2% from Fiscal 2022, due to the increase in Adjusted EBITDA[NG] and a slight decrease in the invested capital base[NG]. The decrease in invested capital[NG] is primarily due to a decrease in long-term debt and cash as the Company has made repayments on its Secured Facilities[1] and Senior Unsecured Debt[2]. Also contributing is an elimination of the Company's interest rate swaps and equity hedge, which were extinguished during the year.

Footnotes:

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

2023 Q4 Highlights

The fourth quarter of 2023 saw significant improvement in year-over-year vehicle deliveries, revenue, gross profit and Adjusted EBITDA[NG], as the Company continues to recover from the challenges of supply disruption and heightened inflation that has impacted operations and results over the past few years. The demand environment remained very strong in the quarter, with higher new orders, higher contract pricing, and near-record bid activity. NFI also grew its backlog[NG] to 10,586 EUs valued at $7.9 billion.

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

NFI's Aftermarket segment delivered a record performance in Fiscal 2023, with its highest revenue and Adjusted EBITDA ever as NFI benefitted from heightened demand in various jurisdictions, a reflection of more vehicles being put into service as transit agencies and private operators increased service levels, an increase in overall fleet age due to lower industry deliveries in 2020, 2021, and 2022, and customers purchasing additional parts inventory to avoid supply shortages.

As of the end of 2023 Q4, NFI had 8,566 team members across all of its global locations.

Strong Market Demand and Increasing Procurements

Demand metrics remained strong in 2023 Q4. While new orders were down 8.4% from 2022 Q4, they were up 143.4% from 2023 Q3. Active bids of 8,732 EUs were down from both 2022 Q4 and 2023 Q3, but bids submitted were up 43.0% year-over-year. The Company also had 3,832 EUs in bid awards pending (where NFI had received notification of award from the customer, but formal purchase order documentation had not yet been finalized) as at the end of 2023 Q4. This positions NFI for another expected quarter of strong backlog[NG] growth in the first quarter of 2024.

NFI's Total Public Bid Universe for North America was at an all-time high of 30,830 EUs generating another consecutive quarter of record EUs. *See Appendix B for details.*

Given the highly customized nature of NFI's products, there is significant lead time between when an order is received and when a vehicle is delivered. Generally, in North America, NFI will begin production on an order six to twelve months after it is awarded. In international markets, this lead time can be anywhere from three to eight months. During 2020 to 2022, the time between receipt of an order and production was extended even further than under typical circumstances due to the impacts of the pandemic and supply disruption. 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. This timing structure also saw NFI's Manufacturing segment experience inflation impacts related to legacy contracts, originally bid in 2020 and 2021. The Company has nearly completed delivery of these legacy contracts, with a significant number delivered in 2023 impacting NFI's financial performance.

Efforts to Strengthen Bus Manufacturing in the U.S.

In October 2023, the American Public Transportation Association ("APTA") created a Bus Manufacturing Task Force ("Task Force") to recommend immediate actions that can support a more competitive and stable bus manufacturing capacity in the U.S. This Task Force was assembled in response to a reduction in heavy-duty transit bus capacity in the U.S. following the exit of two players and the bankruptcy of another. These changes have led to a capacity decrease in the U.S. and improvements to NFI's overall competitive position. NFI is a member of this Task Force along with several other manufacturers, suppliers, and transit agencies.

Subsequent to the quarter, on February 7, 2024, the White House, in coordination with APTA and the Federal Transit Administration ("FTA") convened a Roundtable on Clean Bus Manufacturing. APTA and other members of the Task Force, including NFI, presented to the White House and provided recommendations on how to improve the financial health of U.S. manufacturers. These recommendations included the ability to complete pricing adjustments to reflect inflationary pressure on contracts bid from 2020 to 2023, the incorporation of progress payments (deposits, advances, and milestone payments), and pricing adjustments to future contracts to reflect price inflation or deflation.

Following the Roundtable, the FTA released a Dear Colleague letter to U.S. public transit agencies, describing actions the FTA is taking to strengthen the American bus manufacturing industry, reduce vehicle contract costs, and shorten vehicle delivery times to public transit agencies. The proposed changes included within the APTA recommendations and the FTA Dear Colleague letter may have a positive impact on NFI's financial performance in future periods, especially as it relates to working capital investments. These potential changes are further discussed in the Outlook of this MD&A.

Zero-Emission Mobility—The *ZE*volution™

As at the end of 2023 Q4, NFI had 3,779 EUs of ZEBs in the backlog[NG], representing 35.7% of the total backlog[NG], down slightly from the record of 36.4% as at the end of 2023 Q1, but up from 28.6% at the end of 2022 Q4. As of 2023 Q4, 52.4%, of the Total Bid Universe was ZEBs, an increase of 3.1% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs. NFI sells buses to all of the 25 largest transit authorities in North America and has electric vehicles in service with 17 of these transit agencies. NFI also serves all of the UK's major transit and coach operators.

Within the fourth quarter of 2023, the Company announced zero-emission vehicle orders with customers in the US, the UK and Hong Kong. In Fiscal 2023, NFI delivered 878 zero-emission EUs, a 26.7% increase from Fiscal 2022.

During the fourth quarter, the Company continued to innovate and position itself for future success in the zero-emission market:

- NFI announced a battery pack supply agreement with American Battery Solutions, to increase the resiliency of NFI's North American battery supply chain.
- New Flyer announced that it had designed the 60-foot zero-emission, battery-electric Xcelsior CHARGE NG™ to include additional battery strings, thereby increasing the range of the bus. The addition of the seventh and eighth battery strings to the Xcelsior CHARGE NG raises the total capacity of the bus's energy storage system by 33%, resulting in the addition of approximately 46 more miles of range per charge.
- NFI announced that NFI's subsidiaries New Flyer of America Inc., Motor Coach Industries, Inc., ARBOC Specialty Vehicles, LLC, and Alexander Dennis Incorporated are now qualified manufacturers for the commercial clean vehicle credit under the Inflation Reduction Act. NFI's electric vehicles in the United States are eligible for up to $40,000 USD in U.S. tax credits, per vehicle.
- Alexander Dennis launched its next generation of battery-electric buses for the UK and Ireland, unveiling the new Enviro100EV midibus and Enviro400EV double-deck bus, designed in house and using an integrated electric drive system.

On December 18, 2023, NFI held a formal event to announce financing from Prairies Economic Development Canada ("PrairiesCan"), part of the Government of Canada, to support innovation of zero-emission heavy-duty transit and coach offerings, as well as modernization upgrades to the MCI facility in Winnipeg. As first announced with NFI's 2023 Q2 financial results, NFI entered into an agreement for up to C$10 million in interest-free financing from PrairiesCan through Canada's Jobs and Growth Fund. The financing is non-interest-bearing and matures on March 1, 2030. The financing matches investments previously made by NFI into its zero-emission vehicle capabilities from late 2021 into 2023, and funds being invested into facility upgrades in 2024.

Subsequent Events

Subsequent to December 31, 2023, NFI entered into an agreement with EDC to increase the size of our Guarantee Facility from $100 million to $125 million. The Guarantee Facility is made up of Account Performance Security Guarantee ("Account PSG") up to $50 million and Surety Reinsurance Support up to $125 million. The aggregate amount of the Guarantee Facility cannot exceed $125 million.

On January 17, 2024, NFI provided an update on its fourth quarter 2023 deliveries, orders and backlog and an update on its financial guidance for 2024 and targets for 2025. Details are provided within the Outlook section.

On January 26, 2024, NFI entered into an agreement for a new interest rate swap to hedge its exposure to changing interest rates. The contract has a notional value of $500 million from January 26, 2024 until October 25, 2024, and thereafter a notional value of $450 million until its expiry on April 25, 2025. The swap carries an interest rate of 4.6%.

On February 8, 2024, NFI announced a Chief Financial Officer transition, with Brian Dewsnup being appointed as Executive Vice President and CFO of the Company effective March 1, 2024, succeeding previous CFO Pipasu Soni.

On February 9, 2024, NFI announced that it presented at the White House Roundtable on Clean Bus Manufacturing.

Outlook

NFI anticipates continued improvements to revenue, gross profit, Adjusted EBITDA[NG] and Free Cash Flow[NG], a shift to net earnings, and improvement in ROIC[NG] over the next 12 to 24 months, as it ramps-up production, delivers on its backlog[NG], and benefits from growing demand for its buses, coaches, parts, and Infrastructure Solutions™ services.

Market demand is evident through the high volume of active bus and motor coach procurements in both North America and international markets. As of 2023 Q4, the Company's North American active bids remained high at 8,732 EUs. This bid activity is expected to drive additional backlog[NG] growth throughout 2024, and revenue growth in the medium- and longer-term. The current five-year forecasted demand within the Company's North American bid universe is also strong at 22,098 EUs, and, when combined with active bids, provides a record Total Bid Universe of 30,830 EUs.

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

NFI is working closely with its suppliers to monitor performance, and, due to the Company's strong backlog, has been able to provide longer-term visibility to its supply base for 2024 production. As part of NFI's supplier development program, the Company provides a risk rating to all its key suppliers based upon their on-time delivery performance and other factors. NFI completes detailed monitoring of moderate and high-risk suppliers, who can have severe impacts on production operations. NFI has seen the number of these moderate and high-risk suppliers decrease from a combination of overall improvements to supply chain health and from actions taken by NFI's supply and sourcing teams, including keeping higher material inventory on hand. The Company also appointed a dedicated Vice President of Supplier Development, and, when combined with these improvements, support expected increases to 2024 production volumes.

In 2023 Q4, NFI continued increasing new vehicle production rates and hiring new team members to support this increase. While there has been positive improvement, the labour market within the United States and the UK remains challenging. NFI will continue to ramp-up production and add personnel on a phased approach in 2024 with gradual headcount additions ensuring that the ramp-up is matched to consistent supply and labour availability.

Gross margins and other profitability metrics are expected to improve in line with increases in production rates, increases to bus and coach deliveries, the reduction of work-in-progress vehicle inventory, and the completion of the remaining inflation-impacted legacy contracts. NFI anticipates that the remaining legacy inflation-impacted contracts will be delivered during the first half of 2024 and will represent approximately 10% of first half deliveries. The Company has seen signs of commodities and raw material costs easing and anticipates that newer contracts in NFI's backlog[NG] now reflect appropriate, inflation-adjusted costing and pricing.

Strong Government Support for Recovery and Zero-Emission Transition

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

The importance of long-term government funding in key markets cannot be understated, as it allows public transit agencies to proceed with confidence regarding their multi-year fleet replacement plans and capital asset procurements. In addition to funding, ridership trends have begun to recover. According to the APTA Ridership Trends Dashboard and a recent policy brief, national public transit ridership in the U.S. was up an average of 70% from pandemic levels from January through November 2023, recovering to more than 77% of pre-pandemic levels in November 2023. Continued recovery in ridership levels are important to support transit agencies operating costs, including the purchase of Aftermarket parts and service.

In the U.S., the Infrastructure Investment and Jobs Act ("IIJA") signed in 2021 includes $86.9 billion over five years for the FTA; the IIJA also authorized an additional $21.2 billion in supplemental appropriations from general revenues, for a total of $108 billion in FTA funding, a 63% increase from the previous government funding act. Generally, U.S. public agencies can secure up to 80% of the capital costs for a new transit bus from FTA funds, with the remaining 20% coming from state and local sources.

NFI continues to advance discussions with industry and government to improve bus manufacturing contract structures in the United States. In February 2024, NFI participated in a White House Roundtable on Clean Bus Manufacturing, and the U.S. FTA issued a Dear Colleague letter to transit agencies that receive federal funding for bus purchases. *Please see the 2023 Q4 Highlights section of this MD&A for more information.*

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

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

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

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

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

The Company also continues to focus on growing its NFI Infrastructure Solutions™ business to assist customers in assessing their charging infrastructure requirements and to project manage infrastructure procurement and installation. Since its inception, Infrastructure Solutions™ has been responsible for the delivery of 415 plug-in and 35 overhead charger projects, for a total of 72[1] megawatts ("MW") charging capacity, for 64 different customers. Currently, Infrastructure Solutions™ has projects under contract for 2024-2025 with 26 existing and 4 new customers, which will add 142 plug-in and 42 overhead depot chargers, for a total of 34 MW.

Other International Markets

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

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

Financial Guidance and Targets

NFI reiterates its previously provided financial guidance for Fiscal 2024 and targets for Fiscal 2025. Full details are provided in the table below.

[1] In the Company’s 2023 Q3 financial report, the total number of megawatts (MW) of charging capacity installed by NFI Infrastructure Solutions™ was incorrectly stated as 82 MW due to a calculation error. As of 2023 Q4, the total number of MW installed by NFI Infrastructure Solutions™ is 72 MW.

	2023 Results	2024 Guidance	2025 Targets
Revenue	$2.7 billion	$3.2 to $3.6 billion	~$4 billion
ZEBs (electric) deliveries as a percentage of total deliveries	22%	30% to 35%	~40%
Adjusted EBITDA[NG]	$69 million	$240 to $280 million	>$350 million *(with a $400 million annualized run rate by the fourth quarter)*
Cash Capital Expenditures (excludes lease payments)	$35 million	$50 to $60 million	~$55 million
Return on Invested Capital[NG] - provided for 2025 targets	0.8 %		>12%

The 2024 guidance ranges and the 2025 targets for selected financial metrics provided in the table above take into consideration management's current outlook combined with Fiscal 2023 and 2024 year-to-date results and are based on the assumptions set out below. The purpose of the financial guidance and targets are to assist investors, shareholders, and others in understanding management's expectations for the Company's financial performance going forward. The information may not be appropriate for other purposes. Information about guidance and targets, including the various assumptions underlying it, is forward-looking and should be read in conjunction with the section "Forward-Looking Statements" and the related disclosure and information about various assumptions, factors, and risks that may cause actual future financial and operating results to differ from management's current expectations.

The guidance and targets in the table above are driven by numerous expectations and assumptions, including but not limited to the following:

- **Revenue**: Anticipated revenue growth in 2024 and 2025 is based on NFI's firm order backlog[NG], current 2024 and 2025 production schedules, expected backlog[NG] option order conversion, and anticipated 2024 and 2025 new vehicle orders and Aftermarket parts sales. Revenue guidance and targets reflect higher volume of ZEB sales, higher average vehicle prices in NFI's backlog[NG] and anticipated product mix benefits, plus expected international sales expansion. The guidance ranges also reflect potential variances in delivery volumes from supply disruption, product mix and expected timing of production recovery. NFI expects to deliver approximately 5,000 EUs in Fiscal 2024.

- **ZEB deliveries as a percentage of total deliveries:** NFI has updated its ZEB targets to now be ZEB deliveries as a percentage of total deliveries rather than as a percentage of manufacturing sales dollars to better match with internal compensation targets and external reporting metrics. These expectations are based on NFI's firm and option backlog[NG], anticipated option conversions from backlog[NG], active bids and anticipated future orders in 2024 and 2025, and customers ZEB transition plans.

- **Adjusted EBITDA[NG]**: Adjusted EBITDA[NG] performance is driven by anticipated new vehicle deliveries in 2024 and 2025, product mix, including a higher percentage of ZEB deliveries, Aftermarket segment contributions and anticipated improvements in operating margins due to recovery in supply chain health, improved labour efficiency, higher average vehicle sales prices (as currently reflected in NFI's backlog[NG]), expected additions to backlog[NG], and impacts from the relaunch of double deck production in North America. There will be some impact to margins in the first half of 2024 from legacy inflation-impacted contracts (expected to make up approximately 10% of first half deliveries), contracts secured in the second half of 2022 and Fiscal 2023 reflect updated pricing and improved margins.

- **Cash Capital Expenditures**: Cash capital expenditures are based on investments made in 2023 and expected future maintenance and growth projects planned for 2024 and 2025. The guidance numbers include the expected acquisition and disposal of property, plant and equipment and the acquisition of intangible assets, but do not include expected lease payments.

- **ROIC**: Targets provided for 2025 are driven by the factors noted above combined with the expectation that there will not be significant changes in tax rates from current levels.

In 2024, NFI anticipates seasonality based on expected production ramp up, the timing of certain zero-emission bus deliveries, impacts of legacy inflation-impacted contracts, and sales mix. The Company expects to deliver approximately 35% of annual Adjusted EBITDA in the first half of 2024, with approximately 65% of annual Adjusted EBITDA expected to be delivered in the second half of the year. Sequentially, the Company anticipates a decrease in Adjusted EBITDA in the first quarter of 2024 as compared to the fourth quarter of 2023, as the first quarter of the year is typically the slowest period in private markets and it delivers legacy inflation-impacted contracts.

Based on expected revenue growth and associated investments in working capital, Adjusted EBITDA[NG] guidance, cash capital expenditures, lease payments and cash taxes, NFI anticipates that its current and expected liquidityNG will be sufficient to fund operations (including working capital), capital investments, and bonding requirements in 2024 and the longer-term. In 2024, NFI expects to lower its overall debt leverage ratios from Adjusted EBITDA[NG] growth rather than significant debt repayments. Through at least the first half of 2024, NFI expects that its Total Liquidity[NG] position will be lower than at the end of 2023 Q4 as WIP and finished goods inventory balances increase in line with increases in production rates. The Company remains focused on cash and liquidity management, including efforts to accelerate deliveries and customer acceptances, the acceleration of customer payments, through the pursuit of advance payments and deposits, and improvements to supplier payment terms where possible.

NFI's guidance does not include the potential impacts of proposed changes to payment structures on U.S. public heavy-duty transit contracts, as it is still early in the process and their financial impact will be dependent upon adoption of the APTA recommendations and FTA proposals by U.S. transit agencies.

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

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

Selected Quarterly and Annual Financial and Operating Information

The following selected audited 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.

($ thousands, except per Share figures) Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA[NG]	Earnings (loss) per Share
2023						
	Q4	791,631	25,555	(2,329)	38,455	(0.02)
	Q3	709,620	(13,760)	(39,926)	11,167	(0.42)
	Q2	659,569	(11,297)	(48,101)	12,178	(0.62)
	Q1	524,411	(21,749)	(45,964)	7,409	(0.60)
	Total	**2,685,231**	**(21,251)**	**(136,164)**	**69,209**	**(1.48)**
2022						
	Q4	689,353	(142,144)	(152,405)	(7,094)	(1.98)
	Q3	514,047	(41,051)	(40,167)	(13,281)	(0.53)
	Q2	397,952	(63,497)	(56,009)	(20,624)	(0.73)
	Q1	459,330	(41,481)	(27,795)	(16,660)	(0.36)
	Total	**2,060,682**	**(288,173)**	**(276,376)**	**(57,659)**	**(3.58)**
2021						
	Q4	694,843	(4,785)	(8,691)	26,154	(0.12)
	Q3	492,038	(2,797)	(15,415)	31,330	(0.22)
	Q2	582,794	26,675	2,588	51,856	0.04
	Q1	574,119	26,918	7,033	54,841	0.10
	Total	**2,343,794**	**46,011**	**(14,485)**	**164,181**	**(0.21)**

Comparison of Fourth Quarter and Fiscal 2023 Results

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Statement of Earnings Data				
Revenue				
North America	496,110	414,941	1,666,486	1,186,595
United Kingdom and Europe	142,831	145,265	435,919	361,681
Asia Pacific	16,950	8,907	27,873	27,234
Manufacturing operations	655,891	569,113	2,130,278	1,575,510
North America	109,180	95,102	445,657	375,103
United Kingdom and Europe	21,409	19,954	87,512	79,166
Asia Pacific	5,151	5,184	21,784	30,903
Aftermarket operations	135,740	120,240	554,953	485,172
Total revenue	$ 791,631	$ 689,353	$ 2,685,231	$ 2,060,682
Earnings (loss) from operations	$ 25,555	$ (142,144)	$ (21,251)	$ (288,173)
Earnings (loss) before interest and income taxes	$ 22,757	$ (138,625)	$ (16,828)	$ (287,010)
Net Loss	$ (2,329)	$ (152,405)	$ (136,164)	$ (276,376)
Adjusted EBITDA[NG]	$ 38,455	$ (7,094)	$ 69,209	$ (57,659)
Cash capital expenditures	$ 10,122	$ 4,732	$ 26,714	$ 21,371

Results of Operations

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

Revenue

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Manufacturing Revenue	655,891	569,113	2,130,278	1,575,510
Aftermarket Revenue	135,740	120,240	554,953	485,172
Total Revenue	791,631	689,353	2,685,231	2,060,682
Earnings (loss) from Operations	25,555	(142,144)	(21,251)	(288,173)
Earnings (loss) before interest and income taxes	22,757	(138,625)	(16,828)	(287,010)
Loss before income tax expense	(14,521)	(163,354)	(169,070)	(323,798)
Net Loss	(2,329)	(152,405)	(136,164)	(276,376)

Manufacturing revenue for 2023 Q4 increased by $86.8 million, or 15.2%, compared to 2022 Q4. Manufacturing revenue for Fiscal 2023 increased by $554.8 million, or 35.2%, compared to Fiscal 2022. Both quarter and annual figures increased as a result of increased deliveries during the period.

