Financial Results Fiscal 2021

March 10, 2022

Dear Shareholders,

After months of managing through the global COVID-19 pandemic in 2020, we started 2021 with optimism, anticipating that the world was moving beyond the fear, uncertainty and disruption created by the pandemic. Through the first half of the year, vaccine deployment began in earnest, bus and coach ridership showed early signs of recovery, governments were announcing historic funding packages for zero-emission public transit and infrastructure, and our customers were placing new orders.

Then, in late summer 2021, global supply chain and logistics challenges escalated significantly for our industry. NFI experienced a rapid deterioration in the supply of critical parts, key components and chassis needed to build buses. This unprecedented disruption dramatically impacted our entire business. The result was a significant drop in manufacturing productivity and vehicle production in the second half of 2021.

In response, our team worked tirelessly to achieve balance by focusing on safety, strategically managing our incoming supply, and consciously reducing line entry rates to avoid building up of excess work-in-progress inventory. We drilled down deep into our supply chain to assist with sourcing individual parts or alternate supply from around the globe. At NFI, similar to other bus OEMs, the majority of our buses are highly customized, with uniquely specified options and domestic content rules; building buses is much more specialized and labor intensive when compared to traditional configured automotive or truck manufacturing.

Add to this the onset of yet another wave of COVID-19 in the second half of 2021, the highly contagious Omicron variant. We thought COVID-19's impact on 2020 was challenging, but 2021 proved to be equally as difficult. With over 2,000 recorded positive cases of COVID-19 across NFI since the pandemic began, we have had to respond to significant absenteeism every day across all of our global facilities. Our people were incredibly flexible while delivering to the best of our ability for customers, and they remained focused on the health and safety of each other. We are truly grateful to all NFI team members and to our customers who have accommodated in adjustments to production and delivery plans.

In spite of these challenges, there were numerous bright spots last year that position us well for the future. NFI maintained focus on expanding our leadership position in driving the successful transition to zero-emission buses and coaches around the world—what we call the Zero Emission Evolution, or ***ZE***volution. In 2021, we launched six new zero-emission models for public and private operators, introduced North America's first ever Level 4 automated transit bus, secured contracts in new markets, and enhanced our competitiveness through the continued execution of our strategic NFI Forward optimization initiative.

In 2021, we experienced a 70% year-over-year increase in deliveries of NFI zero-emission battery-electric vehicles, growing to 18% of our annual total deliveries, and we expect ZEBs to represent at least 40% of total deliveries by 2025. We also reached milestones of over 50 million zero-emission miles driven, and the installation of more than 275 EV chargers. Our private market operations in North America also saw recovery, and we sold the majority of our new coach inventory that was built before the beginning of the pandemic. Our Book-to-Bill ratio has recovered back to over 100%, and both our active and total public sector Bid Universe metrics have recovered to near record levels, which is expected to drive order and delivery activity in the second half of 2022 and throughout 2023.

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We were proud to witness our buses displayed on the global stage at the 26th United Nations (“UN”) Climate Change Conference of the Parties (“COP26”) in Glasgow, Scotland where an ADL/BYD double-deck electric bus operated by our customer First Bus acted as COP26 delegate shuttle service carrying several world leaders.

We are also encouraged to see global momentum around fundamental environmental, social and governance ("ESG") matters and initiatives. This is a critical focus area for NFI and one we are driving forward, producing an increasing percentage of zero-emission vehicles to assist the goal of a net-zero economy, and working hard in our communities to deliver meaningful impact. In 2021, we submitted our first response to the CDP Climate Change questionnaire, and we commenced a materiality assessment to determine the ESG issues most pertinent to our business as we move forward.

We also engaged Korn Ferry, a global and respected independent advisor, to conduct our first ever diversity, equity and inclusion ("DEI") survey of our entire organization to assess our current state and identify areas of opportunity. Nearly 55% of our employees participated, and their voices inform our priorities for 2022. We also focused close to home, where our team members live, work, and do business. In 2021, we raised $373,000 through our annual United Way campaign, for a total of over $3.1 million raised since 2009, supporting numerous communities across North America. Simply put, NFI is committed to being an ESG leader—not only in words but in our actions.

NFI Forward, our transformational initiative launched in 2020 to create a more efficient and integrated company, has realized run rate selling, general and administrative (“SG&A”) and Overhead reductions and sourcing savings of approximately $55 million and $10 million of additional Free Cash Flow[1] savings to date. We are well on our way to delivering on our target of $67 million in run rate cost reduction, which translates to an 8% to 10% reduction in SG&A and Costs of Goods Sold - Overhead from our 2019 benchmark, by 2023.

As we look to 2022, the key drivers of the transit industry remain in place. Transit continues to be the spinal cord of cities around the world. It’s an essential service that connects people, drives economic activity, improves congestion, and enhances air quality. Throughout the global pandemic, transit has reinforced its critical role as an essential service transporting front-line workers every single day. Recognizing this, the governments of Canada, the U.S. and the UK have committed over $120 billion USD towards investments in public transit, infrastructure, and the accelerated adoption of zero-emission vehicles.

We expected a difficult first half of 2022, with ongoing supply disruption, and we anticipate production run rates will increase in the second half, but global supply chain challenges continue to impact our industry. Complicating matters further was a fire at a key battery anode sub-supplier in 2022 Q1, which has disrupted battery supply within North America. This additional disruption will negatively impact our 2022 financial performance as it delays deliveries of higher dollar margin zero-emission buses. NFI is working closely with the affected supplier to determine when battery supply will resume at more normal levels. We are also finalizing work started in 2020, with the goal of commencing regular deliveries of next generation batteries from a second battery supplier in the fourth quarter of 2022.

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As we have since the pandemic began, NFI will manage our way through these headwinds, and we are doing all we can to reduce costs and improve cash flows while balancing the needs for investment in our people and products. To provide us with runway through uncertain times, we completed two capital raises in 2021 to strengthen our balance sheet, provide flexibility and liquidity for our future growth.

Today, two years since onset of the pandemic, COVID-19 and the resulting supply chain challenges continue to disrupt our personal lives and our business. But, at NFI we have a lot to be excited about. With a combined history of over 450 years, our impressive offering of world leading bus and coach companies, aftermarket parts distributors and fabrication capabilities are leading the ***ZE***volution and moving millions around the world every day. We have consciously chosen to be smart buyers of key technologies and to focus on our expertise of integrating diverse, complex technology into our vehicles, while remaining flexible and agile to introduce new technology as it comes online. We have also chosen to design our zero-emission vehicles on proven bus and coach platforms and to produce them on common production lines to allow us to adapt and react to the pace of zero-emission adoption.

The long-term outlook for the industry and our company remains very strong, driven by a great company, with great products and services, the tailwinds of historic government funding for public transit, high levels of new public tender activity, private market recovery, our multi-year backlog and a market-leading position in both internal combustion engine ("ICE") powered and zero-emission buses, coaches, and customer service. At NFI, we are proud of our history, and excited about our future.

The Honourable Brian V. Tobin
P.C., O.C. Chairman of the Board
NFI Group Inc.

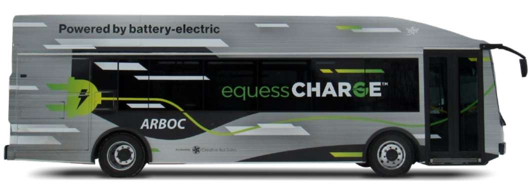
Paul Soubry
President & Chief Executive Officer
NFI Group Inc.

Footnotes
(1) Represents a non-IFRS measure, meaning it is not a defined term under IFRS and does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. See Non-IFRS and Other Financial Measures section.

Throughout 2021, and now in 2022, NFI continues to change the game.

Leading the ZEvolution.™

We are innovating and driving change.



In 2021, we introduced six new zero-emission bus and coach models.

We expanded our presence in Germany, Singapore…

…and Hong Kong…

… and expanded our zero-emission presence in Ireland, Britain...

…New Zealand and Australia.

We have a **fundamental role to play** in meeting the challenge of climate change.

Transport is one of the biggest global polluters

Buses are leading the vehicle transition to ZE in our markets around the globe

It's not just about emissions—there is a need to reduce congestion. Modal shift away from private car usage

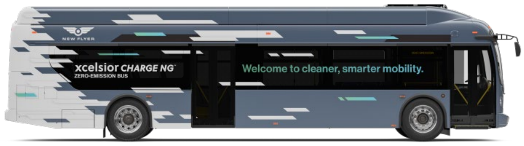
COVID-19 era strengthening ESG commitments from all stakeholders and placing increased focus on diversity, equity and inclusion

Proven product and service line that supports our stakeholders at each stage in their *ZE*volution™

Leading the *ZE*volution.™

In October in Glasgow, an NFI bus was featured in the United Nations COP26 Blue Zone, where climate change negotiations took place…

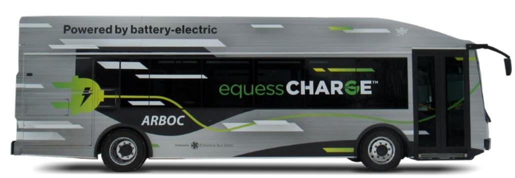
…and world leaders at COP26 were transported in our electric buses.



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

North American Market Leader in Motor Coaches

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



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

We have more than 105,000 buses and coaches in service in 11 countries around the world.

Leading the ZEvolution.™

We provide comprehensive mobility solutions.

NEW FLYER | ALEXANDER DENNIS | MCI | ARBOC SPECIALTY VEHICLES | PLAXTON

Infrastructure Solutions	Parts, Publication, Training and Service
NFI Infrastructure Solutions™	nfi.parts® AD24
Connected Vehicles and Diagnostics	**Financing**
NFI Connect™ ADCONNECTED	NFI Financial Solutions™

VIC VEHICLE INNOVATION CENTER

Governments in each of our core markets have made significant long-term funding commitments to zero-emission transit and infrastructure.

Leading the ZEvolution.™

We Move People…precious cargo.

We are focused on the long-term sustainability of our business and for all stakeholders.

OUR SUSTAINABILITY PLEDGE:

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

OUR VISION: To enable the future of mobility with innovative and sustainable solutions.

OUR MISSION: To design and deliver exceptional transportation solutions that are safe, accessible, efficient and reliable.

Leading the ZEvolution.™

In 2021, we concentrated on these ESG priorities:

Company Management	Environment	Employees	Community
Business performance	Zero-emission products and solutions	Celebrating, fostering and measuring diversity, equity and inclusion	Responsible corporate citizen
Leading with integrity	Emissions management, including footprint rationalization	Environmental health and safety	Human Rights
Quality products, continuous innovation	Energy and water consumption management	Respectful and vibrant workplace culture	Community and charitable initiatives
Robust governance	Infrastructure Solutions to support zero-emission projects	Workforce development, Community Benefits Framework and initiatives	Team and community spirit, supported by the Community Benefits Framework

In 2021, we accelerated our Company-wide sustainability strategy and roadmap, with a plan to complete our first ESG materiality assessment in 2022.

As a part of our ongoing ESG priorities, in 2021 we:

- Continued to prioritize the health, safety and well-being of our employees through our continued pandemic emergency response and safety measures;
- Continued our NFI Forward facility footprint rationalization, which we anticipate will decrease our overall carbon footprint;
- Completed our first disclosure to the CDP Climate Change questionnaire;
- Began conducting renewable energy studies in some of our facilities to identify opportunities in preparation for the net-zero economy;
- Continued to evaluate and add subsidiaries to ISO 14001, 45001 and 9001 registrations;
- Shifted some of our strategic priorities to withstand supply chain challenges for the long-term health of the business;
- Engaged an independent third party to conduct a diversity, equity and inclusion ("DEI") survey of our organization to assess our current state and areas for opportunity;
- Formalized a Human Rights Statement outlining our commitment and approach, informed by international principles;
- Raised $373,000+ through United Way campaign, supporting 18 communities across North America; and
- Continued development of our products and solutions to meet the needs of the net-zero economy, releasing six new zero-emission vehicles in 2021 alone.

Our 2022 materiality assessment will inform the key ESG issues most relevant to NFI and all our stakeholders, to ensure we are meeting the needs of tomorrow as we continue our ***ZE***volution™ to a more sustainable future.

NFI's 4th annual ESG Report will be released in May 2022, with additional information.

Although 2022 will not be without its challenges…

…we will continue to lead the *ZE*volution: the evolution to a zero-emission future.

Notes to readers

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE 14-WEEKS AND 53-WEEKS ENDED JANUARY 2, 2022

Information in this Management’s Discussion and Analysis (“MD&A”) relating to the financial condition and results of operations of NFI Group Inc. (“NFI” or the "Company") is supplemental to, and should be read in conjunction with, NFI’s audited consolidated financial statements (including notes) (the “Financial Statements”) for the 53-week period ended January 2, 2022.

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

QUARTERLY AND ANNUAL REPORTING PERIODS

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

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

Notes to readers

Specific references and definitions are used throughout this MD&A, please see the Non-IFRS and other Financial Measures section. References to LTM mean last-twelve months ("LTM"). Adjusted EBITDA, NOPAT, Invested Capital, ROIC, Free Cash Flow, Free Cash Flow per Share, Adjusted Net Earnings (Loss), Adjusted Net Earnings (Loss) per Share, Liquidity, Working Capital Days, Payout Ratio and Backlog are non-IFRS measures and should not be considered substitutes or alternatives for IFRS measures. These are not defined terms under IFRS and do not have standard meanings, so may not be a reliable way to compare NFI to other companies. Dividends paid from Free Cash Flow are not assured, and the actual amount of dividends received by holders of Shares will depend on, among other things, the Company's financial performance, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks, as described in NFI's public filings, such as the Annual Information Form, available on SEDAR at www.sedar.com.

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

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

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

NFI Leading the ZEvolution.™

NFI is leading zero-emission electric mobility.

50+ million
Electric service miles driven

2,032
Zero-Emission Buses ("ZEBs") delivered since 2015

275+
EV chargers installed via Infrastructure Solutions™

331
ZEBs delivered in 2021 Q4 (31% of total deliveries)

661
ZEBs delivered in 2021 FY (18% of total deliveries)

80+
Cities have NFI ZEBs in service or on order

5
Countries have NFI ZEBs in service or on order

1,414
ZEBs in backlog

17%
of total backlog is ZEBs

39%
of North American Public Bid Universe is ZEBs

~8,000
EUs annual ZEB production capacity

NFI Leading the ZEvolution.™

FY 2021 Highlights (US$)

$2.3B
Total Revenue

3,783
EUs Delivered

$235.6M
Gross Profit

$164.2M
Adjusted EBITDA [1]

$14.5M
Net Loss

$23.0M
Free Cash Flow [1]

$153.2M
Cash Flow Generated By Operating Activities

$794.3M
Liquidity [2]

$0.21
Net Loss Per Share

$0.17
Adjusted Net Loss Per Share [3]

4,724 EUs
in New Orders

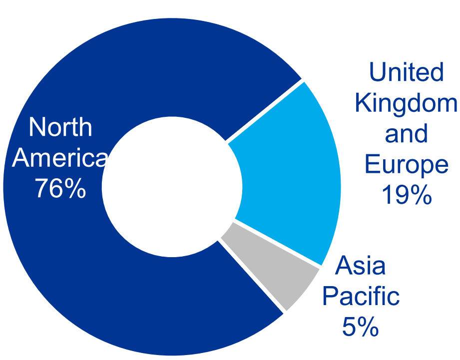
6,845 EUs
Active Bids

$55.2M
Adjusted EBITDA[1] Savings from NFI Forward

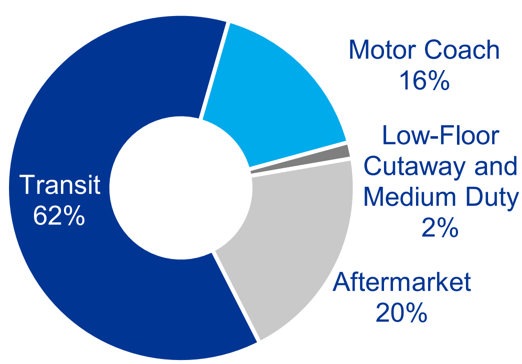
8,448 EUs
in Backlog (Value of $4.5B) [2]

(1) Represents a non-IFRS measure, meaning it is not a defined term under IFRS and does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. See Non-IFRS and Other Financial Measures section.
(2) Represents a supplementary financial measure. See Non-IFRS and Other Financial Measures section.
(3) Represents a non-IFRS ratio, 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. 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

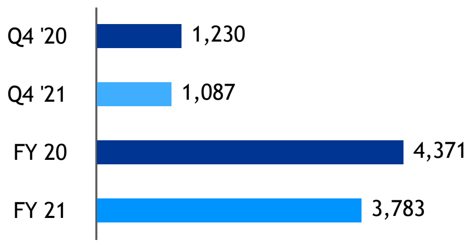


Revenue by Product

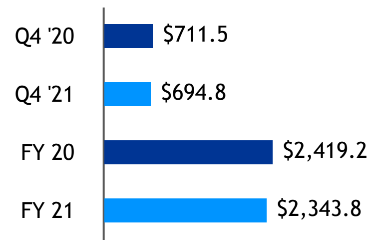


KEY PERFORMANCE INDICATORS

Deliveries (EUs)



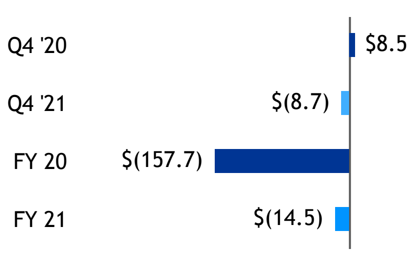
Revenue ($ millions)



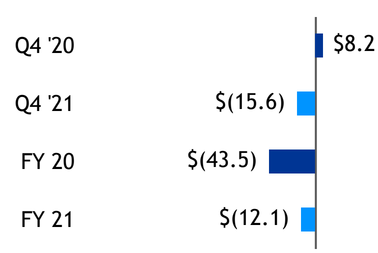
The Company experienced a reduction in deliveries of 143 units, or 11.6%, from 2020 Q4 to 2021 Q4. Lower deliveries were experienced in all of NFI's product lines in the Manufacturing segment. The decrease was primarily due to reduced production rates as the Company worked to manage through global supply chain challenges, mostly attributable to the COVID-19 pandemic, that created numerous bottlenecks and disruptions to parts availability. In addition, the ongoing COVID-19 pandemic continues to have an impact on the Company's production and on the Company's end customers. Pre-owned coach deliveries remained low as the Company previously completed a 2020 Q4 contract to sell the majority of its North American pre-owned coach fleet. 2021 Q4 deliveries included 331 ZEBs, or 30.5% of total deliveries, while Fiscal 2021 deliveries included 661 ZEBs, or 17.5% of total deliveries. Fiscal 2021 deliveries decreased from Fiscal 2020 due to reduced production rates in response to the COVID-19 pandemic and supply chain shortages primarily caused by the pandemic.

Total revenue decreased by 2.3% from 2020 Q4 to 2021 Q4 as a result of lower new vehicle deliveries as the Company reduced production rates to manage global supply chain challenges and the impact of the ongoing COVID-19 pandemic. This decline was partially offset by a greater number of ZEB deliveries, which have a higher selling price compared to units with traditional propulsion systems. In addition, quarterly Aftermarket revenue was $117.5 million, generating 13.3% year-over-year growth, despite operations being impacted by supply chain disruptions and the COVID-19 pandemic. The increase was driven by increased volumes in all geographic regions, with significant benefit from a multi-year retrofit program in the Asia-Pacific region that began in 2020 Q4 and continued through Fiscal 2021. This retrofit program is expected to continue throughout Fiscal 2022 at lower run rates compared to Fiscal 2021.

Net earnings (loss) ($ millions)



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



Footnotes

1. Represents a non-IFRS measure, meaning it is not a defined term under IFRS and does not have a standard meaning, so it may not be a reliable way to compare NFI to other companies. See Non-IFRS and Other Financial Measures section.

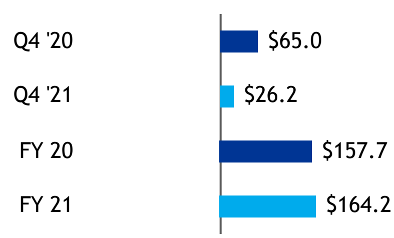
2021 Q4 Adjusted Net Loss of $15.6 million increased by $23.8 million compared to 2020 Q4. The increase in Adjusted Net Loss was driven by lower new vehicle deliveries and continuing supply chain challenges and associated costs. In addition, the Company received less government grants.

Fiscal 2021 Adjusted Net Loss of $12.1 million decreased by $31.4 million from Fiscal 2020, as Fiscal 2020 included the idling of nearly all production facilities in 2020 Q2 which resulted in 2020 Q2 Adjusted Net Losses of $56.9 million.

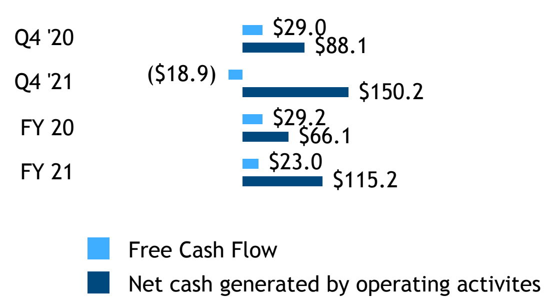
2021 Q4 net loss of $8.7 million increased by $17.2 million from 2020 Q4, primarily due to the reasons noted above, as well as a higher unrealized foreign exchange loss, partially offset by increased net earnings in the Aftermarket business segment, increased sales from the Company's Infrastructure Solutions™ division and $15.0 million in savings generated by NFI Forward. The fourth quarter net loss was also partially offset by lower interest and finance costs, primarily due to fair market value gains on the interest rate swaps and the cash conversion option on the convertible unsecured debentures (the "Debentures"), income tax recoveries and lower restructuring and COVID-19 related costs.

The Company reported a net loss of $14.5 million for Fiscal 2021, as compared to a net loss of $157.7 million for Fiscal 2020. The year-over-year improvement was driven by a one-time impairment loss on MCI goodwill in Fiscal 2020, lower interest and finance costs, lower income tax expenses, lower non-operating restructuring charges associated with the NFI Forward initiative, and lower COVID-19 related costs.

Adjusted EBITDA[1] ($ millions)



Free Cash Flow[1] and net cash generated by operating activities ($ millions)



Footnotes

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

2021 Q4 Adjusted EBITDA of $26.2 million decreased by $38.8 million from 2020 Q4, or 59.7%. The decrease was primarily a result of lower vehicle deliveries and sales as the Company lowered production rates in response to global supply chain challenges. In addition, the period also saw variable production cost inflation and $10.1 million lower receipts of government grants ($2.3 million in 2021 Q4 versus $12.4 million in 2020 Q4). The ongoing COVID-19 pandemic has also affected labor availability and contributed to lost time. The decrease in Adjusted EBITDA in the Manufacturing business segment was partially offset by increased Adjusted EBITDA in the Aftermarket business segment, and by $15.0 million in savings generated by NFI Forward.

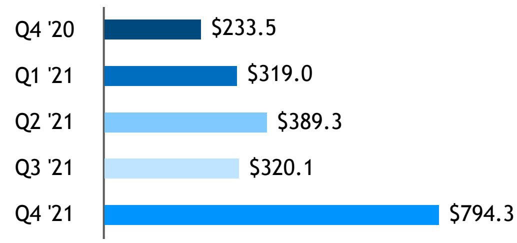
On a year-over-year basis, Adjusted EBITDA increased by $6.5 million, or 4.1%, as a result of higher margin Aftermarket sales and $55.2 million in savings generated by NFI Forward, partially offset by higher Corporate expenses. Government grants received in Fiscal 2021 were $2.9 million higher than those received in Fiscal 2020.

Free Cash Flow in 2021 Q4 was ($18.9) million, a decrease of $47.9 million, or 165.2%, compared to 2020 Q4, mainly due to lower Adjusted EBITDA and higher outflows from changes in non-cash working capital. The decline in Free Cash Flow was partially offset by recoveries of income taxes, and by NFI Forward savings of approximately $18.1 million, comprised of $15.0 million in Adjusted EBITDA savings and additional $3.1 million in Free Cash Flow savings. On a yearly basis, Free Cash Flow decreased by 21.2%, mainly due to higher cash capital expenditures and higher interest, offset by higher Adjusted EBITDA in Fiscal 2021.

Net cash generated by operating activities in 2021 Q4 was $150.2 million, an increase of $62.1 million, or 71%, compared to 2020 Q4, mainly due to a decrease in working capital, primarily inventory, and an increase in income tax recoveries, partially offset by an increase in net loss. On a yearly basis, net cash generated by operating activities decreased by 74%, mainly due to a decrease in net losses.

Working Capital Days[1]

Total Liquidity[1] ($ millions)



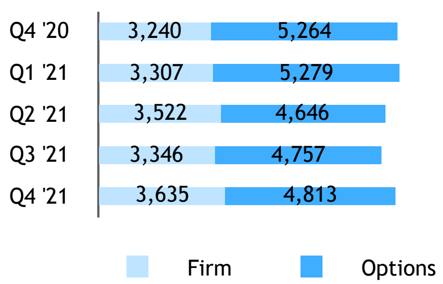
Footnotes

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

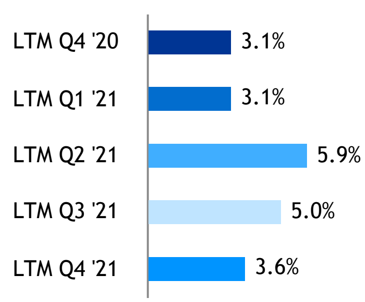
As part of the Company's increased focus on cash conversion and leverage reduction, in Fiscal 2021 NFI added a new key performance metric, "Working Capital Days"; this metric represents the number of days to convert working capital to cash. Working Capital Days is calculated by the number of days in a year divided by the working capital turnover ratio (total sales for the last twelve months divided by average working capital for the last thirteen months). The Company is actively focused on continuing to reduce Working Capital Days. In 2021 Q4, Working Capital Days were 69 compared to 68 at the end of 2021 Q3 and 63 at the end of 2020 Q4. The slight increase in Working Capital Days in 2021 Q4 is attributable to supply chain challenges, leading to lower sales.

The Company's liquidity position, which combines cash on-hand plus available capacity under its credit facilities, was strong, at $794.3 million as at the end of 2021 Q4, up $474.2 million from the end of 2021 Q3, primarily due to the partial repayment of debt owed under the Company's credit facilities with proceeds generated by the equity offerings and convertible debenture offering (see Capital Allocation Policy section).

Backlog (EUs)



ROIC[1]



Footnotes

1. Represents a non-IFRS ratio, 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. The ratio is calculated using net operating profit after tax and average invested capital both of which are non-IFRS measures. See Non-IFRS and Other Financial Measures section.

At the end of 2021 Q4, the Company's total backlog (firm orders and options) of 8,448 EUs (valued at $4.5 billion[1]) increased slightly from 8,103 EUs (valued at $4.2 billion) at the end of 2021 Q3, but was essentially flat with 2020 Q4. The increase from the third quarter was primarily driven by a higher number of new awards within North American and UK transit operations. Backlog was impacted by the expiry of 117 option EUs related to one North American customer.

LTM 2021 Q4 ROIC increased by 0.5% from LTM 2020 Q4, due to the increase in Adjusted EBITDA and a lower invested capital base. The decrease in invested capital is primarily due to repayments of long-term debt and fair market value adjustments to the interest rate swaps that reduced the associated liability, partially offset by the issuance of new shares and convertible debentures.

Footnotes

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

2021 Q4 HIGHLIGHTS

The fourth quarter of 2021 saw continuing supply chain and logistics challenges that combined with the ongoing COVID-19 pandemic to create bottlenecks and significant disruptions to our operations. In response to these issues, NFI continued to maintain reduced new vehicle input rates, primarily by adjusting production rates to accommodate available parts, and by temporarily idling certain facilities. These actions assisted the Company in controlling costs, minimizing working capital, and preserving cash flows through a period of uncertain part supply availability. The onset of the Omicron variant towards the end of 2021 also impacted NFI's operations in the quarter, primarily due to COVID-19-related employee absenteeism.

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

NFI's customers continued to be very accommodating to both the realities of the pandemic and supply chain issues that have adjusted our production and delivery plans. NFI is continuously communicating with its customers to discuss schedule changes and coordinate delivery schedules based on supply availability.