Aftermarket revenue for 2023 Q4 increased by $15.5 million, or 12.9% compared to 2022 Q4. Aftermarket revenue for Fiscal 2023 increased by $69.8 million, or 14.4%, compared to Fiscal 2022. Both quarter-to-date and year-to-date figures increased due to higher sales volume as the Aftermarket segment has experienced an increase in demand during the respective periods. Aftermarket sales were higher in the North American region offset by lower sales in the Asia-Pacific Region, as a specific multi-year retrofit program continues, but at lower run rates.

Cost of sales

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Manufacturing				
Direct cost of sales	550,085	498,596	1,811,490	1,378,980
Depreciation and amortization	17,255	19,867	71,027	77,788
Other overhead	45,195	63,153	200,663	204,132
Manufacturing cost of sales	612,535	581,616	2,083,180	1,660,900
As percent of Manufacturing Sales	93.4 %	102.2 %	97.8 %	105.4 %
Aftermarket				
Direct cost of sales	89,730	83,094	371,532	339,945
Depreciation and amortization	2,425	2,713	9,754	10,707
Aftermarket cost of sales	92,155	85,807	381,286	350,652
As percent of Aftermarket Sales	67.9 %	71.4 %	68.7 %	72.3 %
Total Cost of Sales	704,690	667,423	2,464,466	2,011,552
As percent of Sales	89.0 %	96.8 %	91.8 %	97.6 %

The consolidated cost of sales for 2023 Q4 increased by $37.3 million, or 5.6%, compared to 2022 Q4. The consolidated cost of sales for Fiscal 2023 increased by $452.9 million, or 22.5%, compared to Fiscal 2022.

Cost of sales from Manufacturing operations in 2023 Q4 was $612.5 million (93.4% of Manufacturing operations revenue) compared to $581.6 million (102.2% of Manufacturing operations revenue) in 2022 Q4, an increase of $30.9 million, or 5.3%. Cost of sales from Manufacturing operations in Fiscal 2023 was $2,083.2 million (97.8% of Manufacturing operations revenue) compared to $1,660.9 million (105.4% of Manufacturing operations revenue) in Fiscal 2022. The increase in both periods was driven by higher new vehicle deliveries. Cost of sales decreased as a percentage of revenue in both periods, mainly due to a reduction in operational inefficiencies that resulted from supply shortages and impacts of inflation.

Cost of sales from Aftermarket operations in 2023 Q4 was $92.2 million (67.9% of Aftermarket revenue) compared to $85.8 million (71.4% of Aftermarket revenue) in 2022 Q4, a decrease of 3.5% as a percentage of revenue. Cost of sales from Aftermarket operations in Fiscal 2023 was $381.3 million (68.7% of Aftermarket revenue) compared to $350.7 million (72.3% of Aftermarket revenue) in Fiscal 2022. Cost of sales decreased as a percentage of revenue in both periods primarily due to increased sales, and favourable product mix. Also contributing is mitigated inflationary impacts on labour, freight costs, and surcharges.

Gross Margins

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Manufacturing	43,356	(12,503)	47,098	(85,390)
Aftermarket	43,585	34,433	173,667	134,520
Total Gross Margins	86,941	21,930	220,765	49,130
As a percentage of sales				
Manufacturing	6.6 %	(2.2)%	2.2 %	(5.4)%
Aftermarket	32.1 %	28.6 %	31.3 %	27.7 %
	11.0 %	3.2 %	8.2 %	2.4 %

Manufacturing gross margin for 2023 Q4 of $43.4 million (6.6% of Manufacturing revenue), increased by $55.9 million compared to a negative gross margin of $12.5 million ((2.2)% of Manufacturing revenue) for 2022 Q4. Manufacturing had a gross margin for Fiscal 2023 of $47.1 million (2.2% of Manufacturing revenue), an improvement of $132.5 million, or 155.2%, compared to a negative gross margin of $85.4 million ((5.4)% of Manufacturing revenue) in Fiscal 2022.

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

Aftermarket gross margins for 2023 Q4 of $43.6 million (32.1% of Aftermarket revenue) increased by $9.2 million, or 26.6%, compared to 2022 Q4 gross margins of $34.4 million (28.6% of Aftermarket revenue). Aftermarket gross margins for Fiscal 2023 of $173.7 million (31.3% of Aftermarket revenue) increased by $39.1 million, or 29.1%, compared to Fiscal 2022 gross margins of $134.5 million (27.7% of Aftermarket revenue). The increase in gross margins and gross margins as a percentage of revenue are mainly due to increased sales, favourable product mix and the mitigated inflationary impacts on the costs of labour, freight and surcharges.

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

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Selling expenses	8,836	7,484	29,539	32,009
General and administrative expenses	54,112	50,973	215,726	199,612
Other costs	-	1,163	-	6,987
Total SG&A	62,948	59,620	245,265	238,608

The consolidated SG&A for 2023 Q4 of $62.9 million (8.0% of consolidated revenue) increased by $3.3 million, or 5.6%, compared to $59.6 million (8.6% of consolidated revenue) in 2022 Q4. The consolidated SG&A for Fiscal 2023 of $245.3 million (9.1% of consolidated revenue) increased by $6.7 million, or 2.8%, compared to $238.6 million (11.6% of consolidated revenue) in Fiscal 2022.

Consolidated SG&A increased in both periods primarily due to increased performance incentive compensation expenses, employee compensation, insurance premiums, and cash settled compensation expense based on share grants. These increases were partially offset by restructuring costs incurred throughout Fiscal 2022 which did not re-occur, and by realized fair value increases in the Company's total return swap as these swaps were extinguished during 2023 Q3. Please see Note 24(c) of the audited consolidated financial statements for disclosure of financial instruments and risk management.

Realized foreign exchange loss/gain

In 2023 Q4, the Company recorded a realized foreign exchange gain of $1.6 million compared to a loss of $0.6 million in 2022 Q4. During Fiscal 2023, the Company recorded a realized foreign exchange gain of $3.2 million compared to a gain of $5.2 million in Fiscal 2022.

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

Earnings/Loss from operations

Consolidated earnings from operations in 2023 Q4 were $25.6 million (3.2% of consolidated revenue) compared to losses of $142.1 million ((20.6)% of consolidated revenue) in 2022 Q4, an improvement of $167.7 million, or 118.0%. Consolidated losses from operations in Fiscal 2023 were $21.3 million ((0.8)% of consolidated revenue) compared to a loss of $288.2 million ((14.0)% of consolidated revenue) in Fiscal 2022.

In 2023 Q4, losses from operations attributable to the Manufacturing segment were $3.3 million ((0.5)% of Manufacturing revenue) compared to losses of $156.6 million ((27.5)% of Manufacturing revenue) in 2022 Q4. Losses from Manufacturing operations in Fiscal 2023 were $119.1 million ((5.6)% of Manufacturing revenue) compared to losses of $356.1 million ((22.6)% of Manufacturing revenue) in Fiscal 2022, an improvement of $237.1 million, or 66.6%. The decreased loss as a percentage of revenue in both periods is attributable to increased new vehicle deliveries, and a reduction in operational inefficiencies resulting from supply chain challenges. Also contributing to the decrease in losses from operations is a goodwill impairment charge of $103.9 million that occurred in 2022 Q4.

Earnings from operations related to Aftermarket operations in 2023 Q4 were $24.7 million (18.2% of Aftermarket revenue) compared to $17.7 million (14.7% of Aftermarket revenue) in 2022 Q4. Earnings from operations related to Aftermarket operations in Fiscal 2023 were $101.7 million (18.3% of Aftermarket revenue) compared to $66.0 million (13.6% of Aftermarket revenue) in Fiscal 2022. Earnings from Aftermarket operations increased due to favourable sales mix and a reduction of inflationary impacts on the cost of labour, freight, and surcharges.

Unrealized foreign exchange gain (loss)

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

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Unrealized gain (loss) on forward foreign exchanges contracts	1,694	5,657	76	(6,631)
Unrealized gain (loss) on other long-term monetary assets/liabilities	(2,954)	(1,728)	(3,772)	7,229
	(1,260)	3,929	(3,696)	598

At December 31, 2023, the Company had $21.7 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, and GBP). The related liability of $1.5 million (January 1, 2023: $1.7 million asset) is recorded on the audited consolidated statements of financial position as a current derivative financial instruments liability and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the audited consolidated statements of net loss and comprehensive loss.

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

In 2023 Q4, the Company recorded EBIT of $22.8 million compared to an EBIT loss of $138.6 million in 2022 Q4. In Fiscal 2023, the Company recorded EBIT loss of $16.8 million compared to EBIT loss of $287.0 million in Fiscal 2022. The year-over-year improvement in EBIT loss was driven by increased vehicle deliveries, revenues and Adjusted EBITDA[NG] growth. In 2022, NFI reported goodwill impairment of $103.9 million related to ARBOC and AD that contributed to the EBIT loss for 2022 Q4 and Fiscal 2022.

Interest and finance costs

The interest and finance charges for 2023 Q4 of $37.3 million increased by $12.6 million compared to $24.7 million in 2022 Q4. The interest and finance charges for Fiscal 2023 of $152.2 million increased by $115.5 million compared to interest and finance charges of $36.8 million in Fiscal 2022.

The quarterly increase is primarily due to higher interest cost on long-term debt as a result of elevated debt levels, and higher interest rates on components of the Company's debt, as described in the Capital Allocation section of this MD&A. Also contributing to the yearly increase is fair market value losses on the adjustment to the Company's interest rate swaps, and the cash conversion option related to the convertible debt. The Company had no fair market value adjustment in 2023 Q4 compared to a loss of $1.2 million in 2022 Q4. The Company had a fair market value loss on its cash conversion option of $0.5 million compared to a gain of $5.6 million in 2022 Q4.

The Company had a fair market value loss on the interest rate swap of $9.4 million in Fiscal 2023 compared to a gain of $37.7 million in Fiscal 2022. The Company had a fair market value loss on its cash conversion option of $4.0 million in Fiscal 2023 compared to a gain of $16.6 million in Fiscal 2022.

On July 20, 2023, the Company extinguished its interest rate swap contracts (valued at $20.2 million asset at the end of 2023 Q2) for total proceeds of $18.4 million. NFI's equity hedge (valued at $2.6 million liability at the end of 2023 Q2) was settled and removed from liabilities on the balance sheet. Please see Note 24 of the audited consolidated financial statements for disclosure of financial instruments and risk management.

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

EBT loss for 2023 Q4 of $14.5 million decreased by $148.9 million compared to EBT loss of $163.4 million in 2022 Q4. EBT loss for Fiscal 2023 of $169.1 million decreased by $154.7 compared to EBT loss of $323.8 million in Fiscal 2022. The primary drivers of the changes of EBT are addressed in the Earnings (loss) from Operations and interest and finance costs sections above.

Income tax recovery

The income tax recovery for 2023 Q4 was $12.2 million compared to $10.9 million in 2022 Q4. While the overall tax recovery remained consistent, the detrimental impact of the reduced in-quarter loss was offset by the absence of the detrimental impact the 2022 goodwill write-down had on the 2022 tax recovery.

The income tax recovery for Fiscal 2023 is $32.9 million, compared to $47.4 million in Fiscal 2022. The decrease in the overall income tax recovery is primarily due to the lower EBT loss, offset by the absence of the detrimental impact of the goodwill write-off experienced in Fiscal 2022.

The Effective Tax Rate ("ETR") for 2023 Q4 was 84.0% and the ETR for 2022 Q4 was 6.7%. The ETR for Fiscal 2023 was 19.5% and the ETR for Fiscal 2022 was 14.6%. The 2023 Q4 ETR is positively impacted by the recognition and subsequent utilization of, a previously unrecognized deferred tax asset associated with US foreign tax credits ("FTC"). The utilization of the previously unrecognized FTC also gives rise to a recovery of BEAT incurred in prior years.

Net loss

The Company reported net losses of $2.3 million in 2023 Q4, a decrease of $150.1 million, or 98.5%, compared to net losses of $152.4 million in 2022 Q4. The Company reported net losses of $136.2 million in Fiscal 2023, a decrease of $140.2 million, or 50.7%, compared to net losses of $276.4 in Fiscal 2022. The decrease in net loss for both periods is primarily due to increases in the Company's earnings from operations, previously discussed above, partially offset by increases in interest and finance costs. During Fiscal 2023, the Company recorded a gain on debt modification stemming from the Company's Refinancing Plan which occurred during 2023 Q3, which contributed to the decrease in net losses.

Net loss ($ millions, except per Share figures)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Gain (loss) from operations	25.6	(142.1)	(21.3)	(288.2)
Gain (loss) on disposition of property, plant and equipment	0.1	(0.4)	(0.8)	0.6
Gain (loss) on debt modification	(1.6)	-	8.9	-
Unrealized foreign exchange (loss) gain on monetary items	(1.3)	3.9	(3.7)	0.6
Interest and finance costs	(37.3)	(24.7)	(152.2)	(36.8)
Income tax recovery	12.2	10.9	32.9	47.4
Net Loss	(2.3)	(152.4)	(136.2)	(276.4)
Net loss per Share (basic)	(0.02)	(1.98)	(1.48)	(3.58)
Net loss per Share (fully diluted)	(0.02)	(1.98)	(1.48)	(3.58)

The Company recorded net loss per Share for 2023 Q4 of $0.02 compared to net loss per Share of $1.98 in 2022 Q4. The Company's net loss per Share for Fiscal 2023 of $1.48 decreased from net loss per Share of $3.58 in Fiscal 2022. The per Share net loss decreased in Fiscal 2023 as a result of a decreased loss during the period, and an increase in the outstanding number of Shares as discussed below.

Cash Flow

The cash flows of the Company are summarized as follows:

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	46,658	(13,770)	61,234	(87,369)
Interest paid	(19,110)	(15,465)	(109,389)	(58,348)
Income taxes recovered (paid)	8,407	(3,044)	29,304	1,422
Cash flow provided by (invested in) working capital	19,171	33,785	(44,962)	(97,555)
Net cash generated by (used in) operating activities	55,126	1,506	(63,813)	(241,850)
Net cash (used in) generated by financing activities	(65,072)	17,175	117,836	238,279
Net cash used in investing activities	(12,431)	(8,504)	(53,342)	(24,531)

Cash flows from operating activities

The 2023 Q4 net operating cash generated by operating activities of $55.1 million is mainly comprised of $36.0 million of net cash earnings and $19.2 million of cash provided by working capital. The 2022 Q4 net cash generated by operating activities of $1.5 million is comprised of $32.3 million of net cash loss and $33.8 million of cash provided by working capital.

The Fiscal 2023 net operating cash used of $63.8 million is comprised of $18.9 million of net cash loss and $45.0 million of cash invested in working capital. The Fiscal 2022 net operating cash used of $241.9 million is comprised of $144.3 million of net cash loss and $97.6 million of cash invested in working capital.

Cash flow from financing activities

The cash used in financing activities of $65.1 million during 2023 Q4 is comprised mainly of repayments made to the Company's Secured Facilities[1], totaling $57.5 million. Also contributing are repayments of obligations under lease of $6.7 million. The cash generated of $117.8 million during Fiscal 2023 is due to proceeds from Refinancing and proceeds from Senior Unsecured Debt[2] totaling $332.0, partially offset by repayments of Secured Facilities[1], senior unsecured debt, and obligations under leases totaling $213.4 million.

Cash flow from investing activities

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Acquisition of intangible assets	(2,828)	(3,736)	(10,274)	(10,212)
Proceeds from disposition of property, plant and equipment	519	14	1,769	1,687
Long-term restricted deposits	-	(50)	(18,123)	5,365
Acquisition of property, plant and equipment	(10,122)	(4,732)	(26,714)	(21,371)
Cash used in investing activities	(12,431)	(8,504)	(53,342)	(24,531)

Cash used in investing activities was higher in 2023 Q4, primarily due to increased investments in property, plant and equipment. Cash used in investing activities was higher in Fiscal 2023, primarily due to increased investments in long-term restricted deposits and intangible assets. Long-term restricted deposit is collateral for certain of the Company's letters of credit.

Credit risk

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

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

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 audited consolidated statements of net loss and total comprehensive loss.

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

$ thousands		December 31, 2023		January 1, 2023
Current, including holdbacks	$	438,165	$	333,522
Past due amounts but not impaired				
1 – 60 days		20,123		15,931
Greater than 60 days		8,669		5,480
Less: allowance for doubtful accounts		(604)		(107)
Total accounts receivables, net	$	466,353	$	354,826

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

Commitments and Contractual Obligations

The following table describes the Company's maturity analysis of the undiscounted cash flows of leases and accrued benefit liabilities as at December 31, 2023:

$ thousands	Total	2024	2025	2026	2027	2028	Post 2028
Leases	210,912	26,242	21,809	19,014	17,377	11,909	114,561
Accrued benefit liability	3,269	3,269					
	214,181	29,511	21,809	19,014	17,377	11,909	114,561

As at December 31, 2023, outstanding surety bonds guaranteed by the Company totaled $312.7 million (January 1, 2023: $375.6 million). The estimated maturity dates of the surety bonds outstanding at December 31, 2023 range from January 2024 to December 2039. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the North American Secured Facility[1], the Company has established a letter of credit sub-facility of $150.0 million (January 1, 2023: $100.0 million). As at December 31, 2023, letters of credit totaling $96.6 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the North American Secured Facility[1]. This increase is primarily driven by collateral requirements provided to support bonds associated with new contracts.

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

Subsequent to December 31, 2023, NFI entered into an agreement with EDC to increase the size of our Guarantee Facility from $100 million to $125 million. The Guarantee Facility is made up of Account Performance Security Guarantee ("Account PSG") up to $50 million and Surety Reinsurance Support up to $125 million. The aggregate amount of the Guarantee Facility cannot exceed $125 million. Please refer to note 31 of the audited consolidated financial statements.

Footnotes:

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

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

As at December 31, 2023, there is $74.2 million outstanding under the bonding support facility.

As at December 31, 2023, letters of credit in the UK totaling $18.7 million remain outstanding as a security for contractual obligations of the Company outside of the UK facility (January 1, 2023: $18.3 million). Additionally, there are $45.8 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the Secured Facility[1].

Management believes that the Company was in compliance in all material respects with all applicable contractual obligations as at December 31, 2023. 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 December 31, 2023.

Through the normal course of operations, the Company has guaranteed payments and residual values to third party lenders on behalf of customers. As at December 31, 2023, the Company had guaranteed $2.4 million of these arrangements. The Company has not provided for any of these costs, as it does not believe they will have to pay out on any of these arrangements.

Share Option Plan

The Board adopted a Share Option Plan (the “2013 Option Plan”) for NFI on March 21, 2013, under which certain employees of NFI and certain of its affiliates may receive grants of options for Shares. The 2013 Option Plan was amended and restated on December 8, 2015, December 31, 2018 and August 5, 2020. Directors who are not employed with NFI are not eligible to participate in the 2013 Option Plan. A maximum of 3,600,000 Shares are reserved for issuance under the 2013 Option Plan. The options vest one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date. The 2013 Option Plan expired on March 21, 2023, at which point no new options can be granted under the 2013 Option Plan.

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(490,356)	—	—	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(252,233)	(247,751)	—	—	September 12, 2023	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(30,942)	(121,941)	—	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(62,446)	(222,228)	—	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	(2,835)	—	July 15, 2027	C$35.98	C$4.90
December 31, 2019	519,916	—	(83,720)	(433,006)	3,190	December 31, 2027	C$26.81	C$3.36
December 28, 2020	258,673	—	(29,250)	(171,146)	58,277	December 28, 2028	C$24.70	C$6.28
February 10, 2021	1,894	—	—	(1,421)	473	December 28, 2028	C$28.74	C$6.28
August 16, 2021	601	—	—	(301)	300	August 16, 2029	C$30.79	C$6.28
January 3, 2022	311,892	—	(13,359)	(74,638)	223,895	January 3, 2030	C$20.26	C$6.10
April 1, 2022	1,728	—	—	(432)	1,296	April 3, 2030	C$16.25	C$6.51
January 9, 2023	374,448	—	(11,987)	—	362,461	January 9, 2031	C$10.46	C$5.28
	3,887,412	(1,366,150)	(503,145)	(1,368,225)	649,892		C$26.00	

The Board adopted a new share option plan on March 12, 2020 (the "2020 Option Plan"), which was approved by shareholders on May 7, 2020, and amended on August 5, 2020, under which certain employees of NFI and certain of its affiliates may receive grants of options for Shares. Directors who are not employed with NFI are not eligible to participate in the 2020 Option Plan. A maximum of 3,200,000 Shares are reserved for issuance under the 2020 Option Plan. The options vest one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date.