Strong Market Demand and Increasing Procurements

During the fourth quarter, the Company continued to see strong metrics that measure future demand and activity. In 2021 Q4, NFI recorded 1,607 EUs in new orders, an increase of 104.7% from 2021 Q3 and an increase of 61.0% from 2020 Q4. NFI also saw active bids within North America increase by 69.8% year-over-year. In addition, the Company's book-to-bill metric for Fiscal 2021 was 115.1% as compared to 81.7% in Fiscal 2020 leading to backlog growth of 4.3%.

The Total Public Bid Universe for North America was 26,313 EUs, up 7.9% year-over-year (see Appendix B). There were 1,414 ZEBs in the backlog, representing approximately 17% of the total backlog. As at 2021 Q4, 10,145 EUs, or 38.6%, of the Total Public Bid Universe for North America are ZEBs.

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

Focus on Balance Sheet and Financial Flexibility

Throughout 2021 NFI focused on strengthening the Company's balance sheet and on deleveraging.

On December 2, 2021, NFI announced that it had closed a bought deal financing (the "Offering"), pursuant to which a total of 6,110,000 common shares of NFI (the "Shares") were issued at a price of C$24.55 per share and C$300 million aggregate principal amount of the Debentures were issued. On December 14, 2021, NFI closed the issuance of an additional C$38 million aggregate principal amount of the Debentures, pursuant to the partial exercise of the over-allotment option granted by NFI to the syndicate of underwriters in connection with NFI's Offering. In aggregate, the Offering generated gross proceeds of approximately C$488 million.

The Company used the net proceeds of the Offering to reduce the outstanding balance under its senior credit facilities. As of January 2, 2022, NFI's liquidity was $794.3 million and its leverage ratio was 3.79. The Company's increased focus on working capital management continued to provide benefit to the Company, but Working Capital Days were somewhat challenged during the quarter due to the aforementioned supply chain challenges, increasing from 68 in 2021 Q3 to 69 in 2021 Q4.

Although management continues to believe that the supply and logistics disruptions affecting NFI are temporary, the Board has taken the prudent decision to lower the quarterly dividend amount. The Board has declared a dividend of C$0.0531 per Share for the period January 1, 2022 to March 31, 2022 on the common shares of the Company.

Given the expected temporary nature of the supply chain disruptions, NFI's management and Board believe that there will be an opportunity for dividend increases in 2023 if the Company's financial performance improves as expected. See Forward-Looking Statements in Appendix A.

Zero-Emission Mobility—The *ZE*volution™

In 2021 Q4, NFI received orders for 473 EUs of battery-electric, zero-emission vehicles, an increase of 377 EUs, or almost 392.7%, from 2021 Q3; these 473 EUs of ZEBs equate to 29.4% of all new firm and option orders for the quarter. In 2021, the Company received ZEB orders from customers in Alberta, California, Colorado, Michigan, New Jersey, New York, Ohio, Ontario, Rhode Island, Texas, and Virginia. NFI also received significant orders in the UK from customers in London, Glasgow and Edinburgh.

In October 2021, NFI's Vehicle Innovation Center ("VIC") celebrated its fourth anniversary. Opened in October 2017, the VIC provides education and critically needed workforce development through interactive experiences and collaboration. Since it was opened, the VIC has welcomed over 5,000 industry professionals for ZEB and infrastructure training.

Also in October 2021, NFI announced the launch of its Electrical Technician Training Program ("ETTP") through a subsidiary of New Flyer. The ETTP, initially launched in NFI's Minnesota facilities, was developed in direct response to high demands for electrical skills as industry EV adoption surges, and will provide critically needed classroom and on-the-job training to reskill and upskill employees, and to continue leading and supporting zero-emission adoption across North America.

In January 2022, NFI announced that it had received its first order for the battery-electric J4500 CHARGE™ coach in Canada. In February 2022, NFI announced an order for 165 low-emission hybrid-electric buses for Mississauga, Ontario's MiWay (Mississauga Transit). Also in February 2022, NFI announced an order for 130 BYD ADL battery-electric double deck buses to EV fleet and battery storage specialist Zenobē and National Express, which includes Zenobē providing Electric Transportation as a Service ("ETaaS") to National Express and ADL supporting these vehicles with spare parts over a period of 16 years.

In February 2022, NFI announced that it had been selected by the Pinellas Suncoast Transit Authority ("PSTA") as an approved supplier of electric transit buses and charging and associated equipment for the Purchase Schedule for the State of Florida (the "Schedule"). The Schedule, facilitated through PSTA, simplifies the procurement process of zero-emission, battery-electric heavy-duty transit buses, coaches, and associated charging infrastructure for any transit authority, or any city, county, or state government agency within the State of Florida for up to five years.

As previously reported in NFI's 2021 Q3 MD&A, ADL had a significant presence during the 26th United Nations ("UN") Climate Change Conference of the Parties ("COP26") in Glasgow, Scotland. ADL's Enviro400EV battery electric double-deck bus was on display in the COP26 Blue Zone where climate change negotiations occurred, and the BYD UK and ADL electric vehicle partnership's customer First Bus operated the COP26 delegate shuttle service with a fleet of 22 BYD ADL Enviro200EV zero-emission buses.

Subsequent to year-end, in January 2022 NFI announced that it had joined the newly formed Hydrogen Fuel Cell Bus Council ("HFC Bus Council") as a founding member. The HFC Bus Council is a first-of-its-kind national coalition of public transit agencies, manufacturers, and suppliers working together to advance the U.S. hydrogen fuel cell-electric bus economy and its applications in public transit.

NFI Forward Update

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

Specific project achievements during 2021 Q4 include:

- Continued optimization of North American production operations with the closure of ADL's North American facility in Vaughan, Ontario in November 2021;
- Migration of completion work on MCI's new public coaches to an existing New Flyer facility;
- The integration of two separate fiberglass facilities in Winnipeg; and
- Cost savings associated with the roll out of NFI's EV battery strategy.

In 2021 Q4, NFI Forward realized Adjusted EBITDA savings of approximately $15.0 million and $3.1 million of additional Free Cash Flow savings. In Fiscal 2021, NFI Forward realized Adjusted EBITDA savings of approximately $55.2 million and $10.2 million of additional Free Cash Flow savings. Since inception, the Company has invested $9.3 million of the total proposed lifetime investment of $15 million to $20 million (anticipated to be incurred during 2020 to 2023) into NFI Forward projects.

FINANCIAL RESULTS

NFI's 2021 Q4 financial results were significantly impacted by continued global supply chain challenges, primarily attributable to the COVID-19 pandemic. The Company reduced production rates to manage supply chain shortages which resulted in lower new vehicle deliveries and negative impacts to financial performance metrics at the Company's Manufacturing business segment. The Company's end markets are slowly recovering from the pandemic, which was demonstrated by the Company achieving near-record Adjusted EBITDA in its Aftermarket business segment after achieving record Adjusted EBITDA for two consecutive quarters. The Aftermarket business segment also achieved year-over-year revenue growth in all geographic regions. The Company continues to generate significant savings from NFI Forward restructuring programs.

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

Deliveries (unaudited, EUs)	2021 Q4	2020 Q4	% Change	2021	2020	% Change
Transit buses	855	913	(6.4)%	2,765	3,318	(16.7)%
Motor coaches	192	221	(13.1)%	678	633	7.1 %
Medium-duty and cutaway	40	96	(58.3)%	340	420	(19.0)%
New Vehicle Deliveries	1,087	1,230	(11.6)%	3,783	4,371	(13.5)%
Pre-owned coach	38	133	(71.4)%	389	329	18.2 %

Revenue (unaudited, dollars in millions)	2021 Q4	2020 Q4	% Change	2021	2020	% Change
Transit buses	441.8	$ 457.6	(3.5)%	1,429.5	$ 1,593.4	(10.3)%
Motor coaches	122.5	121.9	0.5 %	361.6	334.4	8.1 %
Medium-duty and cutaway	5.4	8.7	(37.9)%	35.3	41.7	(15.3)%
Total new transit bus, coach and cutaway revenue	**$ 569.7**	**$ 588.2**	**(3.1)%**	**$ 1,826.4**	**$ 1,969.5**	**(7.3)%**
Pre-owned coach revenue	2.3	9.0	(74.4)%	20.7	18.4	12.5 %
Infrastructure Solutions™	4.0	9.0	(55.6)%	17.6	24.7	(28.7)%
Fiberglass reinforced polymer components	1.3	1.6	(18.8)%	5.1	5.1	— %
Manufacturing Revenue	**$ 577.3**	**$ 607.8**	**(5.0)%**	**$ 1,869.8**	**$ 2,017.7**	**(7.3)%**
Aftermarket	117.5	103.7	13.3 %	474.0	401.5	18.1 %
Total Revenue	**$ 694.8**	**$ 711.5**	**(2.3)%**	**$ 2,343.8**	**$ 2,419.2**	**(3.1)%**
North America	465.7	560.4	(16.9)%	1,776.3	1,968.8	(9.8)%
United Kingdom and Europe	181.2	106.6	70.0 %	440.5	332.5	32.5 %
Asia Pacific	47.9	44.5	7.6 %	127.0	117.7	7.9 %
Other	—	—	— %	—	—	— %

Manufacturing revenue for 2021 Q4 decreased by $30.5 million, or 5.0%, compared to 2020 Q4. The decrease was primarily due to reduced production rates as the Company worked to manage through the ongoing COVID-19 pandemic and the impact it continues to have on the Company's end customers. Also contributing to the reduction in deliveries were global supply chain challenges, mostly attributable to the COVID-19 pandemic, which created numerous bottlenecks and disruptions to parts availability. Pre-owned coach sales remained low as the Company previously completed a 2020 Q4 contract to sell the majority of its North American pre-owned coach fleet. Quarterly revenue of the Company's Infrastructure Solutions™ division declined by $5.0 million, primarily due to the timing of revenue recognition on open contracts. The Company has completed ZEB charging Infrastructure Solutions™ projects for 39 different customers since inception, currently has projects in-progress with five customers, and is contracted to begin projects with 11 customers in 2022.

With quarterly Aftermarket revenue of $117.5 million, the Company achieved 13.3% year-over-year growth. The increase was driven by increased volumes in all geographic regions. The Company also continues to benefit from a significant, multi-year retrofit program in the Asia-Pacific region.

Adjusted EBITDA[1] (unaudited, dollars in millions)	2021 Q4	2020 Q4	% Change	2021	2020	% Change
Manufacturing	(7.7)	54.3	*(114.2)%*	51.7	102.0	*(49.3)%*
Aftermarket	25.1	17.1	*46.8 %*	98.7	66.7	*48.0 %*
Corporate	8.8	(6.4)	*237.5 %*	13.8	(11.0)	*225.5 %*
Total Adjusted EBITDA[1]	**$26.2**	**$65.0**	***(59.7)%***	**$164.2**	**$157.7**	***4.1 %***
Adjusted EBITDA as a percentage of revenue						
Manufacturing	(1.3)%	9.1 %	*(114.3)%*	2.8 %	5.1 %	*(45.1)%*
Aftermarket	21.3 %	16.5 %	*29.1 %*	20.8 %	16.6 %	*25.3 %*
Total	**3.8 %**	**9.2 %**	***(58.7)%***	**7.0 %**	**6.5 %**	***7.7 %***

Net Earnings (Loss) [2] (unaudited, dollars in millions, except per share amounts)	2021 Q4	2020 Q4	% Change	2021	2020	% Change
Manufacturing	(34.3)	10.4	*429.8 %*	(55.7)	(117.7)	*52.7 %*
Aftermarket	21.2	12.3	*72.4 %*	83.3	52.1	*59.9 %*
Corporate	4.4	(14.2)	*131.0 %*	(42.2)	(92.1)	*54.2 %*
Net (loss) earnings	**$ (8.7)**	**$ 8.5**	***(202.4)%***	**$ (14.5)**	**$ (157.7)**	***90.8 %***
Adjusted Net Earnings (Loss)[1]	(15.6)	8.2	*(290.2)%*	(12.1)	(43.5)	*72.2 %*
Net (loss) earnings per Share	$ (0.12)	0.14	*(185.7)%*	(0.21)	(2.52)	*91.7 %*
Adjusted Net Earnings (Loss) per Share[1]	$ (0.21)	$ 0.13	*(261.5)%*	$ (0.17)	$ (0.70)	*75.7 %*

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

2021 Q4 Manufacturing Adjusted EBITDA decreased by $62.0 million, or 114.2%, compared to 2020 Q4. The decrease was driven by lower new vehicle deliveries and operational inefficiencies resulting from supply shortages and COVID-19 absenteeism. Government grants, which were primarily received to assist with the retention of skilled personnel, decreased by $10.1 million in 2021 Q4 compared to the same period in 2020, resulting in lower Manufacturing Adjusted EBITDA. The decrease in Adjusted EBITDA was partially offset by savings generated by NFI Forward. Manufacturing 2021 Q4 net loss of $34.3 million decreased by $44.7 million compared to net earnings of $10.4 million in 2020 Q4. The decrease in Manufacturing net earnings was mainly attributable to the same items that impacted Manufacturing Adjusted EBITDA.

NFI continues to achieve significant year-over-year growth in its Aftermarket business segment. 2021 Q4 Aftermarket Adjusted EBITDA reached $25.1 million, a $8.0 million, or 46.8%, year-over-year increase. The improved results were due to increased sales volumes in all geographic regions, a favourable product mix and NFI Forward cost reductions. 2021 Q4 Aftermarket net earnings increased by $9.0 million, or 72.4%, primarily due to the same items that impacted Adjusted EBITDA, in addition to lower COVID-19 and restructuring costs.

2021 Q4 Corporate Adjusted EBITDA increased by $15.2 million compared to 2020 Q4, primarily as a result of foreign exchange revaluation adjustments to current monetary balances. Corporate expenses included in the calculation of net earnings (loss) decreased by $18.6 million, or 131.0%, primarily due to higher mark-to-market adjustments to the Company's interest rate swaps and the fair value adjustment to the Company's convertible debenture cash conversion option. The decrease in corporate expenses was partially offset by higher unrealized foreign exchange losses on non-current monetary balances and forward foreign exchange contracts.

Free Cash Flow[1] and net cash generated by operating activities (unaudited, dollars in millions, except per share amounts)	2021 Q4	2020 Q4	*% Change*	2021	2020	*% Change*
Net cash generated by operating activities	$ 150.2	$ 88.1	*70.5 %*	$ 115.2	$ 66.1	*74.3 %*
Free Cash Flow	$ (18.9)	$ 29.0	*(165.2)%*	$ 23.0	$ 29.2	*(21.2)%*
Free Cash Flow (CAD dollars)	(23.9)	37.3	*(164.1)%*	28.5	34.8	*(18.1)%*
Declared Dividends (CAD dollars)	16.4	13.3	*23.3 %*	61.6	53.1	*16.0 %*
Free Cash Flow per Share (CAD dollars) [2]	$ (0.33)	$ 0.60	*(155.0)%*	$ 0.41	$ 0.56	*(26.8)%*
Dividends per Share (CAD dollars)	$ 0.21	$ 0.21	*— %*	$ 0.85	$ 0.85	*— %*
Payout Ratio (Declared Dividends divided by Free Cash Flow) [2]	(68.6)%	35.7 %	*(292.2)%*	216.1 %	152.6 %	*41.6 %*

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

[2] Represents a non-IFRS ratio, 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. The ratio is calculated using Free Cash Flow, which is a non-IFRS measure. See Non-IFRS and Other Financial Measures section.

Free Cash Flow in 2021 Q4 decreased by $47.9 million, or 165.2%, compared to 2020 Q4, mainly due to lower Adjusted EBITDA and higher outflows from changes in non-cash working capital. The reduction in Free Cash Flow was partially offset by income tax recoveries and NFI Forward savings. NFI Forward generated combined Adjusted EBITDA and additional Free Cash Flow savings of approximately $18.1 million in the quarter.

Net cash generated by operating activities in 2021 Q4 was $150.2 million, an increase of $62.1 million, or 71%, compared to 2020 Q4, mainly due to a decrease in working capital and an increase in income tax recoveries, partially offset by an increase in net loss. On a yearly basis, net cash generated by operating activities increased by 74%, mainly due to a decrease in net losses and working capital.

OUTLOOK

As a result of escalating supply chain disruptions, customers delaying their order approvals in 2021, and expectations that NFI would not receive any Canadian or UK government wage subsidy support in 2022 (compared to the $56 million of wage subsidy grants received during 2021), NFI expects significant year-over-year declines in revenue, Adjusted EBITDA and net income in the first half of 2022, with year-over-year improvement in the second half. To date in 2022, supply chain disruptions continue to negatively impact manufacturing productivity and vehicle production schedule performance.

In addition, during the first quarter of 2022, the anode sub-supplier to NFI's primary North American battery supplier experienced a facility fire, creating disruption to the supply of certain batteries for NFI's planned 2022 production. This additional disruption will have a negative impact on 2022 financial performance as it delays the manufacturing and delivery of higher dollar margin buses at both New Flyer and MCI. As the fire occurred at a sub-supplier's facility, NFI has negligible recourse to business interruption insurance. NFI is working closely with the affected supplier and their sub-supplier to implement recovery efforts to restart battery delivery in the second half of 2022. In early 2020, the Company launched an initiative to diversify its supply base by adding a second zero-emission battery source. After detailed diligence and an ongoing testing process, NFI is targeting for that supplier to commence provision of batteries to NFI in Q4 2022.

Similar to the entire global manufacturing industry, NFI is experiencing significantly increased inflation from supplier price increases and through raw material commodities purchased directly by NFI. The Company embedded an elevated level of inflation assumptions into its 2022 bidding and budget projections; however, inflation for certain components has exceeded those projections to date in 2022. A certain number of contracts have been repriced and a number of contracts (including in the cost of option expenses more generally) have clauses where a government purchase price index will be applied. For those contracts where these clauses are not being applied, NFI is seeking price increases and surcharges through negotiations with customers. Notwithstanding these various mitigation measures, management believes that NFI's financial performance will be adversely affected by inflation in 2022.

In response to supply chain disruptions, management has lowered NFI's 2022 first half production rates to limit the build-up of work-in-process inventory and to focus on cost reduction and cash generation efforts across the business, including reductions in overhead, general expenses, and lower capital expenditures. Given NFI's expectations that supply impacts are temporary and based on the strong signs of market recovery in all of NFI's end markets (discussed below), cost and capital reductions will be balanced with the ability to continue to secure new orders, invest in new product development, and deliver on existing customer orders.

Management expects the second half of 2022 to show year-over-year financial and operational performance improvement when compared to the same periods in 2021 as supply chains improve and NFI ramps up production to deliver on its firm orders. Due to the previously discussed customized nature of NFI's products and the high degree of unique engineering for each order, combined with small batch supplier lead times, management is taking a conservative approach to increasing weekly vehicle production in the latter half of 2022. NFI has strong visibility on its second half production from its firm orders. Management expects that new orders where bids have been submitted or will be submitted, combined with conversion of options from backlog, orders on pre-approved purchasing schedules and private market coach sales will fill the remaining 2022 production slots.

NFI's outlook for 2022 and beyond does not reflect any potential impact on supply chain or other factors arising directly or indirectly as a result of the Russian invasion of Ukraine.

While there are near-term headwinds, NFI's outlook remains strong based on its backlog and broader market conditions. NFI now plans for a significant ramp-up in both production and volume deliveries in 2023 that are expected to drive revenue and Adjusted EBITDA growth. This is supported by NFI's firm and option backlog, recent bid activity, and continuing growth in government investments in transportation.

Market Recovery Post-COVID-19 Pandemic

The Company's bus and coach product lines (New Flyer, ARBOC, MCI and ADL) are primarily used for public transit, which remains a critical method of transportation and economic enablement for users in cities around the world. Within North American and UK heavy-duty transit and public coach markets, near- and longer-term demand has started to return, supported by the demand for transit agency and operators' capital fleet investments and dedicated government funding. The importance of long-term government funding in key markets cannot be understated—it allows public transit agencies to proceed with confidence on their multi-year fleet replacement and procurements. In addition to funding, ridership has also seen positive recovery, with multiple sources (including APTA, Apple Mobility and Google Community Mobility) showing improvements tied to the lifting of travel, mask and isolation restrictions and vaccine take-up.

NFI is encouraged by the high volume of active competitions for bus and motor coach procurements during the fourth quarter of 2021 in both North American and international markets. The Company's North American active bids remained high quarter-over-quarter after a recent record level in 2021 Q3 (6,307 EUs) when the Company submitted its highest number of bids since 2017 Q2. This bid activity is expected to drive backlog growth throughout 2022 and into 2023, and revenue growth in the second half of 2022 and into 2023. Bids submitted in Q4 2021 remained high, at 5,062 EUs, a year-over-year increase of 35.5% and management expects active bids will continue to remain high as markets recover from the COVID-19 pandemic and announced government funding begins to reach transit agencies.

Specifically, NFI is seeing increasing numbers of bids for zero-emission buses and coaches, with individual order sizes for those vehicle types starting to increase. In addition, coach operators in the U.S. and Canada have started expressing positive sentiments to acquire new coaches as travel restrictions are being lifted and tourism and travel activity is recovering. While NFI idled production of private motor coaches in North America during the pandemic, the Company restarted private coach production in January 2022 based on increased demand as these operators begin to recover.

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

Strong Government Support for Recovery and Zero-Emission Transition

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

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

The Company also continues to grow its Infrastructure Solutions™ business, and, in April 2021 announced a milestone of over 275 electric vehicle chargers installed to date. Since its inception, Infrastructure Solutions™ has completed projects for 39 different customers, currently has projects in-progress with 5 customers, and is contracted to begin projects with 11 customers in 2022.

United States - Historic Investments in Transit

On November 15, 2021 the Infrastructure Investment and Jobs Act ("IIJA"), the successor to the Fixing America's Surface Transportation Act ("FAST Act"), was signed into law by the President of the United States.

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

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

In March 2022, the FTA published a combined Notice of Funding Opportunity for both the Low or No Emission ("Low-No") Grant Program (approximately $1.1 billion in competitive grants available in Fiscal 2022) and the Grants for Buses and Bus Facilities Competitive Program (approximately $372 million in available funds in Fiscal 2022). In 2021, NFI subsidiaries supported over $40 million in grants awarded to nine U.S. public transit agencies for their successful project awards from the 2021 Low-No Grant Program, and was specifically named the partner for the agency receiving the largest award in 2021 of $7.4 million for 10 ZEBs.

Canada - Dedicated Annual Funding

In October 2020, the Canadian federal government announced C$1.5 billion in financing through the Canada Infrastructure Bank ("CIB") to support the adoption of ZEBs and charging infrastructure; the financing is expected to be delivered over a 24- to 36-month period. The CIB financing has started to be used to fund procurements in Canada, with large announcements made in Ottawa and Brampton in Ontario; and Edmonton, Alberta.

The Canadian government followed this with a landmark announcement in February 2021 that will result in C$14.9 billion being invested in Canadian public transit, C$2.75 billion of which is to be dedicated to zero-emission. The program includes C$5.9 billion in dedicated project funds starting in 2021, and ongoing funding of C$3 billion per year beginning in 2026-2027.

United Kingdom - Support for the Transition to Zero-Emission

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

In 2021, the Scottish Government awarded £40.5 million in funding to bus operators through a second round of the Scottish Ultra-Low Emission Bus Scheme ("SULEBS") and the first £50 million phase of a new Scottish Zero Emission Bus Challenge Fund ("ScotZEB"). The ScotZEB fund is designed to encourage the market to implement new and innovative ways to finance and deploy zero-emission buses. ADL was the successful proponent on over 300 battery-electric buses through these programs.

Other International Markets

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

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

NFI Forward

Management continues to expect that the aggregate programs of the Company’s transformational NFI Forward initiative will generate at least $67 million in annual Adjusted EBITDA savings through overhead and SG&A reductions and sourcing initiatives by the end of 2023 when compared to 2019 levels. In addition, NFI Forward is expected to generate approximately $10 million in annualized Free Cash Flow generation, driven by interest savings and lower lease payments. The combined programs are expected to deliver an 8% to 10% reduction in both manufacturing overhead and SG&A expenses, based on 2019 production rates, with investments of approximately $15 million to $20 million (some of which have already been made) required to deliver these savings. The achievement of these goals is subject to the risks and other factors described in Forward-Looking Statements.

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

As the majority of NFI Forward initiatives are either complete or in the later stages of completion, management is now focused on launching NFI Forward 2.0, an additional series of projects to drive further facility consolidations and footprint optimization. The Company has recently announced the closure of a legacy parts distribution warehouse in Delaware, Ohio, which will contribute to improved Adjusted EBITDA in 2023. Full details on the plans and targeted benefits of NFI Forward 2.0 will be announced with NFI's first quarter 2022 results.

Financial Guidance

NFI presents the following guidance for Fiscal 2022:

Fiscal 2022 Financial Guidance	
Revenue	$2.5 billion to $2.8 billion
ZEB (electric) as a percentage of manufacturing sales	20% to 25%
Adjusted EBITDA[1]	$100 million to $130 million
Cash Capital Expenditures – including NFI Forward	$25 million to $35 million
Seasonality	10% to 20% of Adjusted EBITDA in H1 2022; 80% to 90% of Adjusted EBITDA in H2 2022

(1) Non-IFRS Measure.

The above table outlines guidance ranges for selected Fiscal 2022 consolidated financial metrics. These ranges take into consideration management's current outlook combined with Fiscal 2021 results and are based on the assumptions set out below. The purpose of the financial guidance is to assist investors, shareholders, and others in understanding management's expectations for the Company's financial performance in Fiscal 2022. The information may not be appropriate for other purposes. Information about *guidance, including the various assumptions underlying it, is forward-looking and should be read in conjunction with the section "Forward-Looking Statements" in Appendix A 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 provided above is driven by numerous expectations and assumptions including, but not limited to, the following:

a. **Revenue:** Anticipated year-over-year revenue growth of 7% to 19% to be driven by a higher volume of ZEB sales and product mix.

b. **ZEB Sales:** Expected growth in the percentage of ZEB sales is based on the Company's backlog and expected new orders driven by increased market demand for zero-emission vehicles.

c. **Adjusted EBITDA**: Adjusted EBITDA is expected to decrease year-over-year as the Company does not expect to receive any government grants in 2022, as compared to the $56 million received in Fiscal 2021. In addition, Adjusted EBITDA is expected to be depressed due to operational inefficiencies resulting from ongoing supply chain disruptions lowering production rates, with more pronounced impact in the first half of 2022. In addition, there are expected to be ongoing inflationary pressures on components and raw materials, and lost time related to the ongoing global pandemic. Offsetting these items is an expected positive contribution of savings generated through the NFI Forward initiative.

d. **Cash Capital Expenditures:** Fiscal 2022 cash capital expenditures are expected to be allocated between maintenance and NFI Forward projects, based on an approximate 80/20 percent split.

NFI continues to closely monitor the impact of COVID-19 on the Company's business and has assumed that there will be continued impact to production rates throughout 2022 (particularly in the first half of the year), due to supply disruptions, labor availability, and lost time.

NFI's outlook for 2022 and beyond does not reflect any potential impact on supply chain or other factors arising directly or indirectly as a result of the Russian invasion of Ukraine. NFI is closely monitoring the situation in Ukraine, which has not materially impacted NFI's production or operations to date. Although NFI does not have direct suppliers based in Russia or Ukraine, additional supply delays and possible shortages of critical components may arise as the conflict progresses and if certain suppliers' operations and/or subcomponent supply from affected countries are disrupted further. In addition, there may also be general industry-wide price increases for components and raw materials used in vehicle production.

NFI expects a significant ramp-up in both production and deliveries in 2023 that are expected to drive revenue and Adjusted EBITDA growth. This is supported by NFI's firm and option backlog, recent bid activity, and continuing growth in government investments in transportation.

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

Management's expectations regarding financial guidance and targets above are subject to the risks and other factors referred to in Appendix A.