The following reconciles the Share options outstanding:

	Fiscal 2023		Fiscal 2022	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,910,057	C$27.41	1,617,759	C$28.82
Granted during the period	374,448	C$10.46	313,620	C$20.24
Expired during the period	(266,388)	C$14.32	(21,322)	C$28.84
Exercised during the period	—	C$0.00	—	C$0.00
Balance at end of period	2,018,117	C$26.00	1,910,057	C$27.41

Restricted Share Unit Plan for Non-Employee Directors

Pursuant to the Company's Restricted Share Unit Plan for Non-Employee Directors, a maximum of 500,000 Shares are reserved for issuance to non-employee directors. The Company issued 20,922 director restricted share units ("Director RSUs"), with a total value of $0.2 million, in 2023 Q4. Approximately $0.2 million of the issued Director RSUs were exercised and exchanged for 12,499 Shares.

Critical accounting estimates and judgments

The Company's critical accounting estimates and judgments can be found within note 2 of the audited consolidated financial statements.

New and amended standards adopted by the Company

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

IFRS 17 – Insurance Contracts:

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

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

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

The adoption of the standard resulted in a decrease to net loss and retained deficit of $1,385 for Fiscal 2022, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

The transition adjustment in 000s is as follows:

	Assets		Liabilities		Shareholders' Equity
	Accounts receivable	Prepaid expenses and deposits	Accounts payable and accrued liabilities	Provisions	Retained Earnings (Deficit)
As reported January 1, 2023	$ 366,224	$ 16,928	$ 455,368	$ 71,299	$ (419,373)
Transition adjustment	(11,398)	6,524	(1,578)	(328)	205
Restated January 1, 2023	$ 354,826	$ 23,452	$ 453,790	$ 70,971	$ (419,168)

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

Classification of Liabilities as Current or Non-current, which amends IAS 1, was issued January 2020 and October 2022, effective for annual reporting periods beginning on or after January 1, 2024. This clarified a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. Management assessed that this standard does not have a material impact on the audited consolidated financial statements and that the Company is in compliance with the required disclosure.

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

The Company's liquidity[NG] requirements are met through a variety of sources, including cash on hand, cash generated from operations, secured facilities (see below), leases, and debt and equity capital markets. While management expects that the Company will have sufficient liquidity[NG] to continue operations in the ordinary course, it is possible that unexpected events could significantly impair the Company's liquidity[NG] and there can be no assurance that the Company would be able to obtain additional liquidity[NG] when required in such circumstances. Please refer to Appendix A of this MD&A for identified liquidity risks.

At December 31, 2023, the Company has convertible debentures outstanding of C$338 million ("Debentures"). The Debentures may be converted in whole or in part from time to time at the holder's option into 30.1659 Shares for each C$1,000 principal amount of Debentures, representing a conversion price of approximately C$33.15 per Share and total potential conversion of 10,196,074 shares.

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

On January 20, 2023, the Company entered into agreements with Manitoba Development Corporation ("MDC") for a C$50 million debt facility, for general corporate purposes, and EDC for credit facilities of up to $150 million to support supply chain financing ($50 million) and surety and performance bonding requirements for new contracts (up to $100 million), as discussed in the Commitments and Contractual Obligations section of the Results from Operations section.

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

On August 25, 2023, NFI announced that it had closed its Refinancing. Through the Refinancing, the following changes to the profile and capacity of the Amended Facilities (now referred to as the "Secured Facilities") were effected:

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

As part of the Refinancing, the Company:

- completed a private placement on August 25, 2023, of common shares with Coliseum Capital Management for 21,656,624 Shares at a subscription price of $6.1567 per Share (the "Subscription Price") for total proceeds to the Company of $133.3 million.
- completed a private placement on August 25, 2023, with a leading global asset manager for 5,000,000 Shares at a subscription price of C$10.10 per Share for aggregate gross proceeds to NFI of C$50,500,000 (approximately $37.2 million).

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

- extended the maturity of MDC's and EDC's Senior Unsecured Debt facilities to April 30, 2026; with a $25.0 million permanent repayment of the EDC facility.

As part of the Refinancing, NFI's completed $180.4 million Second Lien Financing which included the following terms:

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

The Second Lien debt is financed by funds and accounts managed by Coliseum Capital Management LLC. Coliseum Capital Management has also participated in an equity transaction with the Company. Please refer to Note 20 of the audited consolidated financial statements. The Second Lien Financing is a senior secured second lien obligation of NFI and certain material subsidiaries, that ranks behind the Secured Facilities and all other first lien secured indebtedness of NFI and such subsidiaries, ranks ahead of any subordinated obligations of NFI and its subsidiaries, and, by virtue of being secured, ranks ahead of any unsecured obligations.

Secured Facilities capacity change following refinancing

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

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

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

$ thousands	December 31, 2023	January 1, 2023
Banking Covenant Liquidity[NG] Position (must be greater than $50 million)	$ 170,131	$ 143,454
Minimum Cumulative Adjusted EBITDA[NG] (must be greater than ($3,000) [2022: N/A])	$ 53,516	Waived
Net Debt to Capital Ratio[NG] (must be less than 0.65:1.00 [2022: N/A])	0.39	Waived

As of December 31, 2023, NFI's banking covenant liquidity[NG] was $170.1 million, without consideration given to the minimum banking liquidity[NG] requirement of $50 million under the Secured Facilities. As part of the Company's efforts to improve working capital and liquidity[NG], the Company requested prepayments and deposits from certain customers. As of December 31, 2023, the Company has received $89.3 million in deferred revenue and is continuing to work with other customers to help alleviate working capital required to support the transition to ZEB's and increased production while the Company navigates through the supply chain challenges.

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

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

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

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

Business Investment

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

In November 2022, Alexander Dennis announced that several of its vehicles will now offer its next-generation electric chassis, driveline and battery system. Alexander Dennis has secured orders in the UK using this new technology, and, in 2023 Q2, Alexander Dennis delivered its first battery-electric buses to key customers in Hong Kong. On October 4, 2023, NFI announced the launch of its next generation battery technology for the North American market with supplier partner, American Battery Solutions. The new custom battery packs will be used on NFI's heavy-duty transit buses and coaches in North America starting in the first quarter of 2024. In Fiscal 2023, Alexander Dennis unveiled its next generation electric buses for the UK and Ireland, with the new Enviro100EV small bus and the Enviro400EV double-decker. These vehicles will utilize the future-proof battery systems developed in partnership with Impact Clean Power Technology. First deliveries of these new vehicles are expected in 2024. To support customers making the transition to zero-emission fleets, NFI launched its Infrastructure Solutions™ business in 2018.

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

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

Return of Capital to Shareholders

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

The Company's 2023 Q4 Free Cash Flow[NG] was C$3.6 million with no dividends declared during this period. For 2022 Q4, Free Cash Flow[NG] was (C$32.3) million and no dividends were declared during the period.

Total Capital Distributions to Shareholders ($ millions)	Fiscal 2023	Fiscal 2022
Dividends declared	$ —	$ 9.4

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[NG] and Net Operating Profit after Taxes[NG]

Management believes that Adjusted EBITDA[NG], and Net Operating Profit After Taxes ("NOPAT")[NG] are important measures in evaluating the historical operating performance of the Company. However, Adjusted EBITDA[NG] and NOPAT[NG] are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Accordingly, Adjusted EBITDA[NG] and NOPAT[NG] may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that Adjusted EBITDA[NG] should not be construed as an alternative to net earnings or loss determined in accordance with IFRS and NOPAT[NG] 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[NG] as earnings before interest, income tax, depreciation and amortization after adjusting for the effects of certain non-recurring, non-operating, and items occurring outside of normal operations that do not reflect the current ongoing cash operations of the Company. These adjustments are provided in the following table reconciling net earnings or losses to Adjusted EBITDA[NG] based on the historical Financial Statements of the Company for the periods indicated.

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

($ thousands)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Net loss	(2,329)	(152,405)	(136,164)	(276,376)
Addback				
Income taxes	(12,192)	(10,948)	(32,906)	(47,421)
Interest expense[12]	37,278	24,727	152,242	36,788
Amortization	19,678	22,580	80,780	88,495
(Gain) loss on disposition of property, plant and equipment and right of use assets	(62)	410	789	(565)
Loss (Gain) on debt modification[16]	1,600	-	(8,908)	-
Fair value adjustment for total return swap[7]	-	-	-	952
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	1,260	(3,929)	3,696	(598)
Past service costs and other pension costs[9]	(7,000)	-	(2,236)	7,000
Proportion of the total return swap realized[8]	-	-	-	(275)
Equity settled stock-based compensation	700	397	2,618	1,346
Unrecoverable insurance costs and other[10]	893	164	893	8,489
Expenses incurred outside of normal operations[14]	132	1,708	2,166	3,761
Prior year sales tax provision [11]	41	-	101	-
Out of period costs[13]	-	(938)	-	(1,597)
Impairment loss on goodwill[15]	-	103,900	-	103,900
Restructuring costs[6]	(1,544)	7,240	6,139	18,443
Adjusted EBITDA[NG]	38,455	(7,094)	69,209	(57,659)
Depreciation of property, plant and equipment and right of use assets	(11,848)	(14,884)	(49,370)	(57,013)
Tax at 31%	(8,248)	6,813	(6,150)	35,548
NOPAT[NG]	18,359	(15,165)	13,689	(79,124)
Adjusted EBITDA[NG] is comprised of:				
Manufacturing	11,094	(30,521)	(42,073)	(149,164)
Aftermarket	29,480	22,882	120,187	86,154
Corporate	(2,119)	545	(8,905)	5,351

(Footnotes on page 39)

Free Cash FlowNG and Free Cash Flow per ShareNG

Management uses Free Cash FlowNG and Free Cash Flow per ShareNG as non-IFRS measures to evaluate the Company's operating performance and liquidityNG, to assess the Company's ability to pay dividends on the Shares, service debt, pay interest on the Debentures and meet other payment obligations. However, Free Cash FlowNG and Free Cash Flow per ShareNG are not recognized earnings measures under IFRS and do not have standardized meanings prescribed by IFRS. Accordingly, Free Cash FlowNG 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 FlowNG should not be construed as an alternative to cash flows from operating activities determined in accordance with IFRS as a measure of liquidityNG and cash flow. The Company defines Free Cash FlowNG 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 FlowNG (a non-IFRS measure) based on the Company's historical Financial Statements.

The Company generates its Free Cash FlowNG 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 Secured Facilities to finance working capital and therefore has excluded the impact of working capital in calculating Free Cash FlowNG.

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

($ thousands, except per Share figures)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Net cash generated by (used in) operating activities	55,126	1,506	(63,813)	(241,850)
Changes in non-cash working capital items[2]	(19,171)	(33,785)	44,962	97,555
Interest paid[2]	19,110	15,465	109,389	58,348
Interest expense[2]	(31,906)	(24,187)	(125,642)	(77,850)
Income taxes (expense) recovered[2]	(8,407)	3,044	(29,304)	(1,422)
Current income tax recovery[2]	15,873	21,556	11,941	19,809
Repayment of obligations under lease	(7,305)	(5,647)	(21,712)	(24,535)
Cash capital expenditures	(10,122)	(4,732)	(26,714)	(21,371)
Acquisition of intangible assets	(2,828)	(3,736)	(10,274)	(10,212)
Proceeds from disposition of property, plant and equipment	519	14	1,769	1,687
Defined benefit funding[3]	918	(301)	3,185	4,265
Defined benefit (recovery) expense[3]	(694)	917	(2,779)	(3,497)
Past service costs and other pension costs[9]	(7,000)	-	(7,000)	7,000
Expenses incurred outside of normal operations[14]	132	1,708	2,166	3,761
Equity hedge	-	(582)	3,765	(1,003)
Proportion of the total return swap realized[8]	-	-	-	(275)
Unrecoverable insurance costs and other[10]	893	164	893	8,488
Out of period costs[13]	-	(938)	-	(333)
Prior year sales tax provision[12]	41	-	101	-
Restructuring costs[6]	1,011	5,678	8,691	11,694
Foreign exchange (loss) gain on cash held in foreign currency[4]	(3,506)	(20)	(1,053)	771
Free Cash FlowNG	2,684	(23,876)	(101,429)	(168,970)
U.S. exchange rate[1]	1.3246	1.3538	1.3293	1.3202
Free Cash Flow (C$)NG	3,555	(32,323)	(134,827)	(223,066)
Free Cash Flow per Share (C$)NG	0.0299	(0.4189)	(1.4676)	(2.8915)
Declared dividends on Shares (C$)	-	-	-	12,288
Declared dividends per Share (C$)[5]	-	-	-	0.1599

1. U.S. exchange rate (C$ per US$) is the average exchange rate for the period.
2. Changes in non-cash working capital are excluded from the calculation of Free Cash Flow[NG] as these temporary fluctuations are managed through the Secured Facilities which are available to fund general corporate requirements, including working capital requirements, subject to borrowing capacity restrictions. Changes in non-cash working capital are presented on the audited consolidated statements of cash flows net of interest and income taxes paid.
3. The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow[NG] as management believes that the defined benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.
4. Foreign exchange gain (loss) on cash held in foreign currency is excluded in the determination of cash from operating activities under IFRS; however, because it is a cash item, management believes it should be included in the calculation of Free Cash Flow[NG].
5. Per Share calculations for Free Cash Flow[NG] (C$) are determined by dividing Free Cash Flow[NG] by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2023 Q4 was 118,961,396 and 77,154,934 for 2022 Q4. The weighted average number of Shares outstanding for Fiscal 2023 and Fiscal 2022 are 91,866,613 and 77,144,445, 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.
6. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, inefficient labour costs, increased medical costs and right-of-use asset impairments and inventory impairments associated with restructuring initiatives. Free Cash Flow[NG] reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.
7. The fair value adjustment of the total return swap is a non-cash loss that is excluded from the definition of Adjusted EBITDA[NG]. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
8. A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA[NG] and Free Cash Flow[NG] to match the equivalent portion of the related deferred compensation expense recognized. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the gain on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
9. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans. 2022 Q2 includes $7.0 million for the liability related to the closure of MCI's Pembina facility and withdrawal from the multi-employer pension plan. In 2023 Q4, the Company made the decision to continue operations of the Pembina facility indefinitely, thereby reversing the above adjustments made in 2022 Q2. Also included is $4.8 million of pension past service costs incurred during 2023 Q1.
10. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.
11. Provision for sales taxes as a result of a previous state sales tax review.
12. Includes fair market value adjustments to interest rate swaps and the cash conversion option on the Debentures. 2023 Q4 includes a loss of $nil and 2022 Q4 includes a loss of $1.2 million for the interest rate swaps. 2023 Q4 includes a loss of $0.5 million and 2022 Q4 includes a gain of $5.6 million on the cash conversion option.
13. Includes adjustments made related to expenses that pertain to prior years. 2022 Q2 includes expenses related to amounts that should have been capitalized from prior years.
14. Includes adjustments made related to items that occurred outside of normal operations. This includes specified items purchased in broker markets at a premium and associated broker fees, which the Company provided to suppliers, and does not normally directly purchase. Also included is the additional labour costs associated with the shortage of the specified item.
15. Includes 2022 Q4 impairment charges with respect to ARBOC's goodwill of $23.2 million and the Alexander Dennis manufacturing cash generating unit ("CGU")'s goodwill of $80.7 million.
16. As a result of the Company's comprehensive refinancing, the Company had recognized an accounting gain in 2023 Q3 stemming from the modification made to its Secured Facilities. In 2023 Q4, an accounting loss was recorded to adjust the gain on debt modification.

Adjusted Net Loss[NG] and Adjusted Net Loss per Share[NG]

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

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

The Company defines Adjusted Net Loss[NG] per share as Adjusted Net Loss[NG] divided by the average number of Shares outstanding.

($ thousands, except per Share figures)	2023 Q4	2022 Q4	Fiscal 2023	Fiscal 2022
Net loss	(2,329)	(152,405)	(136,164)	(276,376)
Adjustments, net of tax[1, 2]				
Fair value adjustments of total return swap[3]	-	-	-	657
Unrealized foreign exchange (gain) loss	869	(2,711)	2,550	(413)
Unrealized loss (gain) on interest rate swap	-	796	6,505	(26,019)
Unrealized loss (gain) on Cash Conversion Option	355	(3,831)	2,730	(11,438)
Unrealized loss on prepayment option of second lien debt[4]	(769)	-	(442)	-
Accretion in carrying value of long-term debt associated with debt modification[5]	-	-	1,014	-
Loss (gain) on debt modification[6]	1,104	-	(6,147)	-
Accretion associated to gain on debt modification	(451)	-	(451)	-
Portion of the total return swap realized[7]	-	-	-	(190)
Equity swap settlement fee[8]	-	-	2,428	-
Equity settled stock-based compensation	483	274	1,806	929
(Gain) loss on disposition of property, plant and equipment	(43)	283	545	(390)
Past service costs and other pension costs[9]	(4,830)	-	(1,543)	4,830
Unrecoverable insurance costs and other[10]	616	113	616	5,857
Expenses incurred outside of normal operations[11]	(1,191)	1,179	213	2,595
Other tax adjustments[12]	-	22,292	-	18,984
Out of period costs[13]	-	(1,911)	-	(1,102)
Accretion in carrying value of convertible debt and cash conversion option	1,337	1,341	5,213	5,272
Prior year sales provision[14]	28	-	71	-
Impairment loss on goodwill[15]	-	103,900	-	103,900
Restructuring costs[16]	(1,065)	4,996	4,236	12,725
Adjusted Net Loss[NG]	(5,886)	(25,684)	(116,820)	(160,179)
Loss per Share (basic)	(0.02)	(1.98)	(1.48)	(3.58)
Loss per Share (fully diluted)	(0.02)	(1.98)	(1.48)	(3.58)
Adjusted Net Loss per Share (basic)[NG]	(0.05)	(0.33)	(1.27)	(2.08)
Adjusted Net Loss per Share (fully diluted)[NG]	(0.05)	(0.33)	(1.27)	(2.08)

1. Addback items are derived from the historical financial statements of the Company.
2. The Company has utilized a rate of 31.0% to tax effect the adjustments for the periods above.
3. The fair value adjustment of the total return swap is a non-cash loss that is excluded from the definition of Adjusted EBITDA[NG]. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
4. The unrealized loss on the prepayment option is related to the Company's second lien debt instrument. The loss is the result of a decrease in the options fair value between October 1, 2023 and December 31, 2023.
5. Normalized to exclude the over accretion of transaction costs relating to the Company's Secured Facilities.
6. As a result of the Company's comprehensive Refinancing, the Company has recognized an accounting gain stemming from the modification made to its Secured Facilities.
7. A portion of the fair value adjustment of the total return swap is added to Adjusted EBITDA[NG] and Free Cash Flow[NG] to match the equivalent portion of the related deferred compensation expense recognized. Beginning in 2022 Q2, hedge accounting was applied to the total return swap derivative and therefore, the portion of the loss on the fair value adjustment, which does not apply to the current period is recognized in other comprehensive income.
8. During the year the Company settled its equity swaps which were used to hedge the exposure associated with changes in value of its Shares with respect to outstanding management restricted units ("Management RSUs") and a portion of the outstanding performance share units ("PSUs"), and deferred share units ("DSUs").
9. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans. 2022 Q2 includes $7.0 million for the liability related to the anticipated closure of MCI’s Pembina facility and withdrawal from the multi-employer pension plan. In 2023 Q4, the Company made the decision to continue operations of the Pembina facility indefinitely, thereby reversing the above adjustments made in 2022 Q2. Also included is $4.8 million of pension past service costs incurred during 2023 Q1.
10. Normalized to exclude non-operating costs related to an insurance event that are not recoverable, or are related to the deductible.
11. Includes adjustments made related to items that occurred outside of normal operations. This includes specified items purchased in broker markets at a premium and associated broker fees, which the Company provided to suppliers, and does not normally directly purchase. Also included is the additional labour costs associated with the shortage of the specified item.
12. Includes the impact of changes in deferred tax balances as a result of substantively enacted tax rate changes. The 2022 amounts include the impact of the revaluation of deferred tax balances due to the enacted increase in the UK corporate tax rate from 19% to 25% in 2021 Q3. Also included in 2022 Q4 is the impact of the reduction of deferred tax assets related to the derecognition of loss carry forwards in Canada, and restricted interest in the UK.
13. Includes adjustments made related to expenses that pertain to prior years. 2022 Q1 includes expenses related to amounts that should have been capitalized from prior years.
14. Provision for sales taxes as a result of a previous state sales tax review.
15. Includes 2022 Q4 impairment charges with respect to ARBOC's goodwill of $23.2 million and the Alexander Dennis manufacturing CGU's goodwill of $80.7 million.
16. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, inefficient labour costs, increased medical costs and right-of-use asset impairments and inventory impairments associated with other restructuring initiatives. Free Cash Flow[NG] reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.