SELECTED QUARTERLY AND ANNUAL FINANCIAL AND OPERATING INFORMATION

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

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

Fiscal Period	Quarter	Revenue	Earnings (loss) from operations	Net earnings (loss)	Adjusted EBITDA[(1)]	Earnings (loss) per Share
2021						
	Q4	$ 694,843	$ (4,785)	$ (8,691)	$ 26,154	$ (0.12)
	Q3	492,038	(2,797)	(15,415)	31,330	(0.22)
	Q2	582,794	26,675	2,588	51,856	0.04
	Q1	574,119	26,918	7,033	54,840	0.10
	Total	**$ 2,343,794**	**$ 46,011**	**$ (14,485)**	**$ 164,180**	**$ (0.21)**
2020						
	Q4	$ 711,523	$ 32,531	$ 8,465	$ 64,956	$ 0.14
	Q3	663,934	(16,453)	(24,912)	60,885	(0.40)
	Q2	333,334	(72,001)	(74,050)	(24,229)	(1.18)
	Q1	710,384	(25,406)	(67,239)	56,071	(1.08)
	Total	**$ 2,419,175**	**$ (81,329)**	**$ (157,736)**	**$ 157,683**	**$ (2.52)**
2019						
	Q4	$ 917,741	$ 69,958	$ 34,127	$ 103,875	$ 0.55
	Q3	725,347	25,200	(1,085)	76,868	(0.02)
	Q2	683,353	37,000	8,507	81,122	0.14
	Q1	566,995	40,906	16,149	60,302	0.26
	Total	**$ 2,893,436**	**$ 173,064**	**$ 57,698**	**$ 322,167**	**$ 0.93**

COMPARISON OF FOURTH QUARTER 2021 RESULTS

(U.S. dollars in thousands)

	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Statement of Earnings Data				
Revenue				
North America	$ 379,501	$ 483,011	$ 1,428,001	$ 1,651,144
United Kingdom and Europe	161,867	88,900	362,052	268,916
Asia Pacific	35,970	35,930	79,713	97,669
Other	—	—	—	—
Manufacturing operations	577,338	607,841	1,869,766	2,017,729
North America	86,242	77,361	348,247	317,774
United Kingdom and Europe	19,311	17,696	78,448	63,596
Asia Pacific	11,952	8,625	47,333	20,076
Other	—	—	—	—
Aftermarket operations	117,505	103,682	474,028	401,446
Total revenue	$ 694,843	$ 711,523	$ 2,343,794	$ 2,419,175
(Loss) earnings from operations	$ (4,785)	$ 32,531	$ 46,011	$ (81,329)
(Loss) earnings before interest and income taxes	$ (10,398)	$ 36,023	$ 34,108	$ (72,223)
Net (loss) earnings	$ (8,691)	$ 8,465	$ (14,484)	$ (157,736)
Adjusted EBITDA[(1)]	$ 26,154	$ 64,956	$ 164,181	$ 157,683
Cash capital expenditures	$ 12,948	$ 9,447	$ 33,514	$ 25,703

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

Results of Operations

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

Revenue

(U.S. dollars in thousands)

		2021 Q4		2020 Q4		Fiscal 2021		Fiscal 2020
Manufacturing Revenue		577,338		607,841		1,869,766		2,017,729
Aftermarket Revenue		117,505		103,682		474,028		401,446
Total Revenue	$	694,843	$	711,523	$	2,343,794	$	2,419,175
(Loss) earnings from Operations	$	(4,785)	$	32,531	$	46,011	$	(81,329)
(Loss) earnings before interest and income taxes		(10,398)		36,023		34,108		(72,223)
(Loss) earnings before income tax expense		(9,757)		21,453		(4,928)		(156,092)
Net (loss) earnings		(8,691)		8,465		(14,484)		(157,736)

Manufacturing revenue for 2021 Q4 decreased by $30.5 million, or 5.0%, compared to 2020 Q4. Manufacturing revenue for Fiscal 2021 decreased by $148.0 million, or 7.3%, compared to Fiscal 2020. The quarterly figures declined primarily as a result of the Company reducing production rates as it worked to manage the ongoing global supply chain challenges, mostly attributable to the COVID-19 pandemic, and the continued impact of the COVID-19 pandemic on the Company's end customers. The year-over-year decline was also partly attributable to the customer and supply chain related production rate decreases in the second half of 2021, and partly a result of the comparative year-over-year figures including the higher production rates maintained in 2020 Q1, prior to the onset of the pandemic in 2020 Q2. The year-over-year decline is partially offset by low deliveries in 2020 Q2, as the Company idled production for nearly two months in 2020 Q2, in response to COVID-19 related safety concerns and public customer order delays and private customer order deferrals, which were also both attributable to the COVID-19 pandemic.

Aftermarket revenue for 2021 Q4 increased by $13.8 million, or 13.3%, compared to 2020 Q4. Aftermarket revenue for Fiscal 2021 increased by $72.6 million, or 18.1%, compared to Fiscal 2020. Both the quarterly and full year increases were driven by significant volume increases in all geographic regions, including a significant, multi-year retrofit program in the Asia Pacific region.

Cost of sales

(U.S. dollars in thousands)

		2021 Q4		2020 Q4		Fiscal 2021		Fiscal 2020
Manufacturing								
Direct cost of sales	$	478,929	$	478,509	$	1,505,047	$	1,620,299
Depreciation and amortization		22,490		23,437		86,539		100,269
Other overhead		72,583		46,952		189,736		208,100
Manufacturing cost of sales	$	574,002	$	548,898	$	1,781,322	$	1,928,668
As percent of Manufacturing Sales		99.4 %		90.3 %		95.3 %		95.6 %
Aftermarket								
Direct cost of sales	$	77,340	$	73,771	$	316,261	$	280,737
Depreciation and amortization		2,629		2,688		10,616		10,515
Aftermarket cost of sales	$	79,969	$	76,459	$	326,877	$	291,252
As percent of Aftermarket Sales		68.1 %		73.7 %		69.0 %		72.6 %
Total Cost of Sales	$	653,971	$	625,357	$	2,108,199	$	2,219,920
As percent of Sales		94.1 %		87.9 %		89.9 %		91.8 %

The consolidated cost of sales for 2021 Q4 increased by $28.6 million, or 4.6%, compared to 2020 Q4. The consolidated cost of sales for Fiscal 2021 decreased by $111.7 million, or 5.0%, compared to Fiscal 2020.

Cost of sales from Manufacturing operations in 2021 Q4 was $574.0 million (99.4% of Manufacturing operations revenue) compared to $548.9 million (90.3% of Manufacturing operations revenue) in 2020 Q4, an increase of $25.1 million, or 4.6%. Cost of sales from Manufacturing operations in Fiscal 2021 was $1.8 billion (95.3% of Manufacturing operations revenue) compared to $1.9 billion (95.6% of Manufacturing operations revenue) in Fiscal 2020. Cost of sales increased as a percentage of revenue in 2021 Q4, mainly due to operational inefficiencies resulting from supply shortages and COVID-19 absenteeism. Government grants, which were primarily received to assist with the retention of skilled personnel, decreased in 2021 Q4 compared to the same period in 2020, resulting in lower cost of sales as a percentage of revenue in the prior quarter. Cost of sales decreased as a percentage of revenue in Fiscal 2021, primarily due to the Company idling production for nearly two months in 2020 Q2. Cost of sales also decreased as a percentage of revenue in Fiscal 2021 due to NFI Forward cost savings achieved in 2021 and significant restructuring charges and COVID-19 related costs incurred in 2020. Government grants received in Fiscal 2021 were comparable to government grants received in Fiscal 2020.

Cost of sales from Aftermarket operations in 2021 Q4 was $80.0 million (68.1% of Aftermarket revenue) compared to $76.5 million (73.7% of Aftermarket revenue) in 2020 Q4, a decrease of 5.6% as a percentage of revenue. Cost of sales from Aftermarket operations in Fiscal 2021 was $326.9 million (69.0% of Aftermarket revenue) compared to $291.3 million (72.6% of Aftermarket revenue) in Fiscal 2020, a decrease of 3.6% as a percent of revenue. Cost of sales decreased as a percentage of revenue in both periods primarily due to a favourable product mix and NFI Forward cost reductions.

Gross Margins

(U.S. dollars in thousands)	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Manufacturing	$ 3,336	$ 58,942	$ 88,445	$ 89,060
Aftermarket	37,536	27,224	147,150	110,195
Total Gross Margins	$ 40,872	$ 86,166	$ 235,595	$ 199,255
As a percentage of sales				
Manufacturing	0.6 %	9.7 %	4.7 %	4.4 %
Aftermarket	31.9 %	26.3 %	31.0 %	27.4 %
	5.9 %	12.1 %	10.1 %	8.2 %

Manufacturing gross margin for 2021 Q4 of $3.3 million (0.6% of Manufacturing revenue), decreased by $55.6 million compared to $58.9 million (9.7% of revenue) for 2020 Q4. Manufacturing gross margin for Fiscal 2021 of $88.4 million (4.7% of Manufacturing revenue), decreased by $0.6 million compared to $89.1 million (4.4% of Manufacturing revenue) in Fiscal 2020.

Manufacturing gross margin decreased as a percentage of revenue in 2021 Q4, mainly due to operational inefficiencies resulting from supply shortages and COVID-19 absenteeism. Government grants, which were primarily received to assist with the retention of skilled personnel, decreased in 2021 Q4 compared to the same period in 2020, resulting in a lower gross margin percentage. Gross margin increased as a percentage of revenue in Fiscal 2021, primarily due to the Company idling production for nearly two months in 2020 Q2. Gross margin also increased as a percentage of revenue in Fiscal 2021 due to NFI Forward cost savings achieved in 2021 and significant restructuring charges and COVID-19 related costs incurred in 2020. Government grants received in Fiscal 2021 were comparable to government grants received in Fiscal 2020.

Aftermarket gross margins for 2021 Q4 of $37.5 million (31.9% of Aftermarket revenue) increased by $10.3 million, or 37.9%, compared to 2020 Q4 gross margins of $27.2 million (26.3% of Aftermarket revenue). Aftermarket gross margins for Fiscal 2021 of $147.2 million (31.0% of Aftermarket revenue) increased by 37.0 million, or 33.5%, compared to Fiscal 2020 gross margins of $110.2 million (27.4% of Aftermarket revenue). Gross margin percentage increased in both periods primarily due to a favourable product mix.

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

(U.S. dollars in thousands)	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Selling expenses	$ 7,735	$ 12,327	$ 27,271	$ 28,579
General and administrative expenses	46,557	41,791	176,868	193,868
Other costs	1,094	1,434	1,030	8,856
Total SG&A	$ 55,386	$ 55,552	$ 205,169	$ 231,303

The consolidated SG&A for 2021 Q4 of $55.4 million (8.0% of consolidated revenue) decreased by $0.2 million, or 0.3%, compared to $55.6 million (7.8% of consolidated revenue) in 2020 Q4. The consolidated SG&A for Fiscal 2021 of $205.2 million (8.8% of consolidated revenue) decreased by $26.1 million, or 11.3%, compared to $231.3 million (9.6% of consolidated revenue) in Fiscal 2020.

The decrease in both periods is primarily related to NFI Forward savings achieved in 2021 and significant restructuring and COVID-19 costs incurred in 2020. Government grants, which were primarily received to assist with the retention of skilled personnel, decreased in 2021 Q4 compared to the same period in 2020, resulting in higher SG&A as a percentage of revenue.

Realized foreign exchange loss/gain

In 2021 Q4, the Company recorded a realized foreign exchange gain of $9.7 million compared to a gain of $1.9 million in 2020 Q4. In Fiscal 2021, the Company recorded a realized foreign exchange gain of $15.6 million compared to a gain of $1.5 million in Fiscal 2020.

The Company uses foreign exchange forward contracts to buy various currencies in which it operates with U.S. dollars, Canadian dollars and GBP.

In 2020 Q4 and Fiscal 2020, the purchase of 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 2021 Q4 and Fiscal 2021, the issue of convertible debenture and receipt of government grants, denominated in Canadian dollars and the purchase of currencies using foreign exchange forward contracts at favorable forward rates compared to the spot rates at settlement were the primary reason for the gains.

Earnings (loss) from operations

Consolidated losses from operations in 2021 Q4 were $4.8 million ((0.7)% of consolidated revenue) compared to earnings of $32.5 million (4.6% of consolidated revenue) in 2020 Q4, an increase of $37.3 million or 114.7%. Consolidated earnings from operations in Fiscal 2021 were $46.0 million (2.0% of consolidated revenue) compared to losses of $81.3 million ((3.4%) of consolidated revenue) in Fiscal 2020.

2021 Q4 losses from operations attributable to the Manufacturing Segment were $35.6 million ((6.2%) of Manufacturing revenue) compared to earnings of $23.1 million (4.6% of Manufacturing revenue) in 2020 Q4, a decrease of $58.7 million, or 254.2%. Losses from Manufacturing operations in Fiscal 2021 were $46.0 million ((2.5%) of Manufacturing revenue) compared to losses of $125.1 million ((6.2%) of Manufacturing revenue) in Fiscal 2020, a decrease in losses of $79.1 million or 63.2%. The decrease as a percentage of revenue in 2021 Q4 was primarily attributable to lower new vehicle deliveries, as the Company lowered production rates to manage through the ongoing COVID-19 pandemic and the impact it continues to have on supply chain shortages. The increase as a percentage of revenue in Fiscal 2021 was primarily attributable to higher new vehicle deliveries, as the Company had previously idled production for nearly two months in 2020 Q2, in response to the impact of the pandemic on the Company's end-markets and COVID-19 related safety concerns. The increase as a percentage of revenue is also due to NFI Forward savings. The Fiscal 2020 figures are also lower as a result of a $50.8 million impairment charge incurred on MCI's goodwill in 2020 Q1. Both comparative periods were also negatively impacted by higher restructuring costs and COVID-19 related expenses.

Earnings from operations related to Aftermarket operations in 2021 Q4 were $21.2 million (18.0% of Aftermarket revenue) compared to $12.4 million (12.0% of Aftermarket revenue) in 2020 Q4. Earnings from operations related to Aftermarket operations in Fiscal 2021 were $83.3 million (17.6% of Aftermarket revenue) compared to $53.6 million (13.4% of Aftermarket revenue) in Fiscal 2020. Earnings from Aftermarket operations were higher in both periods due to higher sales volumes, a favourable product mix and NFI Forward savings.

Unrealized foreign exchange gain/loss

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

(U.S. dollars in thousands)		2021 Q4		2020 Q4		Fiscal 2021		Fiscal 2020
Unrealized gain (loss) on forward foreign exchanges contracts	$	594	$	1,377	$	(4,048)	$	8,272
Unrealized gain (loss) on other long-term monetary assets/liabilities		(6,393)		1,860		(7,743)		778
	$	(5,799)	$	3,237	$	(11,791)	$	9,050

At January 2, 2022, the Company had $148.0 million of foreign exchange forward contracts to buy currencies in which the Company operates (U.S. dollars, Canadian dollars, and GBP). The related asset of $0.4 million (December 27, 2020: $4.5 million asset) is recorded on the audited consolidated statement of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the audited consolidated statements of net loss and total comprehensive loss.

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

In 2021 Q4, the Company recorded an EBIT of ($10.4) million compared to EBIT of $36.0 million in 2020 Q4. In Fiscal 2021, the Company recorded EBIT of $34.1 million compared to EBIT of ($72.2) million in Fiscal 2020.

Interest and finance costs

The interest and finance charges for 2021 Q4 of ($0.6) million decreased by $15.2 million compared 2020 Q4. The interest and finance costs for Fiscal 2021 of $39.0 million decreased by $44.8 million compared to Fiscal 2020. The quarterly decrease is primarily due to a higher fair market value gain on the adjustment to the Company's interest rate swaps and the fair market value gain on the adjustment for the cash conversion option from the convertible debt offering in 2021 Q4. The Company had a fair market value gain on the interest rate swap of $9.9 million in 2021 Q4 compared to a gain of $3.3 million in 2020 Q4, and a fair market value gain on the cash conversion option of $10.9 million in 2021 Q4 compared to $nil in 2020 Q4. The yearly decrease is primarily due to a fair market value adjustments to the Company's interest rate swaps and convertible debt cash conversion option. The Company had a fair market value gain of $23.2 million in Fiscal 2021 compared to a loss of $17.7 million in Fiscal 2020. Also contributing is the fair market value adjustment for the cash conversion option from the convertible debt offering in 2021 Q4, partially offset by higher interest on long-term debt due to higher variable interest charges on the Company's credit facilities.

The fair market value adjustments on the interest rate swaps relate to risk management activities management has undertaken to reduce the uncertainty related to the Company's cost of borrowing. The Company's first interest rate swap fixes the interest rate which the Company will pay on $560.0 million of its long-term debt at 2.27% plus an applicable margin. The fixed portion amortizes $20 million annually and matures in October 2023. The Company has a second interest rate swap on $200 million of its long-term debt on which the Company will pay 0.243% plus an applicable margin and matures in July 2025. The Company's accounting policy is to not designate these types of instruments as accounting hedges. As a result, interest rate increases will result in mark-to-market gains, while interest rate decreases will result in mark-to-market losses. As the value of the hedge is higher than the value of the Company's long-term debt, the impact of the hedge to the consolidated Statement of net loss and total comprehensive income is more than the value of the interest the swap hedges.

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

EBT for 2021 Q4 of ($9.8) million decreased by $31.3 million compared to EBT of $21.5 million in 2020 Q4. EBT for Fiscal 2021 of ($4.9) million improved by $151.2 million compared to EBT of ($156.1) million in Fiscal 2020. The primary drivers of the changes to EBT are addressed in the Earnings (loss) from Operations, EBIT, and interest and finance costs sections above.

Income tax expense

The income tax recovery for 2021 Q4 is $1.1 million, compared to a $13.0 million expense in 2020 Q4. The recovery is higher due mostly to lower earnings before tax, combined with a reduction in the U.S. base erosion and anti-abuse tax ("BEAT"), which is effectively a minimum tax not directly linked to earnings, and foreign tax credit write-off when compared to 2020.

The income tax expense for Fiscal 2021 is $9.6 million, compared to a $1.6 million expense in Fiscal 2020. The increase in the overall income tax expense is primarily due to increased earnings before taxes, offset by the absence of non-deductible write-down of goodwill, and a significant reduction in both BEAT and foreign tax credit write-off which negatively impacted Fiscal 2020.

The effective tax rate ("ETR") for 2021 Q4 was 10.9%, compared to 60.5% in 2020 Q4. The ETR for Fiscal 2021 was (193.9%) compared to (1.1%) in Fiscal 2020. The Fiscal 2021 ETR continues to be negatively impacted by BEAT resulting in an increase in the ETR of 8.1%, a write-off of unapplied foreign tax credits increasing the ETR by 91.3%, and the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25% resulting in increased ETR by 54.2%.

Net loss

The Company reported net losses of $8.7 million in 2021 Q4, an decrease of $17.2 million, or 202.7%, compared to net earnings of $8.5 million in 2020 Q4. The Company reported net losses of $14.5 million in Fiscal 2021, an increase of $143.2 million, or 91%, compared to net losses of $157.7 million in Fiscal 2020. The decrease is a result of the items discussed about and lower government subsidies including CEWS and CERS, offset by lower interest and finance costs. The increase in Fiscal 2021 is primarily related to NFI Forward savings generated in 2021 and higher restructuring costs and COVID-19 related costs incurred in 2020. The comparative yearly figures were also negatively impacted in 2020 by the idling of production for nearly two months in 2020 Q2 and a goodwill impairment charge of $50.8 million recorded in 2020 Q1. The change in both periods is partially offset by unrealized foreign exchange losses recorded in 2021 and unrealized foreign exchange gains recorded in 2020.

Net loss (U.S. dollars in millions, except per Share figures)		**2021 Q4**		**2020 Q4**		**Fiscal 2021**		**Fiscal 2020**
(Loss) earnings from operations	$	(4.8)	$	32.5	$	46.0	$	(81.3)
(Loss) gain on disposition of property, plant and equipment		0.2		0.4		(0.1)		0.1
Unrealized foreign exchange (loss) gain on monetary items		(5.8)		3.2		(11.8)		9.1
Interest and finance costs		0.6		(14.6)		(39.0)		(83.9)
Income tax (expense) recovery		1.1		(13.0)		(9.6)		(1.7)
Net (loss) earnings	$	(8.7)	$	8.5	$	(14.5)	$	(157.7)
Net (loss) earnings per Share (basic)	$	(0.12)	$	0.14	$	(0.21)	$	(2.52)
Net (loss) earnings per Share (fully diluted)	$	(0.12)	$	0.14	$	(0.21)	$	(2.52)

The Company recorded net loss per Share for 2021 Q4 of $0.12 compared to net earnings per Share of $0.14 in 2020 Q4. Net loss per share decreased as a result of decreased earnings during the period, offset by increased Shares outstanding as discussed below. The Company's net loss per Share for Fiscal 2021 of $0.21 improved from net loss per Share of $2.52 in Fiscal 2020. Net losses per Share improved primarily due to lower net losses. Net losses per Share were also lower as a result of dilution from the Company's bought deal equity offerings ("Offerings") in March 2021 in which NFI issued 8,446,000 common shares at a price of C$29.60 per share for gross proceeds to the Company of C$250 million and December 2021 in which NFI issued 6,111,000 common shares at a price of C$24.55 per share for gross proceeds to the Company of C$150 million.

Government Grants

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

(U.S. dollars in thousands)		**2021 Q4**		**2020 Q4**		**Fiscal 2021**		**Fiscal 2020**
Cost of sales	$	2,039	$	10,111	$	48,382	$	46,740
Selling, general and administration costs and other operating expenses		295		2,208		8,059		6,790
Total government grants	$	2,334	$	12,319	$	56,441	$	53,530

Cash Flow

The cash flows of the Company are summarized as follows:

(U.S. dollars in thousands)

	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	$ 23,568	$ 57,951	$ 153,180	$ 87,299
Interest paid	(17,254)	(15,913)	(64,224)	(63,307)
Income taxes (recovered) paid	2,998	(4,124)	(19,550)	(26,693)
Cash flow generated by changes in working capital	143,848	50,191	45,824	68,762
Cash flow generated by operating activities	153,160	88,105	115,230	66,061
Cash flow from financing activities	(118,821)	(27,997)	(59,992)	(37)
Cash flow used in investing activities	(18,971)	(7,217)	(30,792)	(38,477)

Cash flows from operating activities

The 2021 Q4 net operating cash inflow of $153.2 million is comprised of $9.3 million of net cash earnings and $143.8 million of cash generated by working capital. The 2020 Q4 net operating cash inflow of $88.1 million is comprised of $37.9 million of net cash earnings and $50.2 million of cash generated by working capital.

The Fiscal 2021 net operating cash inflow of $115.2 million is comprised of $69.4 million of net cash earnings and $45.8 million of cash generated by working capital. The Fiscal 2020 net operating cash inflow of $66.1 million is comprised of net cash losses of $2.7 million and $68.8 million of cash generated by working capital.

Cash flow from financing activities

The cash outflow of $118.8 million during 2021 Q4 is comprised mainly of repayments of revolving credit facilities of $463.7 million, dividend payments of $11.9 million, transaction costs associated with the convertible debt offering of $10.4 million, costs associated with the equity offering of $5.1 million and lease obligation payments of $3.8 million, partially offset by proceeds from the convertible debt offering of $258.7 million and equity offering of $117.4 million. The cash outflow of $60.0 million during Fiscal 2021 is primarily due to repayments of revolving credit facilities of $546.1 million, dividend payments of $46.5 million, lease obligation repayments of $18.2 million and $13.7 million of costs associated with the equity offerings and $10.4 million of costs associated with the convertible debt offering, partially offset by proceeds from the equity offerings of $316.2 million and proceeds of $258.7 million from the convertible debt offering.

Cash flow from investing activities

(U.S. dollars in thousands)

	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Acquisition of intangible assets	$ (1,888)	$ (29)	$ (2,748)	$ (29)
Proceeds from disposition of property, plant and equipment	1,277	2,259	6,182	2,765
Long-term restricted deposits	(5,412)	—	(712)	(15,510)
Acquisition of property, plant and equipment	(12,948)	(9,447)	(33,514)	(25,703)
Cash used in investing activities	$ (18,971)	$ (7,217)	$ (30,792)	$ (38,477)

Cash used in investing activities was higher in 2021 Q4, primarily due to higher investments in long-term restricted deposits to implement a bond facility to facilitate payments relating to a customer contract and higher investments in property, plant and equipment as the Company limited capital expenditures in 2020 to preserve cash. The Fiscal 2021 cash used in investing activities was lower, mainly due to cash from long-term restricted deposits and proceeds from disposition of property, plant and equipment as part of NFI Forward. The decrease in Fiscal 2021 was partially offset by higher investment in property, plant and equipment and intangible assets.

On February 13, 2019, the Company entered into a $600 million amortizing notional interest rate swap designed to hedge floating rate exposure on the Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023 and amortizes at a rate of $20 million per annum.

On July 9, 2020 the Company entered into a $200 million amortizing notional interest rate swap designed to hedge floating rate exposure on its Credit Facility. The interest rate swap fixes the interest rate at 0.243% plus applicable margin until July 2025. The swap begins amortizing on December 9, 2022 at a rate of $20 million per annum.

The fair value of the interest rate swap liability of $30.5 million at January 2, 2022 (December 27, 2020: $33.1 million) was recorded on the audited consolidated statements of financial position as a derivative financial instruments liability and the change in fair value has been recorded in finance costs for the reported period. The unrealized losses recorded on the instruments are a result of interest rate reductions subsequent to entering into the transactions.

Credit risk

Financial instruments which potentially subject the Company to credit risk and concentrations of credit risk consist principally of cash, accounts receivable and derivatives. Management believes that the credit risk associated with accounts receivable is mitigated by the significant proportion of counterparties that are well established public transit authorities. Additionally, the U.S. federal government funds a substantial portion of U.S. public sector customer payments - up to 80% of the capital cost of new transit buses, coaches or cutaways, while the remaining 20% comes from state and municipal sources. There are a few U.S. public sector customers that obtain 100% of their funding from state and municipal sources. The maximum exposure to the risk of credit for accounts receivables corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally comprised of municipal and other local transit authorities. Management has not observed, and does not anticipate, significant changes to credit risk as a result of the COVID-19 pandemic.

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

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

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

U.S. dollars in thousands	**January 2, 2022**	December 27, 2020
Current, including holdbacks	$ 375,012	$ 380,328
Past due amounts but not impaired		
1 – 60 days	15,857	39,988
Greater than 60 days	5,892	7,081
Less: allowance for doubtful accounts	(270)	(989)
Total accounts receivables, net	$ 396,491	$ 426,408

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

Commitments and Contractual Obligations

The following table describes the Company’s maturity analysis of the undiscounted cash flows of leases and accrued benefit liabilities as at January 2, 2022:

U.S. dollars in thousands	**Total**	**2022**	**2023**	**2024**	**2025**	**2026**	**Post 2026**
Leases	219,661	26,653	22,938	17,913	14,149	14,228	123,780
Accrued benefit liability	5,672	5,672	—	—	—	—	—
	$ 225,333	$ 32,325	$ 22,938	$ 17,913	$ 14,149	$ 14,228	$ 123,780

As at January 2, 2022, outstanding surety bonds guaranteed by the Company amounted to $375.9 million, representing an increase compared to $357.2 million at December 27, 2020. The estimated maturity dates of the surety bonds outstanding at January 2, 2022 range from January 2022 to December 2026. Management believes that adequate facilities exist to meet projected surety requirements.

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

Under the Credit Facility, the Company has established a letter of credit sub-facility of $100.0 million. As at January 2, 2022, letters of credit amounting to $11.8 million (December 27, 2020: $11.8 million) remained outstanding as security for the contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of £50.0 million ($68.4 million). As at January 2, 2022, letters of credit totaling $40.6 million were outstanding under the bi-lateral credit facility (December 27, 2020: $22.1 million). Additionally, there are $25.3 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

As at January 2, 2022, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

The Company does not have any off-balance sheet arrangement or any material capital asset commitments at January 2, 2022.