Reconciliation of Shareholders' Equity to Invested Capital[NG]

($ thousands)	2023 Q4	2023 Q3	2023 Q2	2023 Q1
Shareholders' Equity	702,913	706,177	495,140	533,756
Addback				
Long term debt	536,037	583,948	935,605	911,203
Second lien debt	172,396	172,975	-	-
Obligation under lease	138,003	130,102	124,405	127,247
Convertible debentures	228,985	221,427	225,081	218,719
Senior unsecured debt	61,796	60,838	87,363	86,431
Derivatives	8,010	6,814	(9,422)	(17,164)
Cash	(49,615)	(75,498)	(57,488)	(59,375)
Bank indebtedness	-	-	-	-
Invested Capital[NG]	1,798,525	1,806,783	1,800,684	1,800,817
Average of invested capital[NG] over the quarter	1,802,654	1,806,342	1,800,751	1,776,276

	2022 Q4	2022 Q3	2022 Q2	2022 Q1
Shareholders' Equity	577,575	710,984	783,905	850,323
Addback				
Long term debt	896,626	859,297	718,139	677,996
Second lien debt	-	-	-	-
Capital leases	131,625	122,666	131,077	139,129
Convertible debentures	217,516	211,281	224,947	229,673
Senior unsecured debt	-	-	-	-
Derivatives	(21,620)	(18,904)	(8,179)	4,806
Cash	(49,987)	(39,832)	(50,274)	(26,604)
Bank indebtedness	-	-	-	1,233
Invested Capital[NG]	1,751,735	1,845,492	1,799,615	1,876,556
Average of invested capital[NG] over the quarter	1,798,614	1,822,554	1,838,086	1,829,374

Invested Capital[NG]

Invested Capital[NG] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Management believes that Invested Capital[NG] is an important measure in evaluating the Company's financial position. The Company defines Invested Capital[NG] as total interest-bearing debt plus derivative liabilities plus equity less cash on hand.

ROIC[NG]

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

Total Liquidity[NG]

Total Liquidity[NG] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines total liquidity[NG] as cash on-hand plus available capacity under its North American and UK Secured Facilities, without consideration given to the minimum banking liquidity requirement under the Secured Facilities.

Banking Covenant Liquidity[NG]

Banking Covenant Liquidity[NG] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Company defines banking covenant liquidity[NG] as cash on-hand plus available capacity under its North American Secured Facilities, without consideration given to the minimum banking liquidity requirement under the Secured Facilities.

Working Capital Days[NG]

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

Working Capital Days[NG] is calculated based on the following line items on the audited consolidated statement of financial position: Accounts Receivable and Inventories less Accounts Payables, Deferred Revenue and Provisions.

Payout Ratio[NG]

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

Book-to-Bill Ratio[NG]

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

Backlog[NG]

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

Total Leverage Ratio[NG]

Total Leverage Ratio[NG] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. TLR[NG] is calculated as aggregate indebtedness of the Company, not including the Company's Debentures and certain non-financial products, but including any Senior Unsecured or Second Lien indebtedness, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by Adjusted EBITDA[NG] (calculated on a trailing twelve-month basis). The TLR[NG] is reintroduced in 2024 Q3.

Interest Coverage Ratio[NG]

Interest Coverage Ratio[NG] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. ICR[NG] is calculated as the same trailing twelve month Adjusted EBITDA[NG] as the Total Leverage Ratio[NG] divided by trailing twelve-month interest expense on the Secured Facilities, the Debentures, any senior unsecured or second lien indebtedness and other interest and bank charges.

Total Net Debt to Capitalization[NG]

Total Net Debt to Capitalization[NG] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. TNDC[NG] is calculated as borrowings on the Secured Facilities and any senior unsecured or second lien indebtedness, less unrestricted cash and cash equivalents up to a maximum of $50 million, divided by shareholders' equity, as shown on the Company's balance sheet, plus borrowings on the Secured Facilities. The TNDC[NG] covenant excludes the impact of any actual goodwill write-downs up to a maximum of $100 million.

Minimum Adjusted EBITDA[NG]

The Minimum Adjusted EBITDA[NG] is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. The Minimum Adjusted EBITDA[NG] covenant is first tested with the month ending September 30, 2023, but includes results from the period May 1, 2023 to September 30, 2023. The covenant continues on a cumulative basis until April 30, 2024, at which point it becomes a trailing-twelve month test for the second quarter of 2024. The Minimum Adjusted EBITDA[NG] tests are based on calendar month-end dates from September 2023 to March 2024.

Senior Secured Net Leverage[NG]

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

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 December 31, 2023 in accordance with the criteria established in COSO 2013, and concluded that the Company's ICFR are effective.

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

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 December 31, 2023 were effective.

Appendix A

Meaning of Certain References

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

The Shares trade on the Toronto Stock Exchange (“TSX”) under the symbol NFI, and the Convertible Debentures trade on the TSX under the symbol NFI.DB. As at December 31, 2023, 118,961,932 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI’s Annual Information Form and information circular, is available on SEDAR at www.sedarplus.ca.

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

Forward Looking Statements

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

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

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

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

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

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

Appendix B - 2023 Fourth Quarter Bid Universe and Order Activity

Demand for Transit Buses and Motor Coaches

The Company's "Bid Universe" metric tracks known active public competitions in Canada and the United States and attempts to provide an overall indication of anticipated heavy-duty transit bus and motor coach public sector market demand. It is a point-in-time snapshot of: (i) EUs in active competitions, defined as all requests for proposals received by the Company and in process of review plus bids submitted by the Company and awaiting customer action (what NFI considers to be active bids), 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.

In 2023 Q4, active bids of 8,732 EUs were down 16.9% year-over-year and 15.7% from 2023 Q3. The decline was primarily driven by the higher number of new awards received in 2023 Q4, with EUs moving from bids submitted to new orders. The Company ended 2023 Q4 with 1,101 bids in process, and another 7,631 bids submitted, which is expected to drive further new orders in 2024. The number of bids submitted during 2023 Q4 was 43.0% greater than those submitted in 2022 Q4.

The forecasted five-year North American industry procurement has rebounded from the lows of the first half of 2021. As of 2023 Q4, the Total Bid Universe sat at 30,830 EUs, down slightly from its all-time high of 31,682 EUs in 2023 Q3. Year-over-year, the Total Bid Universe was essentially flat, increasing by 0.1%, or 46 EUs. The Company expects that the forecasted five-year North American industry procurement will remain high through the 2024 as transit agencies continue to formalize their short- and long-term procurement plans linked to the multi-billion funding programs announced and/or launched by governments in Canada and the U.S.

As at 2023 Q4, 16,169 EUs, or 52.4%, of the Total Bid Universe are ZEBs, an increase of 3.1% year-over-year, which supports management's expectations for a continued increase in the demand for ZEBs.

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

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)[1]	Total Bid Universe (EUs)
2022 Q4	5,169	5,338	10,507	20,277	30,784
2023 Q1	2,833	8,233	11,066	20,103	31,169
2023 Q2	1,682	8,372	10,054	21,569	31,623
2023 Q3	1,591	8,770	10,361	21,321	31,682
2023 Q4	1,101	7,631	8,732	22,098	30,830

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 it excludes potential ARBOC and Alexander Dennis sales in Canada and the U.S.

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

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

Due to the transactional nature of the procurement process in the UK, European and Asia Pacific markets, Alexander Dennis does not have a Bid Universe metric like the one seen in North American public markets. Alexander Dennis does maintain a sales pipeline and saw improvement in this pipeline in 2023, following several periods of lower demand. The increase in market demand is driven by customers' fleet recovery plans and an aging UK bus fleet. This has helped grow Alexander Dennis' backlog[NG] for 2024 deliveries. Governments continue to focus on the green recovery and government funding is starting to materialize. This funding, plus future investments under plans to expand transport service in communities outside of London is expected to contribute to market growth in 2024 and beyond. Alexander Dennis continues to grow its installed fleet in Europe through the execution of multi-year contracts in Ireland and Germany. The European market is highly fragmented with numerous players providing niche opportunities for Alexander Dennis in the future.

In Asia Pacific, the Hong Kong market is highly cyclical, and, following busier periods in 2015 through 2018, the market has declined as anticipated. Alexander Dennis remains the market leader for double-deck buses in the Hong Kong market and expects to see stable annual deliveries and slow recovery, reflecting typical market cyclicality, in 2024. In 2023 Q2, Alexander Dennis delivered its first battery-electric buses to key customers in Hong Kong and secured additional ZEB orders in this market in 2023 Q4. New Zealand and Singapore remain highly cyclical markets with more predictable purchasing expectations based on vehicle age; Alexander Dennis continues to see significant opportunities in both markets and is also pursuing additional expansion programs in South Africa and the Middle-East region.

Order activity

New orders (firm and options) during 2023 Q4 totaled 2,361 EUs, an 8.4% decrease from 2022 Q4. 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. New firm and option orders for Fiscal 2023 were 6,121 EUs, an increase of 5.8% from Fiscal 2022. 2023 Q4 was a slower period for option conversion, which can vary from quarter-to-quarter, with 54 EUs converted. These 54 EUs contributed to 404 EUs converted in Fiscal 2023. *Further details on options are provided below under the "Options" section.*

In 2023 Q4, the Company received orders for 988 EUs of battery-electric, zero-emission vehicles, an increase from the 206 EUs of ZEB orders in 2023 Q3, down slightly from the 1,118 EUs of ZEB orders in 2022 Q4. These 988 EUs of ZEBs equate to 41.8% of all new firm and option orders for the quarter.

3,832 EUs of new firm and option orders were pending from customers at the end of 2023 Q4, where approval of the award to the Company had been made by the customer's board, council, or commission, as applicable, but purchase documentation had not yet been received by the Company and therefore not yet included in the backlog[NG]. This was up from the 1,834 EUs of pending new firm and option orders as of the end of 2023 Q3. The Company anticipates that the majority of the units currently in bid award pending will convert into backlog[NG] during 2024 Q1.

	New Orders in Quarter (Firm and Option EUs)	LTM New Orders (Firm and Option EUs)	Option Conversions in Quarter (EUs)	LTM Option Conversions (EUs)
2022 Q4	2,578	5,786	118	638
2023 Q1	1,873	6,252	44	464
2023 Q2	917	5,821	289	668
2023 Q3	970	6,338	17	468
2023 Q4	**2,361**	**6,121**	**54**	**404**

Options

In 2023 Q4, 55 options expired, as compared to 149 options that expired in 2023 Q3, and 831 options that expired in 2022 Q4. Option expiries can vary significantly quarter-to-quarter. Certain agencies have let a portion of older options expire as they re-evaluate their longer-term fleet planning decisions with an increased focus on the procurement of ZEBs rather than traditional internal combustion engine propulsion. In certain cases, customers have issued new procurements to replace the expired options. NFI replenished a significant number of expired options through new orders in 2022 and 2023; in Fiscal 2023, 6,121 EUs in new option orders were added to the backlog[NG]. The option conversion rate improved from 25% in Fiscal 2022 to 41% in Fiscal 2023, reflecting the addition of newer contracts received in 2021 and 2022. The Company's conversion rate can vary significantly from quarter-to-quarter and should be looked at on an annual or LTM basis.

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
A) Options Expired (EUs)	741	512	1,202	819	1,920	575						5,759
B) Options Exercised (EUs)	1,795	1,518	953	1,110	638	404						6,418
C) Current Options by year of expiry (EUs)							284	749	1,223	1,707	1,611	5,574
D) Conversion rate % = B / (A+B)	**71 %**	**75 %**	**44 %**	**58 %**	**25 %**	**41 %**						

In addition to contracts for identified public customers, the Company has increased its focus on purchasing schedules (state and national contracts, cooperative agency purchasing agreements) with the objective of having multiple available schedules, from which customers within a prescribed region or from defined list, can purchase. The Company is currently named on over 40 of these purchasing schedules, either directly or through its dealers. These schedules are not recorded in backlog[NG] as they do not have defined quantities allocated to the

Company or any other original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order. The Company has received more than 1,500 vehicle awards from these schedules since the start of 2018, showing their growing use by transit agencies as a procurement alternative in North America.

The Company's 2023 Q4 Book-to-Bill[NG] ratio (defined as new firm orders and exercised options divided by new deliveries) was 111.2%, a decrease from 144.0% in 2022 Q4. This decrease was driven by lower total new orders and higher deliveries. Fiscal 2023 Book-to-Bill[NG] was 113.0% a decrease from 133.9% for Fiscal 2022, primarily driven by increased deliveries and the timing of customer awards.

Backlog[NG]

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

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas, diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses, represent approximately 65.9% of the total backlog[NG] as of the end of 2023 Q4, up from 62.2% as of the end of 2023 Q3. As at the end of 2023 Q4, there were 3,779 EUs of ZEBs in the backlog[NG], representing 35.7% of the total backlog[NG], down slightly from the record of 36.4% as at the end of 2023 Q1, but up from 28.6% as at the end of 2022 Q4.

	2023 Q4			2023 Q3			2022 Q4		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	4,863	4,693	9,556	5,089	4,714	9,803	4,153	4,352	8,505
New orders	1,371	990	2,361	825	145	970	1,371	1,207	2,578
Options exercised	54	(54)	—	17	(17)	—	118	(118)	—
Shipments[1]	(1,227)	—	(1,227)	(1,051)	—	(1,051)	(1,034)	—	(1,034)
Cancelled/expired	(49)	(55)	(104)	(17)	(149)	(166)	(32)	(831)	(863)
End of period	**5,012**	**5,574**	**10,586**	**4,863**	**4,693**	**9,556**	**4,576**	**4,610**	**9,186**
Consisting of:									
Heavy-duty transit buses	4,146	5,265	9,411	3,911	4,388	8,299	3,602	4,342	7,944
Motor coaches	246	309	555	353	305	658	347	268	615
Cutaway and medium-duty buses	620		620	599		599	627	—	627
Total Backlog[NG]	**5,012**	**5,574**	**10,586**	**4,863**	**4,693**	**9,556**	**4,576**	**4,610**	**9,186**

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

At the end of 2023 Q4, the Company's total backlog[NG] of 10,586 EUs (firm and options) increased by 10.8% from the end of 2023 Q3, and increased by 15.2% from the end of 2022 Q4. The increase was driven by higher awards in the quarter, offset by higher deliveries and fewer cancellations/expiries. Backlog[NG] for 2023 Q4 has a total dollar value of $7.9 billion[2], a 20.4% increase from 2023 Q3 and a 40.6% increase from 2022 Q4. 3,832 EUs of new firm and option orders were in bid award pending at the end of 2023 Q4, up from 1,834 as of the end of 2023 Q3. This high number of bid award pending EUs should position NFI for a significant period of new awards in 2024 Q1.

The average price of an EU in backlog[NG] is now $0.75 million, an 22.0% increase from 2022 Q4.

The summary of the values is provided below.

	2023 Q4		2023 Q3		2022 Q4	
		EUs		EUs		EUs
Total firm orders	$3,249.8	5,012	$2,864.6	4,863	$2,515.4	4,576
Total options	$4,677.6	5,574	$3,718.9	4,693	$3,123.0	4,610
Total backlog[NG]	**$7,927.4**	**10,586**	**$6,583.5**	**9,556**	**$5,637.4**	**9,186**

Consolidated Financial Statements of

NFI GROUP INC.

December 31, 2023

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February 28, 2024

Independent Auditor's Report

To the Shareholders of NFI Group Inc.

Opinion

We have audited the consolidated financial statements of NFI Group Inc. (the “Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and January 1, 2023, and the consolidated statements of net loss comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and January 1, 2023, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Goodwill – ARBOC and ADL Manufacturing — Refer to Notes 2 and 7 of the financial statements

Key Audit Matter Description

Annually, the Company’s evaluation of goodwill for impairment involves the comparison of the recoverable amount of each of its cash generating units (“CGU”), which is the higher of its fair value less costs of disposal and its value in use, to their carrying amount. The Company determined the recoverable amount of the ARBOC and ADL Manufacturing CGUs (collectively “identified CGUs”) to be the value in use, which was estimated using a discounted cash flow model. This required management to make significant estimates and assumptions including those related to future cash inflows and outflows, growth rates and discount rates.

At the annual evaluation date, the recoverable amounts of the CGUs exceeded their carrying amounts and no impairment was recognized.

While there are several key assumptions that are required to estimate the recoverable amount of the identified CGUs, the assumptions with the highest degree of subjectivity and impact on the recoverable amounts are related to the determination of forecasts of future revenues, operating margins and discount rates. This required significant auditor attention as these estimates are subject to estimation uncertainty. Auditing these estimates and assumptions required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort including the involvement of fair value specialists.

How the Key Audit Matter was Addressed in the Audit

Our audit procedures related to the determination of the forecasts of future revenues, operating margins and discount rates used to estimate the recoverable amount of the identified CGUs included the following, among others:

- Evaluated management’s ability to accurately forecast future revenues and operating margins by comparing actual results to management’s historical forecasts.
- Evaluated the reasonableness of the forecast of future revenues and operating margins by comparing the forecasts to:
  - Historical revenues and operating margins
  - Known changes in the Company’s operations and its industry
  - Internal reports including production and backlog supported by contracts
  - Internal communications to management and the Board of Directors
  - Macroeconomic and market specific information
- With the assistance of fair value specialists, evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the discount rates, developing a range of independent estimates and comparing those to the discount rates selected by management.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis.
- The information, other than the financial statements and our auditor’s report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Paul Stauch.

/s/ Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 28, 2024

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
52-weeks ended December 31, 2023 ("Fiscal 2023") and 52-weeks ended January 1, 2023 ("Fiscal 2022")
(in thousands of U.S. dollars except per share figures)

	Fiscal 2023	Fiscal 2022 restated (note 2.16, 2.24)
Revenue (note 25)	$ 2,685,231	$ 2,060,682
Cost of sales (note 4)	2,464,466	2,011,552
Gross profit	220,765	49,130
Sales, general and administration costs and other operating expenses	245,265	238,608
Foreign exchange gain	(3,249)	(5,205)
Impairment loss on goodwill (note 7)	—	103,900
Loss from operations	(21,251)	(288,173)
(Loss) gain on disposition of property, plant and equipment and right-of-use asset	(789)	565
Gain on debt modification	8,908	—
Unrealized foreign exchange (loss) gain on monetary items	(3,696)	598
Loss before interest and income taxes	(16,828)	(287,010)
Interest and finance costs		
Interest on long-term debt	86,456	52,674
Interest on convertible debt	12,519	14,002
Interest on senior unsecured debt	10,514	—
Accretion in carrying value of long-term debt (note 17)	4,415	5,582
Accretion in carrying value of convertible debt (note 19)	7,554	7,641
Accretion in carrying value of senior unsecured debt (note 16)	474	—
Interest expense on lease liability	8,084	5,780
Other interest and bank charges	5,964	5,395
Fair market value gain on prepayment option of second lien debt (note 18)	(640)	—
Equity swap settlement fee	3,519	—
Fair market value loss (gain) on interest rate swap	9,427	(37,708)
Fair market value loss (gain) on cash conversion option (note 19)	3,956	(16,578)
	152,242	36,788
Loss before income tax expense	(169,070)	(323,798)
Income tax recovery (note 15)		
Current income tax recovery	(11,941)	(19,809)
Deferred income tax recovery	(20,965)	(27,612)
Net loss for the period	$ (136,164)	$ (276,376)
Other comprehensive gain (loss)		
Actuarial (loss) gain on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss	(4,754)	14,844
Unrealized foreign exchange gain (loss) on translation of foreign operations - this item will not be reclassified subsequently to profit or loss	12,137	(23,449)
Net loss on equity hedge of restricted share plan	—	(287)
Total comprehensive loss for the period	(128,781)	(285,268)
Net loss per share (basic) (note 21)	$ (1.48)	$ (3.58)
Net loss per share (diluted) (note 21)	$ (1.48)	$ (3.58)

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

NFI GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31, 2023
(in thousands of U.S. dollars)