Share Option Plan

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

Option Grant dates	Number	Exercised	Expired	Vested	Unvested	Expiry date	Exercise price	Fair Value at grant date
March 26, 2013	490,356	(490,356)	—	—	—	March 26, 2021	$10.20	$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	$10.57	$1.44
December 28, 2014	499,984	(252,233)	(11,368)	(236,383)	—	December 28, 2022	$13.45	$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	$26.75	$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	$42.83	$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	$40.84	$7.74
January 2, 2018	152,883	—	(26,271)	(126,612)	—	January 2, 2026	$54.00	$9.53
January 2, 2019	284,674	—	(55,540)	(172,764)	56,370	January 2, 2027	$33.43	$5.01
July 15, 2019	2,835	—	—	(1,418)	1,417	July 15, 2027	$35.98	$4.90
December 31, 2019	519,916	—	(76,004)	(223,345)	220,567	December 31, 2027	$26.81	$3.36
December 28, 2020	258,673	—	(22,562)	(59,030)	177,081	December 28, 2028	$24.70	$6.28
February 10, 2021	1,894	—	—	(474)	1,420	December 28, 2028	$28.74	$6.28
August 16, 2021	601	—	—	(150)	451	August 16, 2029	$30.79	$6.28
	3,199,344	(1,366,150)	(215,435)	(1,160,453)	457,306		$28.82	

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

The following reconciles the Share options outstanding:

	Fiscal 2021		Fiscal 2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,503,117	C$29.32	1,068,906	C$30.77
Granted during the period	261,168	C$24.73	519,916	C$26.81
Expired during the period	(110,449)	C$31.93	(77,059)	C$34.26
Exercised during the period	(36,077)	C$10.49	(8,646)	C$13.45
Balance at end of period	1,617,759	C$28.82	1,503,117	C$29.32

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 10,341 director restricted Share units ("Director RSUs"), with a total value of $194 thousand, in 2021 Q4. Approximately $70 thousand of the issued Director RSUs were exercised and exchanged for 3,727 shares.

Critical accounting estimates and judgments

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

New and amended standards adopted by the Company

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

NON-IFRS AND OTHER FINANCIAL MEASURES

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

Adjusted EBITDA and Net Operating Profit after Taxes

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

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

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

(U.S. dollars in thousands)

	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Net (loss) earnings	$ (8,691)	$ 8,465	$ (14,484)	$ (157,736)
Addback				
Income taxes	(1,066)	12,987	9,556	1,644
Interest expense[16]	(641)	14,571	39,036	83,870
Amortization	25,117	26,126	97,154	110,786
Loss (gain) on disposition of property, plant and equipment	(186)	(257)	112	(56)
Fair value adjustment for total return swap[9]	647	(1,584)	681	118
Unrealized foreign exchange loss (gain) on non-current monetary items and forward foreign exchange contracts	5,799	(3,237)	11,791	(9,052)
Costs associated with assessing strategic and corporate initiatives[7]	(106)	165	(106)	1,396
Past service costs and other pension costs (recovery)[11]	—	7	—	(408)
Proportion of the total return swap realized[10]	(597)	641	(712)	(526)
Equity settled stock-based compensation	293	608	1,738	1,770
Unrecoverable insurance costs [12]	—	—	718	—
Prior year sales tax provision [13]	1,996	37	2,036	184
COVID-19 costs[14]	2,926	5,413	3,959	47,362
Out of period costs[17]	1,234	—	1,234	—
Impairment loss on goodwill[15]	—	—	—	50,790
Restructuring costs (recovery)[8]	(571)	1,014	11,468	27,544
Adjusted EBITDA	$ 26,154	$ 64,956	$ 164,181	$ 157,686
Depreciation of property plant and equipment and right of use assets	(16,965)	(17,558)	(64,368)	(70,333)
Tax at 31%	(2,849)	(14,693)	(30,942)	(27,079)
NOPAT	$ 6,340	$ 32,705	$ 68,871	$ 60,274
Adjusted EBITDA is comprised of:				
Manufacturing	$ (7,711)	$ 54,264	$ 51,654	$ 101,961
Aftermarket	$ 25,083	$ 17,104	$ 98,669	$ 66,748
Corporate	$ 8,782	$ (6,409)	$ 13,858	$ (11,030)

(Footnotes on page 49 and 50)

Free Cash Flow and Free Cash Flow per Share

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

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

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

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

	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Net cash generated by operating activities	$ 150,246	$ 88,105	$ 115,230	$ 66,061
Changes in non-cash working capital items[3]	(139,640)	(50,191)	(45,824)	(68,762)
Interest paid[3]	17,254	15,913	64,224	63,307
Interest expense[3]	(20,108)	(15,231)	(70,432)	(61,835)
Income taxes paid (recovered)[3]	(2,998)	4,124	19,550	26,693
Current income tax expense[3]	(10,517)	(5,733)	(22,430)	(26,580)
Repayment of obligations under lease	(2,206)	(7,829)	(18,192)	(18,887)
Cash capital expenditures	(12,948)	(9,447)	(33,514)	(25,703)
Acquisition of intangible assets	(1,888)	(29)	(2,748)	(29)
Proceeds from disposition of property, plant and equipment	2,649	2,259	6,182	2,765
Costs associated with assessing strategic and corporate initiatives[7]	(106)	165	(106)	1,396
Defined benefit funding[4]	1,590	1,118	3,652	5,507
Defined benefit expense[4]	(3,070)	(756)	(6,420)	(5,307)
Past service costs and other pension costs (recovery)[11]	—	7	—	(408)
Proportion of the total return swap realized[10]	(597)	641	(712)	(525)
Unrecoverable insurance costs [12]	—	—	718	—
Out of period costs[17]	1,234	—	1,234	—
Prior year sales tax provision [13]	1,996	37	2,036	185
Restructuring costs[8]	171	446	9,516	23,944
COVID-19 costs[14]	2,926	5,413	$ 3,959	47,362
Foreign exchange loss on cash held in foreign currency[5]	(2,873)	(28)	(2,897)	(11)
Free Cash Flow[1]	$ (18,885)	$ 28,984	$ 23,026	$ 29,173
U.S. exchange rate[2]	1.2634	1.2869	1.2385	1.1927
Free Cash Flow (C$)[1]	(23,859)	37,300	28,518	34,796
Free Cash Flow per Share (C$)[6]	(0.3272)	0.5966	0.4072	0.5566
Declared dividends on Shares (C$)	16,390	13,287	61,645	53,140
Declared dividends per Share (C$)[6]	$ 0.2125	$ 0.2125	$ 0.8500	$ 0.8500

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

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

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

(4) The cash effect of the difference between the defined benefit expense and funding is included in the determination of cash from operating activities. This cash effect is excluded in the determination of Free Cash Flow as management believes that the defined

benefit expense amount provides a more appropriate measure, as the defined benefit funding can be impacted by special payments to reduce the unfunded pension liability.

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

(6) Per Share calculations for Free Cash Flow (C$) are determined by dividing Free Cash Flow by the total number of all issued and outstanding Shares using the weighted average over the period. The weighted average number of Shares outstanding for 2021 Q4 was 72,927,889 and 62,524,842 for 2020 Q4. The weighted average number of Shares outstanding for Fiscal 2021 and Fiscal 2020 are 70,039,835 and 62,510,544, respectively. Per Share calculations for declared dividends (C$) are determined by dividing the amount of declared dividends by the number of outstanding Shares at the respective period end date.

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

(8) Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, right-of-use asset impairments and inventory impairments associated with NFI Forward restructuring initiatives. Free Cash Flow reconciling amounts are net of right-of-use asset and property, plant and equipment impairments.

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

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

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

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

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

(14) Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be non-operating. As more information becomes available, management may change its assessment.

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

(16) Includes fair market value adjustments to interest rate swaps and the cash conversion option on the Debentures. 2021 Q4 includes a gain of $9.9 million and 2020 Q4 includes a gain of $3.3 million for the interest rate swaps. Fiscal 2021 includes a gain of $23.2 million and Fiscal 2020 includes a loss of $17.7 million for the interest rate swaps. 2021 Q4 includes a gain of $10.9 million and 2020 Q4 includes a gain of $nil for the cash conversion option. Fiscal 2021 includes a gain of $10.9 million and Fiscal 2020 includes a gain of $nil for the cash conversion option.

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

Liquidity

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

Backlog

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

Working Capital Days

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

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

Payout Ratio

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

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

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

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

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

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

	2021 Q4	2020 Q4	Fiscal 2021	Fiscal 2020
Net (loss) earnings	(8,691)	8,465	(14,484)	(157,736)
Adjustments, net of tax [(1) (7)]				
Fair value adjustments of total return swap[(4)]	295	(1,093)	310	81
Unrealized foreign exchange loss (gain)	2,639	(2,233)	5,365	(6,245)
Unrealized (gain) loss on interest rate swap	(4,496)	(2,277)	(10,538)	12,199
Unrealized gain on Cash Conversion Option	(4,965)	—	(4,965)	—
Impairment loss on goodwill[(9)]	—	—	—	50,790
Portion of the total return swap realized[(5)]	(272)	443	(324)	(362)
Costs associated with assessing strategic and corporate initiatives[(2)]	(106)	165	(106)	1,396
Equity settled stock-based compensation	134	419	791	1,221
Loss (gain) on disposition of property, plant and equipment	(85)	(178)	51	(39)
Past service costs and other pension costs (recovery)[(6)]	—	4	—	(282)
Unrecoverable insurance costs[(12)]	—	—	327	—
Prior year sales tax provision[(8)]	908	26	926	127
Other tax adjustments[(11)]	(2,833)	—	2,669	3,695
COVID-19 costs[(10)]	1,331	3,735	1,801	32,680
Out of period costs[(13)]	562	—	562	—
Accretion in carrying value of convertible debt and cash conversion option	274	—	274	—
Restructuring (recovery) costs[(3)]	(260)	700	5,218	19,003
Adjusted Net Earnings (Loss)	$ (15,565)	8,176	$ (12,123)	(43,472)
Earnings (Loss) per Share (basic)	$ (0.12)	$ 0.14	$ (0.21)	$ (2.52)
Earnings (Loss) per Share (fully diluted)	(0.12)	$ 0.14	$ (0.21)	$ (2.52)
Adjusted Net Earnings (Loss) per Share (basic)	$ (0.21)	$ 0.13	$ (0.17)	$ (0.70)
Adjusted Net Earnings (Loss) per Share (fully diluted)	$ (0.21)	$ 0.13	$ (0.17)	$ (0.70)

1. Addback items are derived from the historical financial statements of the Company.
2. Normalized to exclude non-operating expenses related to the costs of assessing strategic and corporate initiatives.
3. Normalized to exclude non-operating restructuring costs. Costs primarily relate to severance costs, right-of-use asset impairments and inventory impairments associated with NFI Forward restructuring initiatives.
4. The fair value adjustment of the total return swap is a non-cash (gain) loss that is excluded from the definition of Adjusted Net Earnings (Loss).

5. A portion of the fair value adjustment of the total return swap is excluded from Adjusted Net Earnings (Loss) to match the equivalent portion of the related deferred compensation expense recognized.
6. Costs and recoveries associated with amendments to, and closures of, the Company's pension plans.
7. For 2021, the Company has utilized a rate of 54.5% to tax effect the adjustments. A rate of 31.0% has been used to tax effect the adjustments for all other periods.
8. Provision for sales taxes as a result of a state tax review.
9. Impairment charge with respect to MCI's goodwill.
10. Normalized to exclude COVID-19 related costs. Costs primarily relate to asset impairments, medical costs directly related to COVID-19 and miscellaneous operating costs associated with COVID-19. Asset impairments are primarily attributable to pre-owned coach inventory. Management will continue to assess the costs for COVID-19 and will make an assessment of whether they are deemed in fact to be non-operating. As more information becomes available, management may change its assessment.
11. Includes the impact of changes in deferred tax balances as a result of substantively enacted tax rate changes. The 2021 amounts include the impact of the revaluation of deferred tax balances due to the increase in the UK corporate tax rate from 19% to 25% in 2021 Q2. The 2020 amounts result from the reversal of previously enacted UK tax rate decline in 2020 Q2.
12. Normalized to exclude non-operating costs related to an insurance event that are not recoverable.
13. Includes adjustments made related to expenses that pertain to prior years. 2021 Q4 includes expenses related to amounts owed from fiscal years 2016 - 2020, and expenses related to amounts owed from fiscal years 2014 - 2020.

ROIC

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

Reconciliation of Shareholders' Equity to Invested Capital

(U.S. dollars in thousands)	2021 Q4	2021 Q3	2021 Q2	2021 Q1
Shareholders' Equity	869,635	787,010	814,502	824,643
Addback				
Long term debt	586,411	1,049,273	963,630	1,008,733
Capital leases	143,675	150,212	153,967	150,553
Convertible Debentures	225,765	—	—	—
Derivatives	31,883	20,920	21,609	23,996
Cash	(77,318)	(64,822)	(47,695)	(23,063)
Invested Capital	1,780,051	1,942,593	1,906,013	1,984,862
Average of invested capital over the quarter	1,861,322	1,924,303	1,945,438	1,927,576

	2020 Q4	2020 Q3	2020 Q2	2020 Q1
Shareholders' Equity	620,141	602,178	627,907	723,899
Addback				
Long term debt	1,125,685	1,123,281	1,112,602	1,110,157
Capital leases	150,577	152,912	156,177	159,381
Convertible Debentures	—	—	—	—
Derivatives	29,656	35,493	40,829	42,007
Cash	(55,769)	(1,176)	(10,363)	(22,429)
Bank indebtedness	—	10,000	7,773	—
Invested Capital	1,870,290	1,922,688	1,934,925	2,013,015
Average of invested capital over the quarter	1,896,489	1,928,807	1,973,970	2,019,151

Capital Allocation Policy

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

Maintaining Financial Flexibility

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

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

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

On December 2, 2021, the Company amended the Credit Facility and the UK Facility (together the "amended facilities"). The amended facilities provide the Company with relaxed covenants as it recovers from the impacts of the COVID-19 pandemic. NFI has provided the lenders security on certain of its assets, including a general security agreement on NFI's personal property, but excluding security on real property. The general security agreement is in place until NFI has delivered three consecutive fiscal quarters with a total leverage ratio of less than 2.75 to 1.

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

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

Under the terms of the amended facilities, the total leverage and interest coverage ratios for 2022 and 2023 have been relaxed. Furthermore, the total net debt to capitalization ratio will no longer be required starting in the third quarter of 2022. Under the terms of the amended facilities, the total leverage and interest coverage ratios were adjusted for the fourth quarter of 2021; the total leverage ratio must be less than 5.25 to 1; and the total interest coverage ratio must be greater than 2.00 to 1.