		December 31, 2023		January 1, 2023 restated (note 2.16, 2.24)
Assets				
Current				
Cash	$	49,615	$	49,987
Accounts receivable (note 3, 24e)		466,353		354,826
Inventories (note 4)		762,581		732,096
Income tax receivable		26,314		40,142
Derivative financial instruments (note 24a, b)		—		1,720
Prepaid expenses and deposits		18,988		23,452
		1,323,851		1,202,223
Property, plant and equipment (note 5, 25)		194,474		195,783
Right-of-use asset (note 6)		114,437		107,631
Derivative financial instruments (note 18, 24a, b)		2,767		27,800
Goodwill and intangible assets (note 7)		976,377		986,421
Accrued benefit asset (note 10)		4,337		14,747
Other long-term assets (note 8)		50,676		32,126
Deferred tax assets (note 15)		33,041		17,665
	$	2,699,960	$	2,584,396
Liabilities				
Current				
Accounts payable and accrued liabilities		547,626		453,790
Derivative financial instruments (note 24a, b)		1,481		2,837
Current portion of long-term debt (note 17)		—		17,901
Current portion of long-term liabilities (note 9)		170,599		167,251
		719,706		641,779
Accrued benefit liability (note 10)		3,035		2,927
Obligations under leases (note 6)		120,044		114,044
Deferred compensation obligation (note 11)		3,198		1,497
Deferred revenue (note 13)		30,540		17,603
Provisions (note 14)		65,258		70,971
Deferred tax liabilities (note 15)		46,756		56,914
Derivative financial instruments (note 19, 24a, b)		9,296		6,067
Senior unsecured debt (note 16)		61,796		—
Long-term debt (note 17)		536,037		878,725
Second lien debt (note 18)		172,396		—
Convertible debentures (note 19)		228,985		216,513
	$	1,997,047	$	2,007,040
Commitments and contingencies (note 27)				
Shareholders' equity				
Share capital (note 20)		1,240,163		988,218
Stock option and restricted share unit reserve (note 12)		13,673		11,285
Accumulated other comprehensive income (loss)		4,409		(2,979)
Deficit		(555,332)		(419,168)
	$	702,913	$	577,356
	$	2,699,960	$	2,584,396

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

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the period ended December 31, 2023
(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Deficit	Total Shareholders' Equity
Balance, January 2, 2022 (restated) (note 2.24)	**$ 987,943**	**$ 10,105**	**$ 5,921**	**$ (133,380)**	**$ 870,589**
Net loss (restated) (note 2.24)	—	—	—	(276,377)	(276,377)
Other comprehensive loss	—	—	(8,900)	(9,411)	(18,311)
Share-based compensation, net of deferred income taxes	—	1,455	—	—	1,455
Shares issued	275	(275)	—	—	—
Balance, January 1, 2023 (restated) (note 2.24)	**$ 988,218**	**$ 11,285**	**$ (2,979)**	**$ (419,168)**	**$ 577,356**
Net loss	—	—	—	(136,164)	(136,164)
Other comprehensive gain	—	—	7,388	—	7,388
Equity Transaction Cost	(10,476)	—	—	—	(10,476)
Share-based compensation, net of deferred income taxes	—	2,756	—	—	2,756
Shares issued – private placement (note 20)	170,458	—	—	—	170,458
Shares issued (note 20)	91,963	(368)	—	—	91,595
Balance, December 31, 2023	**$ 1,240,163**	**$ 13,673**	**$ 4,409**	**$ (555,332)**	**$ 702,913**

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

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52-weeks ended December 31, 2023 ("Fiscal 2023") and 52-weeks ended January 1, 2023 ("Fiscal 2022")

(in thousands of U.S. dollars)

	Fiscal 2023	Fiscal 2022 restated (note 2.24)
Operating activities		
Net loss for the period	$ (136,164)	$ (276,376)
Income tax recovery	(32,906)	(47,421)
Depreciation of property, plant and equipment	49,370	57,013
Amortization of intangible assets	31,410	31,482
Share-based compensation	2,618	1,346
Interest and finance costs recognized in profit or loss	148,926	53,311
(Gain) loss on fair value adjustment for total return swap	(3,765)	1,955
Unrealized foreign exchange loss (gain) on monetary items	3,696	(598)
Foreign exchange loss (gain) on cash held in foreign currency	1,053	(771)
Loss (gain) on fair value adjustment for cash conversion option	3,315	(16,578)
Loss (gain) on disposition of property, plant and equipment	789	(565)
(Recovery) impairment loss on property, plant and equipment	(2,558)	2,558
Impairment loss on right-of-use asset	—	4,144
Impairment loss on intangible asset	—	103,900
Gain on debt modification	(8,908)	—
Past service cost	4,764	—
Defined benefit expense	2,779	3,497
Defined benefit funding	(3,185)	(4,265)
Cash generated by (used in) operating activities before non-cash working capital items and interest and income taxes paid	61,234	(87,369)
Changes in non-cash working capital items (note 22)	(44,962)	(97,555)
Cash generated by (used in) operating activities before interest and income taxes paid	16,272	(184,924)
Interest paid	(109,389)	(58,348)
Income taxes recovered	29,304	1,422
Net cash used in operating activities	(63,813)	(241,850)
Financing activities		
Repayment of obligations under lease	(21,712)	(24,535)
(Repayment) proceeds from revolving credit facilities	(192,401)	285,204
Share issuance	262,055	(2)
Share issuance costs	(10,476)	—
Proceeds on other long-term liabilities	18,374	—
Proceeds from senior unsecured debt	61,996	—
Dividends paid	—	(22,388)
Net cash generated by financing activities	117,836	238,279
Investing activities		
Acquisition of intangible assets	(10,274)	(10,212)
Proceeds from disposition of property, plant and equipment	1,769	1,687
Investment in long-term restricted deposits	(18,123)	5,365
Acquisition of property, plant and equipment	(26,714)	(21,371)
Net cash used in investing activities	(53,342)	(24,531)
Effect of foreign exchange rate on cash	(1,053)	771
Decrease in cash	(372)	(27,331)
Cash — beginning of period	49,987	77,318
Cash — end of period	$ 49,615	$ 49,987

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

1. CORPORATE INFORMATION

1.1 Corporate information

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

These audited consolidated financial statements (the "Statements") were approved by NFI's board of directors (the "Board") on February 28, 2024.

1.2 Refinancing plan

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

- The $1.0 billion revolving North American Facility converted to a $400 million first lien term loan and a $361 million first lien revolving credit facility (total combined borrowing capacity of $761 million), which includes a $150 million letter-of-credit facility.
- The £40 million revolving UK Facility converted to a £16.0 million term loan and a £14.4 million revolving credit facility (total combined borrowing capacity of £30.4 million).
- Extension of maturity dates of the Secured Facilities to April 30, 2026.
- Total leverage[NG] and interest coverage[NG] covenants waived until 2024 Q3. Minimum banking liquidity[NG] requirement increased from $25 million to $50 million (note 24).

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

- A five-year term and a 97% original issue discount, generating net proceeds of $175.0 million, before fees and commissions;
- Annual coupon of 14.5%, payable semi-annually;
- Callable at 100% of face value with applicable premium for the first 12 months, callable at 106% of face value for months 13 to 24, callable at 103% of face value for months 25 to 36 and callable at par from 36 months onwards; and
- The financing has been provided by funds and accounts managed by Coliseum Capital Management LLC, the Company's largest shareholders', and a related party to it.

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

As part of the refinancing plan, the Company:

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

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The going concern basis asserts that the Company has the ability to realize its assets and discharge its liabilities and commitments in the normal course of business and requires an assessment looking out at least 12 months. While our going concern assessment identified material uncertainties up until 2023 Q3, management has concluded the material uncertainties no longer exist. That conclusion necessarily involved management judgments, estimates and assumptions, and consideration of recent developments including:

- The completion of the Refinancing Plan (Note 1.2 and Note 17) which resulted in more favourable debt covenants and an extension of maturities until at least 2026;
- The completion of the private placements and public offering (Note 20) which generated incremental liquidity[NG];
- Continued growth of order backlog in both unit and dollars;
- Improvements in the supply chain; and
- Revenue and margin projections and forecasts regarding performance against the debt covenants.

Actual results may differ from these estimates and assumptions.

2.2 Principles of consolidation

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

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

The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and business acquisition related expenses are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is reassessed and any remaining difference is recognized directly in the consolidated statements of net loss and comprehensive loss.

Inter-company transactions between subsidiaries are eliminated on consolidation.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.3 Reportable Segments

The Company's reportable segments are organized around the markets it serves and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The President and Chief Executive Officer of the Company has authority for resource allocation and assessment of the Company's performance and therefore acts as the CODM.

2.4 Foreign currency

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in U.S. dollars as this presentation is most meaningful to financial statement users. References to "$" are to U.S. dollars, references to "C$" are to Canadian dollars, references to "£" are to British pounds sterling. 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 (losses) gain on translation of foreign operations in other comprehensive loss.

Monetary balances denominated in a currency other than U.S. dollars are translated at the rates of exchange existing at the end of the period, and the results of the operations are translated at average rates of exchange over the period. Non-monetary balances are translated at the exchange rate prevailing at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings, non-current monetary items and non-current forward foreign exchange contracts are presented in the consolidated statements of net loss and comprehensive loss within "unrealized foreign exchange loss (gain) on non-current monetary items".

All other foreign exchange gains and losses are presented in the consolidated statements of net loss and comprehensive loss within "foreign exchange gain or loss".

2.5 Revenue recognition

<u>Manufacturing Operations</u>

Persuasive evidence of an arrangement exists in the form of a written contract. A process is in place that initiates a pre-shipment acceptance by the customer at the Company's plant. This acceptance prior to shipment mitigates the likelihood of customer's dissatisfaction with the final product upon delivery to the customer. Revenue is recorded when the vehicle is delivered, shipped, or picked up by the customer. The customer does not have a legal right to return the delivered products after the acceptance period, or deviate from the agreed upon price. The Company's contract clearly identifies a fixed and determinable price.

In connection with its sales of new coaches, the Company at times agrees to accept a pre-owned coach in exchange and gives the buyer a credit equal to the pre-owned coach's then-current fair value. Any credit provided to the customer in excess of the fair value of the pre-owned coach is deducted from the selling price of the new coach.

When a single sale transaction requires the delivery of more than one product or service (multiple performance obligations), the revenue recognition criteria are applied to the separately identifiable performance obligations. A performance obligation is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each performance obligation is its fair value in relation to the fair value of the contract as a whole. Management has determined that the standard base warranty included in the bus or coach purchase is not a separate performance obligation and therefore recognized upon delivery of the vehicle.

The Company sells extended warranty contracts that provide coverage in addition to the basic coverage. Proceeds from the sale of these contracts are deferred and amortized into revenue over the extended warranty period commencing at the end of the basic warranty period.

The Company also receives proceeds from the sale of extended warranties relating to major subsystems such as engines, transmissions, axles, batteries, fuel cells, and air conditioning that are purchased for the customer from the original equipment manufacturer ("OEM"). Revenue is not recognized on these proceeds, as the Company is an agent to the transaction.

The Company, from time-to-time, may enter into arrangements with customers where the customer has requested that the Company defer shipping a vehicle and instead hold it for a specified period until the customer is able to take possession.The Company recognizes revenue for bill and hold arrangements when the arrangement is substantive, the product is identified separately as belonging to the customer and ready for physical transfer to the customer, and the Company cannot use the product or allocate it to another customer. The Company does not recognize revenue on any bus or coach firm or option orders that have not yet been delivered except on bill and hold arrangements.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

The Infrastructure Solutions™ business sources, installs and commissions electric vehicle chargers, and constructs the related charging infrastructure. Revenues related to the supply, installation and commissioning of electric vehicle chargers are recognized once the chargers pass final customer acceptance testing. Revenues related to construction of charging infrastructure are recognized over time using the cost-to-cost input method. The cost-to-cost method measures the Company's progress toward completion based on the total costs incurred relative to the total estimated contract costs.

Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract and is recognized in revenue in the consolidated statements of net loss and comprehensive loss due to its operating nature.

Aftermarket Operations

Persuasive evidence of an arrangement exists in the form of an authorized sales order. The customer is invoiced, and revenue is recorded at the time the part is delivered using a commercial shipper. For parts not kept in stock, the parts required by the customer and shipment details are provided to the supplier and the parts are shipped from the supplier directly to the customer's location, these transactions are recorded on a gross basis as the Company is the principal in the arrangement. The price list for parts clearly identifies a fixed and determinable price, while also describing that the Company has no legal obligation to accept the return of goods other than on defective and/or warrantable parts product. Aftermarket parts revenue does not contain any revenue related to the bus or coach warranty.

2.6 Employee benefits

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined by independent actuaries using the projected unit credit method. Actuarial remeasurement is comprised of actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), and is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in accumulated other comprehensive income and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are comprised of service costs (including current service cost, past service cost and gain or losses on curtailments and settlements), net interest expense or income and remeasurement.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

2.7 Share-based compensation plans

The Company operates cash-settled and equity-settled share-based compensation plans under which it receives services from executive management and non-employee members of the Board.

For the cash-settled plans (note 12), the expense is determined based on the fair value of the liability at the end of the reporting period until the awards are settled. Certain share-based compensation plans include non-market performance conditions. The Company`s accounting policy is to recognize the impact of non-market performance conditions by adjusting the number of awards that are expected to vest. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions on compensation expense (note 25) in the consolidated statements of net loss and comprehensive loss.

For the equity-settled plans (note 12), share-based payments to executive management are measured at the fair value of the equity instruments at the grant date. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which the options vest. The offset to the recorded cost is the stock option reserve. Consideration received on the exercise of stock options is recorded as share capital and the related stock option reserve is transferred to share capital. Upon expiry, the recorded value is transferred to retained earnings. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net loss and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the stock option reserve. Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statements of net loss and comprehensive loss.

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

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.8 Cash

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

2.9 Accounts receivables

Accounts receivables are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Accounts receivables are classified as current assets if payment is due within one year or less. Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment, if any.

The Company maintains an allowance for doubtful accounts and sales adjustments to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within “Sales, general and administration costs and other operating expenses” in the consolidated statements of net loss and comprehensive loss.

2.10 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.11 Property, plant and equipment

Property, plant and equipment are recorded at cost reduced by applicable investment tax credits, less accumulated depreciation. Depreciation is calculated at the following annual rates:

Building and building improvements	4% declining-balance basis
Machinery and equipment	25% declining-balance basis
Demo buses and coaches	20% - 50% straight-line basis
Computer hardware and software	30% declining-balance basis
Office equipment	20% declining-balance basis
Buses and coaches available for lease	20% - 50% straight-line basis

Property, plant and equipment are tested for impairment as described under “Impairment of non-financial assets” in note 2.15.

2.12 Right-of-use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated based on the lease term of the asset using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms are as follows:

Land, building and building improvements	4 - 35 years
Machinery and equipment	15 months - 5 years
Automobiles	13 months - 3 years
Office equipment	14 months - 5 years

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be determined, the Company uses its incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

2.13 Intangible assets

Identifiable intangible assets are initially recorded at cost. Based on management's forecasts and business plans and the going concern of the Company, the trade names intangible asset (note 7) has been deemed to have an indefinite life, except for the "NABI Parts" tradename which is amortized over its useful life of 12 years. For purposes of impairment testing, the fair value of trade names is determined using an income approach.

Intangible assets that have a finite life are amortized using the straight-line method over the estimated useful lives of the assets as follows:

Patents and Licenses	5-12 years
Backlog of sales orders	1-2 years
Customer relationships	21 years
Internally developed intellectual property	5-7 years

Identifiable intangible assets with finite and indefinite lives are tested for impairment as described under "Impairment of non-financial assets" in note 2.15.

2.14 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Separately recognized goodwill is tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable and also tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.15 Impairment of non-financial assets

Non-financial assets with finite lives are tested at the end of every reporting period for possible impairment when there are events or changes in circumstances that indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. The carrying values of identifiable intangible assets with indefinite lives are tested annually for impairment because they are not amortized. Impairment is determined by comparing the recoverable amount of such assets with their carrying amounts. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate.

The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or cash generating units ("CGUs"). The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.16 Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses, unless the losses relate to an onerous contract.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured as at each consolidated statements of financial position date using the then current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

At the time of sale, a provision for warranty claims relating to the base warranty on the entire bus or motor coach and a corrosion warranty on the related structure, is recorded and charged against operations. This warranty provision is based upon management's best estimate of expected future warranty costs utilizing past claims experience. Actual warranty expenditures are charged against the provision as incurred.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

The Company elected to make a voluntary change in accounting policy on the existence of warranties to provide better information to the readers of the financial statements. After a review of assurance and service-type warranties were performed, it was deemed more relevant to classify certain extended warranties as assurance-type warranties in accordance with IAS 37. As the company has applied this change in policy retrospectively, this has resulted in a prior year restatement of deferred revenue, warranty provision, revenue and cost of sales of $6.7 million.

2.17 Long-term debt and second lien debt

Long-term debt and second lien debt are recognized initially at fair value, net of transaction costs incurred. Debt is subsequently stated at amortized cost with any difference between the proceeds and the amortized cost recognized in the consolidated statements of net loss and comprehensive loss over the term of the debt using the effective interest method.

Debt is classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the date of the consolidated statements of financial position.

2.18 Convertible Debentures

Convertible debentures issued by the Company are convertible unsecured debentures that can be converted to share capital at the option of the holder. Upon conversion, the Company has the option to pay the holder out in share capital or cash, this creates a derivative liability. The host liability component of the financial instrument is recognized initially at fair value of a similar liability that does not have a conversion option, net of transaction costs incurred, and is subsequently stated at amortized cost with any difference between the proceeds and the amortized cost recognized in the consolidated statements of net loss and comprehensive loss.

The cash conversion option, net of transaction costs is treated as an embedded derivative which is recognized at fair value through profit and loss.

2.19 Financial instruments

Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets are classified in the following categories at the time of initial recognition based on the purpose for which the financial assets were acquired:

Financial assets at fair value through profit or loss

Classification

Financial assets at fair value through profit or loss are financial assets held for trading or designated as fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Assets in this category include derivative financial instruments and are classified as short or long term assets in the consolidated statements of financial position.

Recognition and measurement

Financial assets are initially recognized at fair value and subsequently carried at fair value through profit and loss, with changes recognized in the consolidated statements of net loss and comprehensive loss. Transaction costs are expensed as incurred.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

Financial assets carried at amortized cost

Classification

Financial assets classified as amortized cost are non-derivative financial assets that the Company intends to hold in order to collect the contractual cash flows and have fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the date of the consolidated statements of financial position, which are classified as non-current assets. Assets in this category include accounts receivables, income tax receivables, deposits and cash and are classified as current assets in the consolidated statements of financial position.

Recognition and measurement

Financial assets carried at amortized cost are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Financial liabilities carried at amortized cost

Financial liabilities primarily consist of accounts payable and accrued liabilities, derivative financial instruments, convertible debt, other long-term liabilities and long-term debt. Financial liabilities are initially measured at fair value and subsequently measured at amortized cost unless classified as fair value through profit or loss.

Hedge accounting and derivative instruments

The Company enters into foreign currency, interest rate, and share forward contract derivatives to manage the associated risks. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivative instruments are recognized in the consolidated statement of net loss, except for effective changes for designated derivatives under hedge accounting.

Cash Conversion Option

An embedded derivative is a derivative component attached to a non-derivative contract. The Company has an embedded derivative, the cash conversion option of the Company’s convertible debentures (note 19). The cash conversion option meets separation criteria outlined in IFRS 9.4.3.3, and is recognized and measured separately from convertible debentures. This embedded derivative is measured in accordance with IFRS, measured initially at fair value, with changes in fair values recognized within the consolidated statements net loss.

Prepayment option on second lien debt

An embedded derivative is a derivative component attached to a non-derivative contract. The Company has an embedded derivative, the prepayment option of the Company’s second lien debt (note 18). The prepayment option meets separation criteria outlined in IFRS 9.4.3.3, and is recognized and measured separately from second lien debt. This embedded derivative is measured in accordance with IFRS, measured initially at fair value, with changes in fair values recognized within the consolidated statements net loss.

2.20 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of net loss and comprehensive loss except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using the tax rates under the laws that were enacted or substantively enacted at the date of the consolidated statements of financial position.

Deferred tax is accounted for using the liability approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statements of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the date of the consolidated statements of financial position.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). The carrying amount of deferred tax assets is reviewed as at the date of each consolidated statements of financial position and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). As well, deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

International Tax Reform - Pillar two model rules

In May 2023, the IASB amended IAS 12, Income taxes, for International tax reform - Pillar two Model Rules. The amendments to IAS 12 have been introduced in response to the Organization for Economic Co-operation and Development's BEPS Pillar Two rules and include a mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities. The mandatory temporary exception and disclosure requirements apply immediately for annual reporting periods beginning on or after January 1, 2023, which have been adopted by the Company as at December 31, 2023. The adoption of this amendment, the enactment of the Pillar Two legislation in the UK and the proposed Pillar Two legislation in certain jurisdictions the Company operates in is not expected to have a significant impact on the audited consolidated financial statements of the Company.

2.21 Investment tax credits

The Company has earned investment tax credits ("ITCs") relating to a percentage of eligible current and capital research and development expenditures incurred in each taxation year. ITCs are recognized when there is reasonable assurance that the Company will comply with the associated conditions and the grants will be received. The ITCs are recognized either as a reduction in cost of sales on the consolidated statements of net loss and comprehensive loss, or as a reduction in intangibles, or property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2.22 Vendor Rebates

The Company records certain consideration received from a vendor, which is probable and can be reasonably estimated, as a reduction of the cost of purchases during the period.

2.23 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in the consolidated statements of net loss and comprehensive loss in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include inventories, property, plant and equipment, intangible assets, goodwill, provisions, accrued benefit liability, deferred compensation obligation, and deferred income taxes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are addressed below.

Inventories

The value associated with inventory require management to make estimates associated with allocating labour and overhead costs to inventory in the period. Determining the net realizable values of inventory also requires management to make significant estimates.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

The values associated with property, plant and equipment is dependent on the estimated useful lives and the residual value of the assets. Actual results will vary from these estimates.

Intangible assets and goodwill

The values associated with the initial recognition and impairment tests of the intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives.

These significant estimates are subject to the Company's future results. These determinations will affect the amount of amortization expense on intangible assets recognized in future periods.

Management assesses impairment by comparing the recoverable amount of an intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant estimation by management.

Management has determined that for purposes of this evaluation the Company has five CGUs: North American bus/coach manufacturing, ARBOC, ADL manufacturing, ADL aftermarket parts operations, and NFI Parts – North American aftermarket parts operations.

Goodwill is allocated to the Company's five CGUs for the purpose of impairment testing. The Company performs its annual test for impairment of goodwill in the fourth quarter of each year and also when indicators of impairment exist.

Insurance provisions

Estimated provision around the companies' insurance risk retention involves significant estimates. Management estimates the related provision based on historical information, as well as any available information on actual claims. Management engages an actuary to assist with these calculations, but future experience could vary significantly from historical information.

Accrued benefit liability

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the discount rate to measure obligations and return on assets, the projected age of employees upon retirement, life expectancy and the expected rate of future compensation changes.

Actual results will differ from results which are estimated based on assumptions. See note 2.7 for certain assumptions made with respect to employee benefits.

Deferred compensation obligation

The deferred compensation obligation is based on estimated future results of the Company. These results could vary significantly from actual future results. This would result in a significant change to the future compensation expense.

Income Taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. Management's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

The Company is subject to taxation in multiple jurisdictions. Significant judgment is required in determining the worldwide provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using management's best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions as at the date of each consolidated statements of financial position. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

Provision for Warranty and Campaign Costs

The Company offers warranties on the buses and coaches it sells. Management estimates the related provision for future warranty claims and campaigns based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include quality initiatives, as well as parts and labour costs.

Critical judgments in applying accounting policies

The following critical judgments that were made by management have the most significant effect on the amounts recognized in the financial statements.

Revenue recognition

As described in note 2.5, management assessed the criteria for the recognition of revenue related to arrangements that have multiple components as set out in IFRS 15. Also, judgment is necessary to determine when components can be recognized separately and the allocation of the related consideration allocated to each component.

Also as described in note 2.5, management assessed the criteria for the recognition of revenue in an agency relationship related to the sale of extended warranties that are purchased for the customer from the OEM as set out in IFRS 15.

Functional currency

Management assessed the criteria for the determination of functional currency as set out in International Accounting Standards ("IAS") 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions or the primary economic environment in which the entity operates, rather than focusing on the currency in which the transactions are denominated in. Items included in the financial statements of each consolidated entity of the Company are measured using the functional currency. The audited consolidated financial statements are presented in the U.S. dollar, which is the Company's functional and presentation currency.

The financial statements of entities that have a functional currency different from that of the Company's (“foreign operations”) are translated into U.S. dollars. All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Goodwill

Judgment is required in the selection of CGUs and the allocation of assets and liabilities to these CGUs, which is necessary to assess the impairment of long-term assets, goodwill and intangible assets.

2.24 New standards adopted

IFRS 17 – Insurance Contracts

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

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

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

The adoption of IFRS 17 resulted in a decrease to net loss and retained deficit of $1,385 for Fiscal 2022, and an increase to net loss and retained deficit of $1,182 for 2021 and prior fiscal periods. There was no change to reported earnings (loss) per share.

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

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

The transition adjustment is as follows:

	Assets		Liabilities		Shareholders' Equity
	Accounts receivable	Prepaid expenses and deposits	Accounts payable and accrued liabilities	Provisions	Retained Earnings (Deficit)
As reported January 1, 2023	$ 366,224	$ 16,928	$ 455,368	$ 71,299	$ (419,373)
Transition adjustment	(11,398)	6,524	(1,578)	(328)	205
Restated January 1, 2023	$ 354,826	$ 23,452	$ 453,790	$ 70,971	$ (419,168)

IAS 1 - Presentation of Financial Statements:

Classification of Liabilities as Current or Non-current, which amends IAS 1, was issued January 2020 and October 2022, effective for annual reporting periods beginning on or after January 1, 2024. This clarified a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. Management assessed that this standard does not have a material impact on the audited consolidated financial statements and that the Company is in compliance with the required disclosures.

2.25 Standards issued but not yet adopted

IFRS 7 – Supplier financing arrangements - disclosures

In May 2023, the International Accounting Standards Board ("IASB") issued the final amendments to IAS 7 and IFRS 7 which address the disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The amendments are effective January 1, 2024 and provide additional disclosure requirements for supplier finance arrangements including disclosure of the terms and conditions, range of payment due dates, and liquidity risk information. The amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities sit on the balance sheet must also be disclosed.

Management assessed there will be an impact on the disclosure requirements effective January 1, 2024.

3. ACCOUNTS RECEIVABLE

	December 31, 2023	January 1, 2023 restated (note 2.24)
Trade, net of allowance for doubtful accounts (note 24e)	$ 430,261	$ 322,200
Other	36,092	32,626
	$ 466,353	$ 354,826

4. INVENTORIES

	December 31, 2023	January 1, 2023
Raw materials	$ 360,575	$ 329,388
Work in process	331,119	343,424
Finished goods	70,887	59,284
	$ 762,581	$ 732,096

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

4. INVENTORIES (Continued)

	Fiscal 2023	Fiscal 2022
Cost of inventories recognized as expense and included in cost of sales	$ 2,363,585	$ 1,892,039
Write-down of inventory to net realizable value in cost of sales	2,331	8,362
Reversals of a previous write-down in inventory	225	—

5. PROPERTY, PLANT AND EQUIPMENT

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demo buses and coaches	Buses and coaches available for lease	Total
Cost	$ 119,363	$ 219,753	$ 57,221	$ 7,985	$ 52,934	$ 27,068	484,324
Accumulated depreciation	21,662	138,746	39,309	5,577	37,221	20,471	262,986
January 2, 2022 net book value	97,701	81,007	17,912	2,408	15,713	6,597	221,338
Additions	3,290	13,458	1,745	67	2,799	12	21,371
Transfer to inventory	—	—	—	—	(908)	(2,178)	(3,086)
Disposals	(138)	(475)	—	—	(640)	—	(1,253)
Depreciation charge	(4,860)	(16,384)	(4,441)	(521)	(6,752)	(2,341)	(35,299)
Impairment	(2,558)	—	—	—	—	—	(2,558)
Cumulative translation adjustment	(904)	(2,719)	(225)	7	(902)	13	(4,730)
January 1, 2023 net book value	92,531	74,887	14,991	1,961	9,310	2,103	195,783
Additions	9,140	13,482	1,856	15	2,171	50	26,714
Transfer (to) from inventory	—	(57)	—	—	897	(1,752)	(912)
Disposals	(2,306)	(143)	—	—	—	—	(2,449)
Depreciation charge	(4,183)	(16,622)	(4,240)	(363)	(4,268)	(257)	(29,933)
Reversal of Impairment (note 30)	2,558	—	—	—	—	—	2,558
Cumulative translation adjustment	534	1,918	103	1	157	—	2,713
December 31, 2023 net book value	$ 98,274	$ 73,465	$ 12,710	$ 1,614	$ 8,267	$ 144	$ 194,474

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Office equipment	Demo buses and coaches	Buses and coaches available for lease	Total
Recorded as:							
Cost	$ 119,053	$ 230,017	$ 58,741	$ 8,059	$ 53,283	$ 24,915	$494,068
Accumulated depreciation	26,522	155,130	43,750	6,098	43,973	22,812	298,285
January 1, 2023 net book value	$ 92,531	$ 74,887	$ 14,991	$ 1,961	$ 9,310	$ 2,103	$195,783
Cost	$ 128,979	$ 245,217	$ 60,700	$ 8,075	$ 56,508	$ 23,213	$522,692
Accumulated depreciation	30,705	171,752	47,990	6,461	48,241	23,069	328,218
December 31, 2023 net book value	$ 98,274	$ 73,465	$ 12,710	$ 1,614	$ 8,267	$ 144	$194,474

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

6. RIGHT-OF-USE ASSETS

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Cost	146,952	49,454	13,690	$ 210,096
Accumulated Depreciation	38,856	36,245	13,234	88,335
January 2, 2022 net book value	108,096	13,209	456	$ 121,761
Additions	15,133	1,210	1,501	17,844
Disposals	(4,223)	(78)	—	(4,301)
Impairment	(4,144)	—	—	(4,144)
Depreciation charge	(14,401)	(5,818)	(444)	(20,663)
Cumulative translation adjustment	(2,682)	(184)	—	(2,866)
January 1, 2023 net book value	$ 97,779	$ 8,339	$ 1,513	$ 107,631
Additions	21,421	4,867	1,610	27,898
Disposals	(1,976)	(70)	—	(2,046)
Depreciation charge	(13,249)	(5,403)	(785)	(19,437)
Cumulative translation adjustment	385	6	—	391
December 31, 2023 net book value	$ 104,360	$ 7,739	$ 2,338	$ 114,437

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Recorded as:				
Cost	151,036	50,402	15,191	216,629
Accumulated Depreciation	53,257	42,063	13,678	108,998
January 1, 2023 net book value	97,779	8,339	1,513	107,631
Cost	170,866	55,205	16,801	242,872
Accumulated Depreciation	66,506	47,466	14,463	128,435
December 31, 2023 net book value	$ 104,360	$ 7,739	$ 2,338	$ 114,437

Total cash outflows for payments on lease liabilities was $29.8 million for the period ended December 31, 2023 (2022: $27.3 million) of which $21.7 million (2022: $24.5 million) was for principal repayments.

Right-of-use asset impairments are associated with a service center location and production facility location that will not be used by the Company for the remaining duration of the lease as a result of the "NFI Forward" restructuring program (see note 30). The impairments total of nil (2022: $4.1 million) are reflected in the Manufacturing reportable segment.

The Company assessed the extension periods embedded within each lease for inclusion in the lease liabilities on a lease-by-lease basis. When it determined it was reasonably certain to exercise the extension option within the lease, the Company has included those extension periods in the initial recognition of the right-of-use asset and lease liability. Significant leases where assumptions have been made are long-term building leases.

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

7. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trade names	Patents and Licenses	Customer relationships	Backlog of sales orders	Internally developed intellectual property	Total
Cost	$ 528,583	$ 270,354	$ 155,800	$ 528,995	$ 21,738	1,670	$ 1,507,140
Accumulated amortization	—	2,063	141,092	197,284	21,738	—	362,177
January 2, 2022 net book value	528,583	268,291	14,708	331,711	—	1,670	1,144,963
Additions	—	—	—	—	—	10,212	10,212
Amortization charge	—	(275)	(6,797)	(23,661)	—	(749)	(31,482)
Impairment loss	(103,900)	—	—	—	—	—	(103,900)
Cumulative translation adjustment	(14,980)	(4,857)	(1,030)	(11,961)	—	(544)	(33,372)
January 1, 2023 net book value	409,703	263,159	6,881	296,089	—	10,589	986,421
Additions	—	—	33	—	—	10,241	10,274
Amortization charge	—	(275)	(6,454)	(23,878)	—	(803)	(31,410)
Cumulative translation adjustment	3,468	2,262	231	5,572	—	(441)	11,092
December 31, 2023 net book value	$ 413,171	$ 265,146	$ 691	$ 277,783	$ —	$ 19,586	$ 976,377
Recorded as:							
Cost	$ 409,703	$ 265,497	$ 154,770	$ 517,034	$ —	$ 11,338	1,358,342
Accumulated amortization	—	2,338	147,889	220,945	—	749	371,921
January 1, 2023 net book value	409,703	263,159	6,881	296,089	—	10,589	986,421
Cost	413,171	267,759	155,034	522,606	—	21,138	1,379,708
Accumulated amortization	—	2,613	154,343	244,823	—	1,552	403,331
December 31, 2023 net book value	$ 413,171	$ 265,146	$ 691	$ 277,783	$ —	$ 19,586	$ 976,377

The recoverable amount of the Company's CGUs is determined based on the greater of value-in-use calculations and fair value less costs to sell. Value-in-use calculations, which was determined to be the recoverable amount, use estimated cash flow projections based on adjusted financial plans approved by the Board covering five-year periods and discount rates based on weighted average cost of capital of like businesses that range between 13.5% and 14.8% per annum for the AD manufacturing and the AD parts CGUs; between 14.5% and 15.5% for the North American bus/coach manufacturing CGU; between 15% and 16.3% for the ARBOC CGU; and between 14.3% and 15.5% per annum for the NFI Parts CGU. Cash flows beyond this 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 cash flows based on a projected production schedule, past performance and expectations of market development. The discount rates used reflect specific risks relating to the relevant CGUs.

Sensitivity testing is conducted as part of the annual 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 the North American bus/coach manufacturing CGU, AD manufacturing CGU, AD parts CGU or NFI Parts CGU.

Impairment of the ARBOC CGU may result if a combination of the following changes occurs:

- the discount rate is higher by at least 0.5%
- the long-term growth rate is lower by 1.0%

Based upon historical operating results, management's forecasts and business plans, the Company's trade names were assigned an indefinite life, except for the "NABI Parts" tradename (net book value of $688 at December 31, 2023) which is amortized over its useful life, which ends in 2025.

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

8. OTHER LONG-TERM ASSETS

	December 31, 2023	January 1, 2023
Long-term restricted deposit(s) (note 24b)	$ 45,441	$ 25,351
Long-term accounts receivable	5,235	6,775
	$ 50,676	$ 32,126

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

9. CURRENT PORTION OF LONG-TERM LIABILITIES

	December 31, 2023	January 1, 2023
Deferred revenue	$ 138,091	$ 124,851
Provisions (note 14)	13,341	24,283
Deferred compensation obligation	1,208	536
Obligations under leases	17,959	17,581
	$ 170,599	$ 167,251

10. ACCRUED BENEFIT ASSET (LIABILITY)

Defined benefit plan

Certain of the Company's subsidiaries have defined benefit plans which cover certain employees in Canada and the United States. Actuarial valuations for the Company's subsidiaries were last performed as at December 31, 2022 and December 31, 2023.

Information in respect of the Company's defined benefit plans is as follows:	December 31, 2023	January 1, 2023
Change in plan assets		
Plan assets at fair value — beginning of period	$ 85,062	$ 109,324
Interest income	4,183	3,175
Remeasurement gains (losses) - return on plan assets (excluding amounts in net interest)	2,797	(16,203)
Administrative income (expenses)	1,509	(239)
Employer’s contributions	3,240	4,254
Benefits paid	(6,454)	(5,651)
Plan settlement	—	(3,706)
Foreign exchange gain (loss)	1,976	(5,892)
Plan assets at fair value — end of period	92,313	85,062
Change in defined benefit obligation		
Defined benefit obligation — beginning of period	73,244	116,419
Current service cost	3,199	4,597
Interest cost	3,814	3,362
Benefits paid	(6,454)	(9,358)
Foreign exchange loss (gain)	1,917	(4,828)
Past service costs	4,764	—
Actuarial loss (gain) arising from changes in financial assumptions	10,527	(36,950)
Actuarial gain arising from experience adjustments assumptions	—	—
Defined benefit obligation — end of period	91,011	73,242
Accrued benefit asset (liability) - present value of unfunded obligations	$ 1,302	$ 11,820

The actual return on the plan assets for Fiscal 2023 was $6,980 (Fiscal 2022: loss of $13,028).

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

10. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation and net pension plan expenses are as follows:

		Fiscal 2023	Fiscal 2022
Country	Mortality Table	Discount Rate	
Canada	CPM2014 Private sector with Scale MI-2017 with size adjustment	4.60 %	5.10 %
Canada	CPM2014 Private combined with the MI-2017 improvement scale	4.57% - 4.95%	2.20% - 5.10%
US	Private-2012 MP2021	4.95 %	5.15%

			Discount rate - sensitivity		**Life expectancy - sensitivity**	
			1% increase	1% decrease	one year increase	one year decrease
Country	Last valuation date	Next valuation date	Then obligation would decrease by:	Then obligation would increase by:	Then obligation would increase by:	Then obligation would decrease by:
Canada	Dec. 31, 2023	Dec. 31, 2025	13.5 %	16.8 %	1.3 %	1.3 %
Canada	Dec. 31, 2022	Dec. 31, 2025	12.6 %	15.9 %	4.5 %	4.5 %

The defined benefit plans typically exposes the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Management believes the plans currently have a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the Company's pension committee considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest rate risk

A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

The Company's defined benefit plans are a fixed benefit plan and, as a result, the rate of compensation increases does not have any impact on the actuarially determined accrued benefit liability. Expected contributions to the defined benefit plan for the 52-week period ending December 31, 2023 are $3,269.

The Company's defined benefit pension plan expense, included in cost of sales and sales, general and administration costs and other operating expenses is as follows:

	Fiscal 2023	Fiscal 2022
Current service costs	$ 3,199	$ 4,597
Past service costs	4,764	
Net interest (income) expense	(369)	187
Administrative (income) expenses	(1,509)	239
Foreign exchange loss	(48)	—
Components of defined benefit costs recognized in net earnings (loss)	$ 6,037	$ 5,023

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

10. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

	Fiscal 2023	Fiscal 2022
Remeasurement gains (losses) - return on plan assets (excluding amounts in net interest)	$ 2,797	$ (16,203)
Actuarial (losses) gains arising from changes in financial assumptions	(10,527)	36,950
Actuarial gains arising from experience adjustments assumptions	—	—
Foreign exchange loss	29	(30)
	(7,701)	20,717
Deferred income taxes recorded through other comprehensive loss	2,947	(5,873)
Net actuarial (losses) gains recognized in other comprehensive loss	$ (4,754)	$ 14,844

An analysis of the assets of the plans by investment category is provided as follows:

	December 31, 2023	January 1, 2023
Asset category		
Cash and cash equivalents	0.8%	72.7%
Canadian equities	9.1%	4.9%
Foreign equities	44.1%	11.6%
Real estate	0.0%	0.0%
Bonds	46.0%	10.8%
	100.0%	100.0%

At January 1, 2023, the Company was in the process of transferring its cash assets into the other investment categories in accordance with its plan documents, the temporary allocation is due to changing the service provider, who holds the Company's investments.

11. DEFERRED COMPENSATION OBLIGATION

	December 31, 2023	January 1, 2023
Performance share units under the PRSU Plan (officers and senior management)	708	—
Restricted share units under PRSU Plan (officers and executive management)	1,208	536
Deferred share units under DSU Plan (non-employee board of directors)	2,490	1,497
	4,406	2,033
Less: current portion	1,208	536
	$ 3,198	$ 1,497

Effective December 17, 2012, the Board approved the Performance and Restricted Share Unit Plan (the “PRSU Plan”) and it was amended on December 16, 2013, December 18, 2018 and August 5, 2020. The terms of the amended PRSU Plan govern awards made on or after the 2014 plan year, 2018 plan year and August 2020, respectively.

The purposes of the PRSU Plan are to attract, retain and motivate key personnel, reward officers and executive management and to align their interests with those of shareholders by making a significant portion of their incentive compensation directly dependent on achieving key strategic, financial and operational objectives that are crucial to the ongoing growth and profitability of the Company. Under the terms of the PRSU Plan, the Human Resources, Compensation and Corporate Governance committee of the Board may grant eligible participants performance share units (“PSUs”) or restricted share units (“RSUs”), which give the holders thereof the right to receive, upon vesting and redemption of a unit, a cash payment equal to the fair market value of a Share at the time of redemption. When dividends are paid on a Share, additional units equivalent to the amount of the dividends multiplied by the number of PSUs and RSUs held (and determined based on the then fair market value of the Shares) are credited to a participant’s account. The actual value of a PSU on the settlement date is contingent on the Share price and the Company’s actual performance over a three-year period relative to the established objectives.

The actual value of an RSU on the settlement date is contingent on the Share price only and RSUs generally vest and settle as to one-third on each of the first, second and third anniversaries of the grant date. PSUs and RSUs also immediately vest upon a participant's termination without cause or resignation for good reason within a specified period of time following the closing of a transaction resulting in certain change of control events and upon certain terminations of employment and, with respect to PSUs and RSUs granted prior to 2019, upon the closing of a transaction resulting in certain change of control events.

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

11. DEFERRED COMPENSATION OBLIGATION (Continued)

RSUs and PSUs granted in Fiscal 2023 were determined based on the volume weighted average trading price of a Share for the last five trading days of 2022 and the desired compensation value.

As well, the Board adopted NFI's Deferred Share Unit Plan for Non-Employee Directors (the "DSU Plan") on November 7, 2011 and it was amended and restated on December 8, 2015, December 18, 2015, March 14, 2019 and September 14, 2020. Pursuant to the plan, non-employee directors may elect once each calendar year to receive all or a portion of their annual retainer and meeting fees in the form of deferred share units ("DSUs") and RSUs instead of cash. A DSU is the right to receive a cash payment based on the value of a Share credited by means of a bookkeeping entry to an account in the name of the non-employee director. DSUs are credited to the director's account on the first day of each calendar quarter, the number of which is determined by dividing the amount of the applicable portion of the director's elected amount by the volume weighted average trading price of a Share for the last five trading days.

When dividends are paid on a Share, additional DSUs equivalent to the amount of the dividend multiplied by the number of DSUs held (and determined based on the then fair market value of the Shares) will be credited to the director's account. At the end of the director's tenure as a member of the Board, the director will be entitled to receive a cash redemption payment equal to the fair market value of a share multiplied by the number of DSUs held.

	PSUs	RSUs	DSUs	Total
Units outstanding at January 2, 2022	—	55,402	174,334	229,736
Units granted	163,287	81,643	43,513	288,443
Distribution units granted	—	2,104	3,011	5,115
Units Expired	(163,287)	(1,481)	—	(164,768)
Vested and reclassified as current liability	—	(63,541)	—	(63,541)
Units outstanding at January 1, 2023	—	74,127	220,858	294,985
Units granted	313,302	156,652	76,368	546,322
Units Expired	(5,508)	(3,153)	—	(8,661)
Units Redeemed	—	(27,450)	(40,352)	(67,802)
Vested and reclassified as current liability	—	(70,991)	—	(70,991)
Units outstanding at December 31, 2023	307,794	129,185	256,874	693,853
Vested units	—	—	256,874	256,874
Unvested units	307,794	129,185	—	436,979

12. SHARE-BASED COMPENSATION - EQUITY SETTLED

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. 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. The 2013 Option Plan expired on March 21, 2023, at which point no new options can be granted under the 2013 Option Plan.

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. A maximum of 3,200,000 Shares are reserved for issuance under the 2020 Option Plan. The options become vested as to one-quarter on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of the grant date.

Directors who are not employed with NFI are not eligible to participate in the 2013 Option Plan and the 2020 Option Plan.

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

12. SHARE-BASED COMPENSATION - EQUITY SETTLED (Continued)

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(490,356)	—	—	—	March 26, 2021	C$10.20	C$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	C$10.57	C$1.44
December 28, 2014	499,984	(252,233)	(247,751)	—	—	September 12, 2023	C$13.45	C$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	C$26.75	C$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	C$42.83	C$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	C$40.84	C$7.74
January 2, 2018	152,883	—	(30,942)	(121,941)	—	January 2, 2026	C$54.00	C$9.53
January 2, 2019	284,674	—	(62,446)	(222,228)	—	January 2, 2027	C$33.43	C$5.01
July 15, 2019	2,835	—	—	(2,835)	—	July 15, 2027	C$35.98	C$4.90
December 31, 2019	519,916	—	(83,720)	(433,006)	3,190	December 31, 2027	C$26.81	C$3.36
December 28, 2020	258,673	—	(29,250)	(171,146)	58,277	December 28, 2028	C$24.70	C$6.28
February 10, 2021	1,894	—	—	(1,421)	473	December 28, 2028	C$28.74	C$6.28
August 16, 2021	601	—	—	(301)	300	August 16, 2029	C$30.79	C$6.28
January 3, 2022	311,892	—	(13,359)	(74,638)	223,895	January 3, 2030	C$20.26	C$6.10
April 1, 2022	1,728	—	—	(432)	1,296	April 3, 2030	C$16.25	C$6.51
January 9, 2023	374,448	—	(11,987)	—	362,461	January 9, 2031	C$10.46	C$5.28
	3,887,412	(1,366,150)	(503,145)	(1,368,225)	649,892		C$26.00	

The following reconciles the share options outstanding:

	Fiscal 2023		Fiscal 2022	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,910,057	C$27.41	1,617,759	C$28.82
Granted during the period	374,448	C$10.46	313,620	C$20.24
Expired during the period	(266,388)	C$14.32	(21,322)	C$28.84
Exercised during the period	—	—	—	C$0.00
Balance at end of period	2,018,117	C$26.00	1,910,057	C$27.41

Fair values were measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values of the share-based payment plans granted in Fiscal 2023 and Fiscal 2022 are the following:

Options grant date	**January 9, 2023**	**January 3, 2022**
Fair value at grant date (C$)	$5.28	$6.10-$6.51
Share price (C$)	$10.46	$16.25-$20.26
Exercise price (C$)	$10.46	$16.25-$20.26
Expected volatility	51.77%	46.0%-47.9%
Option life (expected weighted average life)	5.5 years	5.5 years
Expected dividends	0.00%	1.63%-3.77%
Risk-free interest rate (based on government bonds)	3.28%	1.29%-2.45%

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

12. SHARE-BASED COMPENSATION - EQUITY SETTLED (Continued)

On May 8, 2014, shareholders' approved the Company's Restricted Share Unit Plan for Non-Employee Directors (the "Director RSU Plan"). The Director RSU Plan was amended and restated on December 8, 2015, December 31, 2017, March 14, 2019 and September 14, 2020. A maximum of 500,000 Shares are reserved for issuance under the Director RSU Plan. Pursuant to the Director RSU Plan, non-employee directors are permitted to elect, once each calendar year, to receive all or a portion of their annual retainer in the form of restricted share units ("Director RSUs") and/or DSUs instead of cash. A Director RSU is a right to acquire a fully-paid and non-assessable Share credited by means of a bookkeeping entry to an account in the name of the non-employee director.

Pursuant to the plan, non-employee directors may elect once each calendar year to receive all or a portion of their annual retainer and meeting fees in the form of deferred share units ("DSUs") and restricted share units instead of cash. The Board, in its sole discretion, may award additional Director RSUs, subject to an annual aggregate value of $150 per director. The number of Director RSUs to be awarded to a director is determined by dividing the amount of the applicable portion of the director's annual retainer by the applicable fair market value of a Share on that date. When dividends are paid on a Share, additional Director RSUs equivalent to the aggregate number of Director RSUs held by a director on the dividend record date multiplied by the amount of dividend paid by NFI on each Share, and then divided by the fair market value of the Shares on the dividend payment date, will automatically be credited to the director's account. Under the Director RSU Plan, Director RSUs vest immediately as at each applicable award date. A director (other than a U.S. director) will be permitted to exercise the Director RSUs credited to his or her account at any time prior to December 15 of the year following the year in which the director ceases to be a non-employee director of NFI or one of its affiliates. A U.S. director will be required to specify the exercise date in the annual election form in accordance with Section 409A of the U.S. Internal Revenue Code.

	Number of Director RSUs
Balance – January 2, 2022	69,568
Director RSUs issued	64,947
Director RSUs exercised	(24,374)
Balance – January 1, 2023	110,141
Director RSUs issued	103,231
Director RSUs exercised	(48,260)
Balance – December 31, 2023	165,112

13. DEFERRED REVENUE

	December 31, 2023	January 1, 2023
Extended warranties	$ 30,097	$ 19,087
Progress payments	138,534	123,367
	168,631	142,454
Less: current portion of deferred revenue (note 9)	(138,091)	(124,851)
	$ 30,540	$ 17,603

Deferred revenue is comprised of progress payments that have not yet qualified for recognition as revenue under the Company's revenue recognition policies and also deferred revenue from the sale of extended warranty contracts which are amortized over the extended warranty period commencing at the end of the basic warranty period.

14. PROVISIONS

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

The restructuring provision consists of employee termination benefits associated with the "NFI Forward" restructuring initiative that was announced on July 27, 2020 (note 30) and costs associated with the closure and termination of the lease in respect of the Guildford, UK facility.

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

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

14. PROVISIONS (continued)

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

	Insurance Risk Retention	Restructuring	Warranty	Onerous Contracts	Total
January 2, 2022	$ 25,243	2,485 $	55,920	—	83,648
Net adjustments due to IFRS 17	(3,502)	—	—	—	(3,502)
Additions	6,720	7,000	60,081	3,705	77,506
Amounts used/realized	(5,690)	(2,485)	(50,027)	(1,582)	(59,784)
Unused provision	(248)	—	—	(351)	(599)
Unwinding of discount and effect of changes in the discount rate	—	—	17	—	17
Exchange rate differences	4	—	(2,050)	14	(2,032)
January 1, 2023	$ 22,527 $	7,000 $	63,941 $	1,786 $	95,254
Additions	20,010	1,523	46,550	1,661	69,744
Amounts used/realized	(11,556)	(406)	(65,677)	(1,006)	(78,645)
Unused provision	(551)	(7,000)	1,172	(1,243)	(7,622)
Unwinding of discount and effect of changes in the discount rate	—	—	15	—	15
Exchange rate differences	(1)	28	(263)	89	(147)
	30,429	1,145	45,738	1,287	78,599
Less current portion (note 9)	1,261	—	12,080	—	13,341
December 31, 2023	$ 29,168 $	1,145 $	33,658 $	1,287 $	65,258

15. DEFERRED TAXES AND INCOME TAX EXPENSE

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts by tax jurisdiction presented on the consolidated statements of financial position are as follows:

	December 31, 2023	January 1, 2023
As presented on statements of financial position:		
Deferred tax assets	$ 33,041 $	17,665
Deferred tax liabilities	(46,756)	(56,914)
	$ (13,715) $	(39,249)

The gross movement on the deferred income tax account is as follows:

	Fiscal 2023	Fiscal 2022
Beginning of period	$ (39,249) $	(62,806)
Exchange rate differences	163	(598)
Tax recorded through net loss	20,965	27,612
Tax recorded through other comprehensive loss	2,947	(5,794)
Investment tax credits	1,768	—
Tax recorded through equity	(309)	2,337
End of period	$ (13,715) $	(39,249)

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

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

15. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

Deferred tax liabilities	Property Plant and Equipment	Goodwill and Intangibles	Right of Use Assets	Other	**Total**
January 2, 2022	**(17,249)**	**(152,741)**	**(23,471)**	**(8,971)**	$ (202,432)
Tax recorded through net loss	8,148	8,027	(638)	(7,923)	7,614
Tax recorded through other comprehensive loss	—	—	—	79	79
Cumulative translation adjustment	—	2,337	—	—	2,337
January 1, 2023	**(9,101)**	**(142,377)**	**(24,109)**	**(16,815)**	**(192,402)**
Tax recorded through net loss	(534)	5,170	(120)	6,600	11,116
Tax recorded through other comprehensive loss	—	—	—	—	—
Cumulative translation adjustment	—	(309)	—	—	(309)
December 31, 2023	**$ (9,635)**	**$ (137,516)**	**$ (24,229)**	**$ (10,215)**	**$ (181,595)**

Deferred tax assets	Property, Plant, and Equipment	Reserves and accruals not currently deductible	Provisions	Right of Use Assets	Loss carry forward	Pension	Deferred Financing Costs and Interest	Other	**Total**
January 2, 2022	$ —	$ 17,624	$ 18,596	$ 25,979	$ 46,798	$ 3,953	$ 15,085	$ 11,591	$ 139,626
Tax recorded through net loss	—	(5,504)	3,112	1,368	8,191	1,937	12,606	(1,712)	19,998
Tax recorded through other comprehensive loss	—	—	—	—	—	(5,873)	—	—	(5,873)
Exchange rate differences	—	(75)	(79)	(110)	(196)	(17)	(66)	(55)	(598)
January 1, 2023	$ —	$ 12,045	$ 21,629	$ 27,237	$ 54,793	$ —	$ 27,625	$ 9,824	$ 153,153
Tax recorded through net loss	3,228	2,358	(3,673)	634	(7,932)	(1,979)	17,151	62	9,849
Tax recorded through other comprehensive loss	—	—	—	—	—	2,947	—	—	2,947
Investment tax credits	—	—	—	—	—	—	—	1,768	1,768
Exchange rate differences	—	9	17	21	87	—	22	7	163
December 31, 2023	$ 3,228	$ 14,412	$ 17,973	$ 27,892	$ 46,948	$ 968	$ 44,798	$ 11,661	$ 167,880

Deferred income tax assets are recognized to the extent it is probable that sufficient future taxable income will be available to allow a deferred tax asset to be utilized. At December 31, 2023, the Company has recognized all of its deferred income tax assets with the exception of: loss carry forwards in Canada and the UK in the amount of $32,670 and $586 respectively, equity issuance costs in Canada of $2,765 and restricted interest in the UK of $15,572.

At December 31, 2023 the Company has the following tax credit and loss pools expiring as follows:

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

15. DEFERRED TAXES AND INCOME TAX EXPENSE (Continued)

	United States		Canada		Other	
	Tax Credits	Tax Losses	Tax Credits	Tax Losses	Tax Credits	Tax Losses
2024-2029	—	577	—	—	—	—
2030	—	68	138	—	—	—
2031-2033	—	—	569	—	—	—
2034-2037	—	—	—	313	—	—
2038	—	—	—	11,343	—	—
2039	—	—	—	24,803	—	—
2040	—	—	601	21,428	—	—
2041	—	—	88	10,385	—	—
2042	—	—	676	51,523	—	—
2043	—	—	690	60,951	—	—
No expiry	—	19,691	—	—	1,385	169,227

The reconciliation of income tax computed at the U.S. statutory rate, to income tax expense is as follows:

	Fiscal 2023	Fiscal 2022
Earnings before income tax expense	$ (169,070)	$ (323,798)
Tax calculated using a 21% U.S. tax rate	(35,504)	(67,998)
Tax effect of:		
Withholding and other taxes	592	(539)
Non-taxable income	(1,144)	(1,473)
Non-deductible impairment loss on goodwill	—	21,819
Derecognition of previously recognized deferred tax assets	20,705	20,794
Revision of tax estimates	851	1,039
Foreign exchange impact	794	3,899
State taxes	(2,930)	(8,276)
Impact of rate change on deferred income taxes	—	(1,854)
Foreign tax credit pools and base erosion and anti-abuse tax	(14,313)	(17,750)
Rate differential on income taxed at other than U.S. statutory rate	(2,056)	2,895
Impact of change in tax legislation	(1,440)	—
Other	1,539	23
Income tax recovery	$ (32,906)	$ (47,421)

Current income tax recovery	$ (11,941)	$ (19,809)
Deferred income tax recovery	(20,965)	(27,612)
Income tax recovery for the period	$ (32,906)	$ (47,421)

16. SENIOR UNSECURED DEBT

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

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

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

16. SENIOR UNSECURED DEBT (Continued)

Both the MDC facility and EDC supply chain financing facility were extended to April 30, 2026 as part of the Refinancing Plan. The EDC bonding support facility (note 27c) has a one-year term for each new contract, subject to annual renewals.

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

	Face Value	Unamortized Transaction Costs	**Net Book Value December 31, 2023**	Net Book Value January 1, 2023
MDC	$ 37,747	$ 267	$ 37,480	—
EDC	25,000	684	24,316	—
	$ 62,747	$ 951	$ 61,796	—

17. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value December 31, 2023**	Net Book Value January 1, 2023
First lien N.A. revolving credit facility, Secured (“NA Revolving Facility”)	126,471	13,174	113,297	878,725
First lien N.A. term loan, Secured (“NA Non-Revolving Facility”)	400,000	—	400,000	—
First lien U.K. revolving Credit Facility, Secured ("UK Revolving Facility")	—	—	—	17,901
First lien U.K. Term loan, Secured (“UK Non-Revolving Facility”)	20,674	761	19,913	—
Government of Canada Loan	3,453	626	2,827	—
	550,598	14,561	536,037	896,626
Less current portion	—	—	—	17,901
	550,598	14,561	536,037	878,725

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

The $96.6 million of outstanding letters-of-credit were drawn against the North American Facility at December 31, 2023. The North American Facility bears interest at a rate equal to SOFR or a U.S. base rate for loans denominated in U.S. dollars and a Canadian prime rate or bankers' acceptance rate for loans denominated in Canadian dollars, plus an applicable margin to those rates and matures on April 30, 2026.

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

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

18. SECOND LIEN DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value December 31, 2023**	Net Book Value January 1, 2023
Second Lien Debt	180,413	10,144	170,269	—
Prepayment Option	2,127	—	2,127	—
	182,540	10,144	172,396	—

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

18. SECOND LIEN DEBT (Continued)

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

The Company can exercise an option to prepay a portion of the remaining principal (note 24) at 100% of the face value plus applicable premium, expiring on the first anniversary of the debt facility. Prior to the second anniversary, the Company can exercise its option to prepay a portion of the remaining principal at 106% of the face value. Prior to the third anniversary, the Company can exercise its option to prepay a portion of the remaining principal at 103% of the face value. An option to prepay the remaining principal at par is available from the third anniversary onwards.

At inception, the prepayment option was recognized as a derivative asset with a fair value of $2.1 million. At December 31, 2023, the asset was revalued at $2.8 million. A fair market value gain of $0.64 million was recorded on the Company's audited consolidated statements of net loss and comprehensive loss for the year.

The second lien debt is financed by funds and accounts managed by Coliseum Capital Management LLC. Coliseum Capital Management also participated in an equity transaction with the Company (disclosed in Note 20).

19. CONVERTIBLE DEBENTURES

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

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

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

	Face Value	Unamortized Transaction Costs	**Net Book Value December 31, 2023**	Net Book Value January 1, 2023
Convertible Debt	235,317	6,332	228,985	216,513
Cash Conversion Option	9,296	—	9,296	5,150
	244,613	6,332	238,281	221,663

20. SHARE CAPITAL

	December 31, 2023	January 1, 2023
Authorized - Unlimited		
Issued – 118,961,932 Common Shares (January 1, 2023: 77,155,016)	$ 1,240,163	$ 988,218

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

20. SHARE CAPITAL (continued)

Shares	Number (000s)		Net Book Value
Balance – January 1, 2023	77,155	$	988,218
Director RSUs exercised	47		368
Issuance of Shares - public offering	15,103		86,805
Issuance of Shares - private placements	26,657		164,772
Balance – December 31, 2023	118,962	$	1,240,163

During the period ended December 31, 2023, the Company:

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

21. LOSS PER SHARE

		Fiscal 2023		Fiscal 2022 restated (note 2.24)
Net loss attributable to equity holders	$	(136,164)	$	(276,376)
Weighted average number of Shares in issue		91,866,613		77,144,445
Weighted average number of Shares for diluted earnings per Share		91,866,613		77,144,445
Net loss per Share (basic)	$	(1.4822)	$	(3.5826)
Net loss per Share (diluted)	$	(1.4822)	$	(3.5826)

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

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

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

22. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)	Fiscal 2023	Fiscal 2022 restated (note 2.24)
Accounts receivable	$ (111,527)	$ 38,362
Income tax receivable	(4,170)	(1,463)
Inventories	(29,573)	(160,939)
Prepaid expenses and deposits	4,464	(16,178)
Accounts payable and accrued liabilities	93,832	6,661
Deferred revenue	26,177	29,039
Provisions	(16,655)	11,606
Other	(7,510)	(4,643)
	$ (44,962)	$ (97,555)

Included in the "Other" category for fiscal 2022 is $1,385, which represents the net impact of the adoption of IFRS 17 (note 2.24).

23. DEFINED CONTRIBUTION PENSION PLANS

Certain of the Company's subsidiaries maintains a defined contribution plan for certain salaried employees. The net pension expense for the Company's defined contribution plans is as follows:

	Fiscal 2023	Fiscal 2022
Defined contribution pension expense	$ 12,321	$ 10,963

Cash payments contributed by the Company during Fiscal 2023 for its defined benefit plans and defined contribution pension plans amounted to $15.6 million (2022: $15.2 million).

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value measurement of financial instruments

The Company has made the following classifications:

Cash	Fair value through profit or loss
Restricted deposit	Fair value through profit or loss
Receivables	Amortized cost
Deposits	Amortized cost
Accounts payables and accrued liabilities	Amortized cost
Convertible Debt	Amortized cost
Other long-term liabilities	Amortized cost
Long-term debt	Amortized cost
Second lien debt	Amortized cost
Derivative financial instruments	Fair value through profit or loss

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Fair value measurement of financial instruments

The Company categorizes its fair value measurements of financial instruments recorded at fair value according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 - fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 - fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

Level 3 - fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable data, including assumptions about risk.

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)

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	December 31, 2023				
	Fair value level		Carrying amount		Fair value
Financial assets recorded at fair value					
Cash	Level 1	$	49,615		49,615
Long-term restricted deposit (note 8)	Level 1		45,441		45,441
Prepayment Option (note 18)	Level 2		2,767		2,767
Derivative financial instrument assets - long term		$	2,767	$	2,767
Financial liabilities recorded at fair value					
Foreign exchange forward contracts	Level 2		1,481		1,481
Derivative financial instrument liabilities - current		$	1,481	$	1,481
Cash Conversion Option (note 19)	Level 2		9,296		9,296
Derivative financial instrument liabilities - long term		$	9,296	$	9,296

	January 1, 2023				
	Fair value level		Carrying amount		Fair value
Financial assets recorded at fair value					
Cash	Level 1	$	49,987	$	49,987
Long-term restricted deposit (note 8)	Level 1		25,351		25,351
Foreign exchange forward contracts	Level 2		1,720		1,720
Derivative financial instrument assets - current		$	1,720	$	1,720
Interest Rate Swap	Level 2		27,800		27,800
Derivative financial instrument assets - long term		$	27,800	$	27,800
Financial liabilities recorded at fair value					
Equity Hedge	Level 2		2,837		2,837
Derivative financial instrument liabilities - current		$	2,837	$	2,837
Cash Conversion Option (note 19)	Level 2		5,150		5,150
Equity Hedge	Level 2		917		917
Derivative financial instrument liabilities - long term		$	6,067	$	6,067

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Risk Management

The Company uses derivative financial instruments including interest rate swaps, total return swaps and forward foreign exchange contracts. These instruments are financial contracts whose value depends on interest rates, share price and foreign currency prices.

The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, share price, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate, share price and foreign exchange risks in accordance with its risk management policies. Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized within “interest and finance costs” or “unrealized foreign exchange loss (gain) on non-current monetary items” in the consolidated statements of net loss and comprehensive loss consistent with the underlying nature and purpose of the derivative instruments.

Market risk (interest rate risk and foreign currency risk)

Market risk incorporates a range of risks. Movements in risk factors, such as interest rate risk, equity price risk and foreign currency risk, affect the fair values of financial assets and liabilities. The Company uses derivative financial instruments including interest rate swaps, foreign exchange options and forwards foreign exchange contracts to manage its risks associated with potentially adverse changes in interest rates and foreign exchange rates. These instruments are financial contracts whose values depends on interest rates and foreign currency prices. The use of derivatives allows the transfer, modification and reduction of current and expected risks, including interest rate, foreign exchange and other market risks. The Company uses derivative financial instruments to manage interest rate and foreign exchange risks in accordance with its risk management policies.

The Company does not hold financial instruments for speculative or trading purposes.

Interest rate risk

The Company's borrowing under the Secured Facilities are at variable rates of interest and expose the Company to interest rate risk. As an illustration, if the interest rates as at the date of the consolidated statements of financial position date had been 100 basis points higher, with all other variables held constant, net loss and comprehensive loss for Fiscal 2023 would have been higher by $6.8 million (Fiscal 2022: $6.1 million, when hedged with an interest rate swap), arising mainly from higher interest costs due to the higher interest rate. If interest rates had been 100 basis points lower, with all other variables held constant, net loss and comprehensive loss for Fiscal 2023 would have been lower by $6.8 million (Fiscal 2022: $6.1 million, when hedged with an interest rate swap), arising mainly from lower interest costs due to the lower interest rate.

The Company attempts to mitigate this risk through interest rate swaps that could become materially more expensive if interest rates increase or become more volatile. If the cost of mitigating interest rate increases, the Company's debt service obligations on its variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net earnings and cash available for servicing its other indebtedness would decrease. There were no interest rate swaps held as at December 31, 2023.

On February 13, 2019, the Company blended the unrealized gain from the existing swap into a $600 million amortizing notional interest rate swap designed to hedge floating rate exposure on the Secured Facilities. The interest rate swap fixed the interest rate at 2.27% plus applicable margin until October 2023. The notional value of the swap as at January 1, 2023 was $540 million.

On July 9, 2020, the Company entered into a $200 million amortizing notional interest rate swap designed to hedge floating rate exposure on its Secured Facilities. The interest rate swap fixes the interest rate at 0.243% plus applicable margin until July 2025. The swap began amortizing on January 9, 2023 at a rate of $20 million per annum.

On July 20, 2023, NFI sold its interest rate swap contracts (valued at $20.2 million asset at the end of 2023 Q2) for total proceeds of $18.4 million. As part of the sale, NFI's equity hedge (valued at $2.6 million liability at the end of 2023 Q2) was unwound and removed from liabilities on the balance sheet. The fees to unwind this contract are approximately C$1.4 million.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Equity price risk

The Company entered into a total return swap transaction to hedge the exposure associated with increases in value of its Shares on a portion of the outstanding PSUs, RSUs and DSUs. The total return swap has a re-investment feature which increases the number of Shares in the swap when dividends are paid by the Company. As part of the aforementioned sale of NFI's interest rate swap contracts, NFI's equity hedge (valued at $2.6 million liability at the end of 2023 Q2) was unwound and removed from liabilities on the balance sheet. The fees to unwind this contract were approximately C$1.4 million.

Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of net loss to the extent effective. Accordingly, nil was reclassified from other comprehensive income in Fiscal 2023 (Fiscal 2022: $287). No hedge ineffectiveness was recorded during 2022.

Foreign currency risk

The U.S. dollar is the Company's functional currency. Fluctuations in the exchange rate between the U.S. dollar, Canadian dollar and GBP will affect the Company's reported results. However, the impact of changes in foreign exchange rates on the Company's reported results differ over time depending on whether the Company is generating a net cash inflow or outflow of Canadian dollars and GBP.

This is largely dependent on the Company's revenue mix by currency as operating costs denominated in Canadian dollars and GBP have been historically relatively stable.

During Fiscal 2023, the Company generated a net outflow of Canadian dollars. As a matter of policy, the Company enters into foreign exchange forward contracts to protect the expected net Canadian dollar exposure from exchange fluctuation. The Company recorded a net realized foreign exchange gain of $3.2 million during Fiscal 2023 (Fiscal 2022: $5.2 million). This was comprised of a $2.9 million gain on settlement of foreign exchange contracts and a $0.3 million foreign currency gain on translation of Canadian dollar denominated working capital.

At December 31, 2023, the Company had $21.7 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 January 2024 to February 2024. The related liability of $1.5 million (January 1, 2023: $1.7 million asset) is recorded on the statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net loss and comprehensive loss.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk, primarily Canadian dollar balances. As an illustration, at December 31, 2023 if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all variables held constant, net loss for Fiscal 2023 would have been lower by $9.1 million (Fiscal 2022: $13.9 million). Conversely, if the Canadian dollar had strengthened 10 percent against the U.S. dollar, with all other variables held constant, net loss would have been higher by $10.6 million for Fiscal 2023 (Fiscal 2022: $17 million).

(d) Liquidity[5,NG] Management

The Company's approach to managing liquidity[NG] risk is to ensure, as far as possible, that it will always have sufficient liquidity[NG] to meet liabilities when due. At December 31, 2023 the Company had a cash balance of $49.6 million (January 1, 2023: $50.0 million), $526 million drawn under the North American Facility due in 2026 (January 1, 2023: $882 million), and $96.6 million of outstanding letters of credit (January 1,2023: $22.5 million). The total liquidity[NG] position as at December 31, 2023 is $188.2 million, without consideration given to the minimum banking liquidity[NG] requirement under the Secured Facilities of $50.0 million. In addition, as at December 31, 2023 the Company had $21 million drawn under the UK Facility (January 1, 2023: $18.3 million), and $64.5 million of the letters of credit outstanding outside of the North American Facility. The North American Facility has a total borrowing limit of $761 million, which includes a $150 million letter-of-credit facility. The UK Facility has a total borrowing limit of £30.4 million.

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

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

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

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

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

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

5. Banking Liquidity[NG] is calculated as unrestricted cash and cash equivalents plus the aggregate amount of credit available under the North American Facility.

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

The calculation of the banking liquidity[NG] position, without consideration given to the minimum banking liquidity[NG] requirements under the Secured Facilities at December 31, 2023 is provided below. Calculation of the cumulative Adjusted EBITDA[NG] starts with 2023 fourth quarter results. The calculation is adjusted for the impact of the adoption of IFRS 16 in Fiscal 2019. As at December 31, 2023, the Company was in compliance with all covenant requirements.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

US dollars in thousands		December 31, 2023		January 1, 2023
Banking Liquidity[NG] Position (must be greater than $50 million)	$	170,131	$	143,454
Minimum Cumulative Adjusted EBITDA[NG] (must be greater than ($3,000) [2022: N/A])	$	53,516		Waived
Net Debt to Capital Ratio[NG] (must be less than 0.65:1.00 [2022: N/A])		0.39		Waived

Compliance with financial covenants under the Secured Facilities is reported quarterly to the Board. Other than the requirements imposed by letters of credit collateral (note 8) 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.

Under the terms of the Secured Facilities, the Company is not permitted to declare or pay dividends, until certain financial conditions exist. Currently dividends have been suspended and future decisions on the resumption of dividend payments will be dependent on financial performance and compliance with Secured Facility covenants.

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at December 31, 2023:

US dollars in thousands	Total	2023	2024	2025	2026	2027	Post 2027
Leases	$ 210,912	$ 26,242	$ 21,809	$ 19,014	$ 17,377	$ 11,909	$ 114,561
Accrued benefit liability	3,269	3,269					
	$ 214,181	$ 29,511	$ 21,809	$ 19,014	$ 17,377	$ 11,909	$ 114,561

(e) Credit risk

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

		December 31, 2023		January 1, 2023 restated (note 2.24)
Current, including holdbacks	$	438,165	$	333,522
Past due amounts but not impaired				
1 – 60 days		20,123		15,931
Greater than 60 days		8,669		5,480
Less: Allowance for doubtful accounts		(604)		(107)
Total accounts receivables, net	$	466,353	$	354,826

As at December 31, 2023, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

(f) Capital management

The Company's objectives in managing capital are to deploy capital to provide an appropriate return to shareholders and to maintain a capital structure that provides the flexibility to take advantage of growth and development opportunities, maintain existing assets, meet financial obligations and enhance the value for the shareholders. The capital structure of the Company consists of cash, long-term debt, other long-term liabilities and shareholders' equity. The Company manages capital to ensure an appropriate balance between debt and equity. In order to maintain or adjust its capital structure, the Company may raise additional capital from various sources, including capital markets.

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

25. 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, marketing strategies, and operations. For each of the strategic business units, the Company's President and CEO reviews internal management reports on a monthly basis.

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

The Manufacturing Operations segment has recorded vendor rebates of $1,394 (Fiscal 2022: $235), which have been recognized into earnings during 2023, but for which the full requirements for entitlement to these rebates have not yet been met.

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

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

The unallocated total assets of the Company primarily include cash, certain 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:

	Fiscal 2023			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 2,130,278	$ 554,953	—	$ 2,685,231
Operating costs and expenses	2,259,665	453,268	141,368	2,854,301
(Loss) earnings before income tax (recovery) expense	(129,387)	101,685	(141,368)	(169,070)
Total assets	1,914,171	504,319	281,470	2,699,960
Addition of capital expenditures	26,082	632	—	26,714
Addition of intangibles assets	10,274	—	—	10,274
Indefinite-life intangible assets	244,265	18,334	—	262,599
Goodwill	223,607	189,564	—	413,171

	Fiscal 2022 (restated note 2.24)			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,575,510	$ 485,172	—	$ 2,060,682
Operating costs and expenses	1,932,456	418,170	33,854	2,384,480
(Loss) earnings before income tax (recovery) expense	(356,946)	67,002	(33,854)	(323,798)
Total assets	1,801,272	485,263	297,861	2,584,396
Addition of capital expenditures	21,169	202	—	21,371
Addition of intangibles assets	10,212	—	—	10,212
Impairment loss on goodwill	(103,900)	—	—	(103,900)
Indefinite-life intangible assets	243,936	18,281	—	262,217
Goodwill	221,942	187,761	—	409,703

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

25. SEGMENT INFORMATION (Continued)

The Company's revenue by geography is summarized below:

		Fiscal 2023		Fiscal 2022
North America	$	2,112,141	$	1,561,701
UK and Europe		523,431		440,843
Asia Pacific		49,659		58,138
Total	$	2,685,231	$	2,060,682

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

		Fiscal 2023		Fiscal 2022
Transit buses	$	1,647,155	$	1,219,257
Motor coaches		390,836		296,226
Medium-duty and cutaway buses		50,727		31,778
Pre-owned coach		21,586		12,773
Infrastructure solutions		11,040		8,498
Fiberglass reinforced polymer components		8,934		6,978
Manufacturing revenue	$	2,130,278	$	1,575,510

26. RELATED PARTY TRANSACTIONS

Compensation of key management

Key management includes members of the Board of Directors, President and CEO, the CFO, presidents of each business unit, executive vice presidents and vice presidents. The compensation expense for key management for employee services is shown below:

		Fiscal 2023		Fiscal 2022
Salaries and short-term employee benefits	$	16,659	$	10,412
Post-employment benefits		600		554
Share-based payment benefits		5,478		492
	$	22,737	$	11,458

Share-based payment benefits shown above represent the PSU, RSU, Director RSU, DSU and stock option expense that was recorded in the period.

27. COMMITMENTS AND CONTINGENCIES

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

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at December 31, 2023 range from January 2024 to December 2039.

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

27. COMMITMENTS AND CONTINGENCIES (Continued)

At December 31, 2023, outstanding surety bonds guaranteed by the Company totaled $312.7 million (January 1, 2023: $375.6 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(c) The Company has a letter of credit sub-facility of $150.0 million as part of the North American Facility (January 1, 2023: $100.0 million). As at December 31, 2023, letters of credit totaling $96.6 million (January 1, 2023: $24.5 million) remain outstanding as security for contractual obligations of the Company under the North American Facility.

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

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

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

As at December 31, 2023, there was $74.2 million outstanding under the bonding support facility.

As at December 31, 2023, letters of credit in the UK totaling $18.7 million were outstanding as security obligations of the Company outside of the UK facility (January 1, 2023: $18.3 million). Additionally, there are $45.8 million (January 1, 2023: $25.3 million) of letters of credit outstanding outside of the UK Facility.

As at December 31, 2023, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

(d) Through the normal course of operations, the Company has guaranteed payments and residual values to third party lenders on behalf of customers. As at December 31, 2023, the Company had guaranteed $2.4 million of these arrangements. The Company has not provided for any of these costs, as it does not believe they will have to pay out on any of these arrangements.

28. GUARANTEES

The Company indemnifies its directors and officers against claims and damages that may be incurred in the performance of their services to the Company. Liability insurance has been purchased with respect to the Company's directors and officers.

29. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2023	Fiscal 2022
Employee salary and benefit expenses	$ 395,836	$ 404,511
Depreciation of plant and equipment	49,370	57,013
Amortization of intangible assets	31,410	31,482

The expenses listed above are included in cost of sales and sales, general and administration costs and other operating expenses.

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

30. RESTRUCTURING

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

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

After a detailed review of the Company’s manufacturing footprint, the Company had originally planned to close the MCI coach manufacturing facility in Pembina, North Dakota in 2023. Due to significant improvements in market conditions and increased demand for its coach and bus products, NFI announced in the fourth quarter of 2023 that it will continue operations at the Pembina, ND facility. With the decision to continue operations at the Pembina facility, NFI reversed a pension liability provision originally recorded in 2022.

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

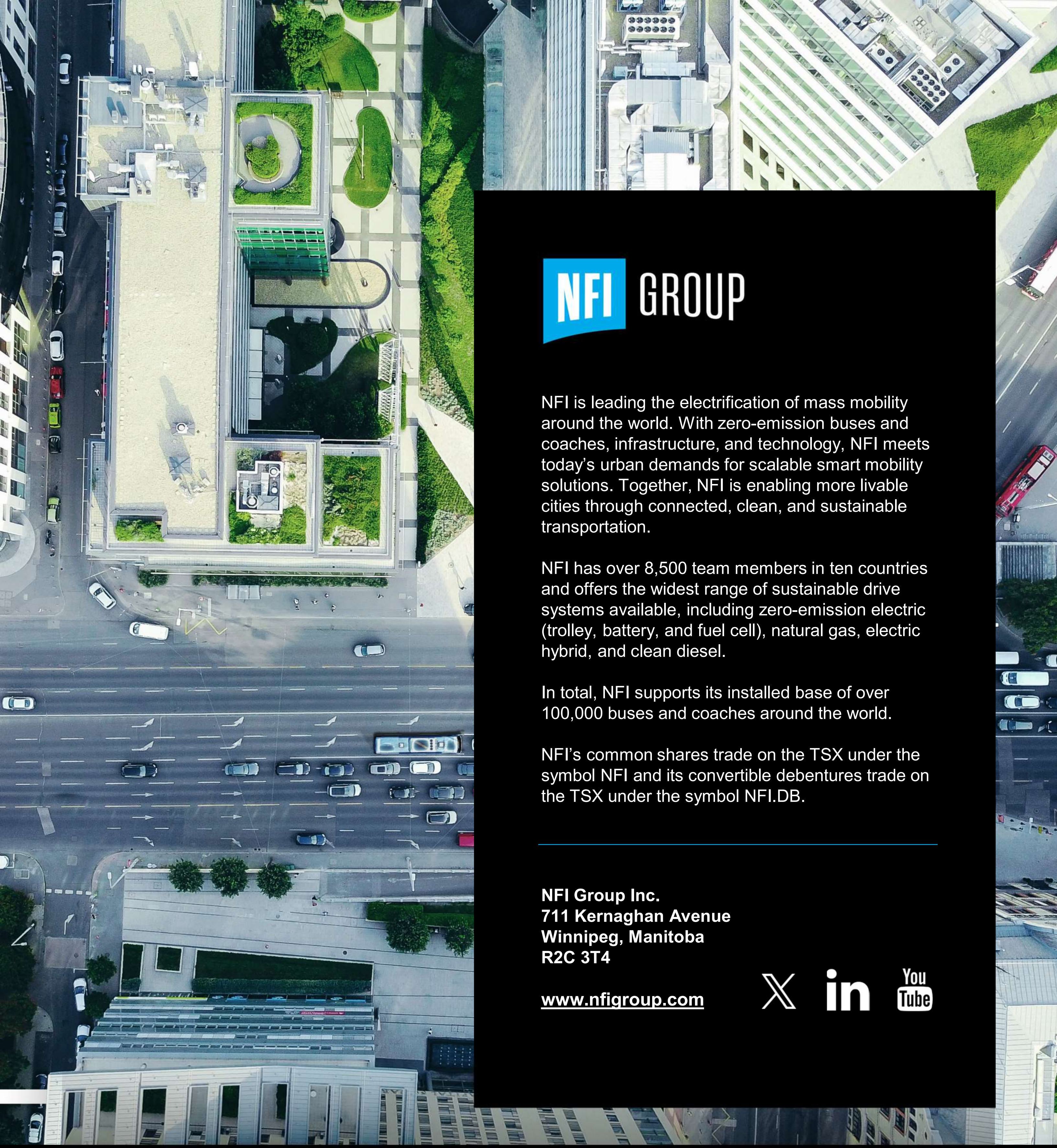
	Fiscal 2023	Fiscal 2022
Employee termination benefits	$ 1,749	$ 1,116
Right-of-use asset and property, plant and equipment (recoveries) impairments	(2,558)	6,213
Write-down of inventory to net realizable value	—	1,574
Pension liability	(7,000)	7,000
Other	51	3,139
Total restructuring (recoveries) costs	$ (7,758)	$ 19,042

31. SUBSEQUENT EVENTS

Subsequent to December 31, 2023, NFI entered into an agreement with EDC to increase the size of our Guarantee Facility from $100 million to $125 million. The Guarantee Facility is made up of Account Performance Security Guarantee (“Account PSG”) up to $50 million and Surety Reinsurance Support up to $125 million. The aggregate amount of the Guarantee Facility cannot exceed $125 million.

Subsequent to December 31, 2023, NFI entered into an agreement for a new interest rate swap to hedge its exposure to changing interest rates. The contract has a notional value of $500 million from January 26, 2024 until October 25, 2024, and thereafter a notional value of $450 million until its expiry on April 25, 2025. The swap carries an interest rate of 4.6%.

The Company has determined these items to be non-adjusting subsequent events. Accordingly, the financial position and results of operations as of, and for the 52-weeks ended December 31, 2023 have not been adjusted to reflect these agreements.



NFI GROUP

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

NFI has over 8,500 team members in ten countries and offers the widest range of sustainable drive systems available, including zero-emission electric (trolley, battery, and fuel cell), natural gas, electric hybrid, and clean diesel.

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

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

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