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

	Total Leverage Ratio	**Interest Coverage Ratio**
January 3, 2022 - July 3, 2022	N/A	>1.50
July 4, 2022 - October 2, 2022	<6.25	>1.50
October 3, 2022 - January 1, 2023	<5.25	>2.00
January 2, 2023 - April 2, 2023	<4.00	>2.50
April 3, 2023 and thereafter	<3.75	>3.00

The amended facilities also allow the Company to use a covenant increase option beginning in the fourth quarter of 2022 for the total leverage ratio. If the covenant increase option is used, the Company will be required to maintain a total net leverage ratio of less than 5.75 to 1 from October 3, 2022 to January 1, 2023; of less than 4.50 to 1 from January 2, 2023 to April 2, 2023; of less than 4.25 to 1 from April 3, 2023 to July 2, 2023; of less than 4.00 to 1 from July 3, 2023 to October 1, 2023; and of less than 3.75 to 1 thereafter.

If the covenant increase option is not used, the Company will also have to comply with a $50 million minimum liquidity covenant at all times until April 3, 2023. If the covenant increase option is used, the Company will have to comply with a $150 million minimum liquidity covenant at all times until October 2, 2023. The amended facilities also require the dividend payment not exceed the current level.

Due to the ongoing uncertainty created by supply chain disruptions and related inflationary pressures, and the fire disrupting the Company's battery supplier, the Company now expects that, although its liquidity position remains strong, lower trailing Adjusted EBITDA combined with the Company's anticipated debt profile will affect the Company's ability to comply with certain financial covenants under its senior credit facilities (including the interest coverage ratio in the near term and the total leverage covenant beginning in the second half of 2022). Management is currently in detailed discussions with its banking partners to obtain further covenant relief extending into the first half of 2023.

Management believes that, with the anticipated covenant relief, the Company's cash position and capacity under its existing credit facilities, combined with anticipated future cash flows and access to capital markets, will be sufficient to fund operations, meet financial obligations as they come due and provide the funds necessary for capital expenditures, dividend payments and other operational needs. See Appendix A.

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

	January 2, 2022	December 27, 2020
Total Leverage Ratio (must be less than 5.25 [2020: 6.25])	3.79	4.90
Interest Coverage Ratio (must be greater than 2.00 [2020: 3.00])	2.28	4.11
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2020: N/A])	0.37	N/A

US dollars in thousands	**January 2, 2022**	December 27, 2020
Liquidity Position (must be greater than $50 million)	$ 794,332	$ 233,459

The Company remains focused on deleveraging its balance sheet and returning to its target leverage of 2.0x to 2.5x total debt to Adjusted EBITDA. Management had originally expected the Company to return to those levels 18 to 24 months following the acquisition of ADL in May 2019, but the impact of COVID-19 and supply chain disruptions has extended the expected timing of deleveraging. Management now expects to reduce the Company's total leverage to its target leverage of 2.0x to 2.5x total debt to Adjusted EBITDA by the end of 2024 as the recovery from COVID-19 continues, stable supply availability is achieved, the Company achieves the benefits of the NFI Forward strategic cost reduction initiatives and a Company-wide focus on reducing working capital.

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

Business Investment

The Company plans to invest in the current business for future growth and will continue to invest in common systems and lean manufacturing operations to improve quality and cost effectiveness, while also investing to expand the Company's expertise in ZEB, Infrastructure Solutions™ and Advanced Driver Assistance Systems ("ADAS") and automated vehicles. The Company has made significant investments in its ZEB production capabilities to be prepared for the expected longer-term transition to a more electrified fleet. New Flyer now has the capability to manufacture ZEBs at all of its North American facilities. ADL is the market leader in ZEBs with production capabilities at all of its UK facilities, MCI has invested in model upgrades to generate its first electric coach offering, which has been well received by the market and ARBOC commenced production of its medium-duty Equess CHARGE™ electric bus in the second half of 2021, subject to completion of Altoona testing. NFI is planning for the roll-out of next generation battery technology through a second battery supplier referred to above for a fourth quarter 2022 launch based on projects that originally kicked off in 2020. To support customers making the transition to zero-emission fleets, NFI launched its Infrastructure Solutions™ business in 2018. Infrastructure Solutions™ has helped numerous agencies develop and launch infrastructure installation projects.

The Company has autonomous bus projects in development with specialized partners who have a deep understanding of artificial intelligence and ADAS. As part of this program to advance automated vehicles and ADAS, on January 29, 2021, NFI announced the launch of the New Flyer Xcelsior AV, North America's first automated Level 4 transit bus. The Company has also made numerous investments into telematics solutions to ensure customers can track detailed performance and maintenance metrics associated with their vehicles.

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

Return of Capital to Shareholders

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

The Company's 2021 Q4 Free Cash Flow was (C$23.9) million compared to declared dividends of C$16.4 million during this period. For 2020 Q4 Free Cash Flow was C$37.3 million compared to declared dividends of C$13.3 million. This resulted in a payout ratio[1] of (68.6%) in 2021 Q4 compared to 35.7% in 2020 Q4.

Although management continues to believe that the supply and logistics disruptions affecting the Company are temporary, the Board has taken the prudent decision to lower the quarterly dividend amount. The Board has declared a dividend of C$0.0531 per Share for the period January 1, 2022 to March 31, 2022 on the common shares of the Company.

Given the expected temporary nature of the supply chain disruptions, NFI's management and Board believe that there will be an opportunity for dividend increases in 2023 if the Company's financial performance improves as expected. See Forward-Looking Statements in Appendix A.

Total Capital Distributions to Shareholders (U.S. dollars in millions)	**2021 Q4**	**2020 Q4**	**Fiscal 2021**	**Fiscal 2020**
Dividends paid	$ 11.9	$ 9.9	$ 46.5	$ 49.4

(1) Represents a non-IFRS ratio, 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. The ratio is calculated using Free Cash Flow, which is a non-IFRS measure. See Non-IFRS and Other Financial Measures section.

Controls and Procedures

Internal Controls over Financial Reporting

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

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

Management, under the supervision of the CEO and CFO, evaluated the design and operational effectiveness of the Company’s ICFR as of January 2, 2022 in accordance with the criteria established in COSO 2013, and concluded that the Company’s ICFR are effective.

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

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 January 2, 2022, were effective.

Appendix A - Meaning of Certain References

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

The common shares of NFI ("Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "NFI". As at January 2, 2022, 77,130,747 Shares were issued and outstanding. Additional information about NFI and the Company, including NFI's Annual Information Form and information circular, is available on SEDAR at www.sedar.com.

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

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

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

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

Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements", within the meaning of applicable Canadian securities laws, which reflect the expectations of management regarding the Company's future growth, financial performance and objectives and the Company's strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic, supply chain disruptions, and the Company's expectation of receiving further covenant relief under its senior credit facilities and the Company's expectation regarding future dividends. The words "believes", "views", "anticipates", "plans", "expects", "intends", "projects", "forecasts", "estimates", "guidance", "goals", "objectives" and "targets" and similar expressions of future events or conditional verbs such as "may", "will", "should", "could", "would" are intended to identify forward looking statements. These forward-looking statements reflect management's current expectations regarding future events (including the temporary nature of the supply chain disruptions, the recovery of the Company's markets and the expected benefits to be obtained through its "NFI Forward" initiative) and the Company's financial and operating performance and speak only as of the date of this MD&A. By their very nature, forward-looking statements require management to make assumptions and involve significant risks and uncertainties, should not be read as guarantees of future events, performance or results, and give rise to the possibility that management's predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that the assumptions may not be correct and that the Company's future growth, financial performance and objectives and the Company's strategic initiatives, plans, business prospects and opportunities, including the duration, impact of and recovery from the COVID-19 pandemic and supply chain disruptions, will not occur or be achieved. In connection with obtaining the necessary covenant under the Company's senior credit facilities, it is possible that certain amendments could be made, including with respect to a reduction in the size of the facilities, an increase in the interest rates and other fees and additional restrictions on dividends and acquisitions. There can be no assurance that the Company will be successful in obtaining the necessary covenant relief under its senior credit facilities or that dividends will continue to be paid.

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

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

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

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

Appendix B - 2021 Fourth Quarter Order Activity

Demand for Transit Buses and Motor Coaches

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

NFI's end markets continued to show strong signs of recovery in the fourth quarter of 2021. Active bids increased significantly during the first half of 2020, followed by large declines in the second half of 2020 as a result of the pandemic delaying orders in core markets. The Company's active bids rebounded significantly in 2021, reaching 6,901 EUs in 2021 Q3, the highest levels seen since the second quarter of 2017. Active bids were essentially flat from 2021 Q3 to 2021 Q4 as vehicle awards were replaced by new bids. Year-over-year, active bids are up 69.8%. Management expects active bids will continue to remain high throughout 2022 as markets recover from the COVID-19 pandemic and new government funding begins to reach transit agencies. In 2021 Q3, the Company submitted its highest number of bids since 2017 Q2, for 6,307 EUs; in 2021 Q4, bids submitted remained high, at 5,062 EUs, a year-over-year increase of 35.5%.

The forecasted five-year North American industry procurement has started to rebound from the lows of the first half of 2021. Quarter-over-quarter, this metric declined by 2.4%, or 486 EUs; in the short term, some agencies have put their previous procurement plans aside as they have shifted their short- and long-term procurement plans to support transition to zero-emission. In the longer term, however, NFI expects that the forecasted five-year North American industry procurement will continue to increase as transit agencies start to formalize their short- and long-term procurement plans as they recover from the COVID-19 pandemic, and as they investigate and are able to access the multi-billion funding programs announced and/or launched by governments in Canada and the U.S.

As at 2021 Q4, 10,145 units, or 38.6%, of the Total Bid Universe is ZEBs which supports management's expectations for a significant increase in the demand for ZEBs in the future.

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

	Bids in Process (EUs)	Bids Submitted (EUs)	Active EUs	Forecasted Industry Procurement over 5 Years (EUs)(1)	Total Bid Universe (EUs)
2020 Q4	297	3,735	4,032	20,346	24,378
2021 Q1	1,532	3,053	4,585	18,802	23,387
2021 Q2	3,590	3,215	6,805	18,211	25,016
2021 Q3	594	6,307	6,901	19,954	26,855
2021 Q4	**1,783**	**5,062**	**6,845**	**19,468**	**26,313**

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

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

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

ADL does not currently have a Bid Universe metric for the UK and European or Asia Pacific markets similar to New Flyer and MCI's North American Bid Universe. Management does not believe a similar Bid Universe metric for those markets is suitable given that the majority of customers in those regions are private operators who make annual purchase decisions. The overall UK market declined from 2015 to 2019, and was expected to increase in 2020 after that period of decline. The UK market was hit disproportionately hard by the COVID-19 pandemic, with bus patronage down by nearly 80% at its worst point in 2020, and overall deliveries down by 24%. While management saw signs of recovery in 2021, supply chain challenges have disrupted the market. Going forward, management expects stronger recovery based on customers' fleet recovery plans, a government focus on the green recovery, and an aging UK vehicle fleet. ADL continues to grow in Europe with multi-year contracts in Ireland and Germany. The European market is highly fragmented with numerous players providing niche opportunities for ADL in the future.

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

Order activity

New orders (firm and options) during 2021 Q4 totaled 1,607 EUs, an increase of 104.7% from 2021 Q3 and an increase of 61.0% from 2020 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. The new firm and option orders awarded to the Company for Fiscal 2021 were 4,724 EUs, an increase of 34.2% from Fiscal 2020. The Company was successful at converting 277 EUs of options to firm orders during 2021 Q4, an increase of 79.9% from 2021 Q3 and an increase of 62.0% from 2020 Q4. These option conversions contributed to the 1,110 EUs converted to firm orders during Fiscal 2021, an increase of 16.5% from Fiscal 2020.

In 2021 Q4, NFI received orders for 473 EUs of battery-electric, zero-emission vehicles, an increase of 377 EUs, or almost 392.7%, from 2021 Q3; these 473 EUs of ZEBs equates to 29.4% of all new firm and option orders for the quarter.

	New Orders in Quarter (Firm and Option EUs)	**LTM New Orders (Firm and Option EUs)**	**Option Conversions in Quarter (EUs)**	**LTM Option Conversions (EUs)**
2020 Q4	998	3,519	171	953
2021 Q1	1,212	3,385	277	1,091
2021 Q2	1,120	5,850	402	1,088
2021 Q3	785	4,115	154	1,004
2021 Q4	**1,607**	**4,724**	**277**	**1,110**

Options

In 2021 Q4, 117 option EUs expired, compared to 75 options that expired during 2021 Q3 and 120 EUs that expired in 2020 Q4. Nearly all of these expired options related to contracts awarded in 2017 that had not been exercised within the standard five-year option period. Some agencies have been letting a portion of their options expire as they re-evaluate their longer-term fleet planning decisions with an increased focus on the procurement of ZEBs rather than traditional internal combustion engine propulsion.

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

	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**Total**
A) Options Expired (EUs)	550	331	741	512	1,202	819						4,155
B) Options Exercised (EUs)	2,064	1,404	1,795	1,518	953	1,110						8,844
C) Current Options by year of expiry (EUs)							2,422	543	185	598	1,065	4,813
D) Conversion rate % = B / (A+B)	**79 %**	**81 %**	**71 %**	**75 %**	**44 %**	**58 %**						

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

In addition to contracts for identified public customers, the Company has increased focus on purchasing schedules (state and national contracts, cooperative agency purchasing agreements) with the objective of having multiple available schedules, from which customers within a prescribed region or from defined list, can purchase. The Company is currently named on over 20 of these purchasing schedules, either directly or through its dealers. These schedules are not recorded in backlog as they do not have defined quantities allocated to the Company or any other original equipment manufacturer. Once a customer purchases a bus under one of these agreements, the purchase is recorded as a firm order. The Company has received more than 650 vehicle awards from these schedules since 2018 showing their growing use by transit agencies as a procurement avenue in North America.

The Company's Fiscal 2021 Book-to-Bill ratio (defined as new firm orders and exercised options divided by new deliveries) was 115.1%, an increase of 33.4% from Fiscal 2020 of 81.7%. This significant increase in Book-to-Bill was driven by a 34.2% increase in year-over-year orders combined with lower deliveries.

In addition, 352 EUs of new firm and option orders were pending from customers at the end of 2021 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.

Backlog

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

Transit buses and motor coaches incorporating clean propulsion systems, including compressed natural gas, diesel-electric hybrid, and ZEBs, which consist of trolley-electric, fuel cell-electric, and battery-electric buses, represent approximately 47.5% of the total backlog as of the end of 2021 Q4, up from 42.0% as of the end of 2021 Q3. The correct number of ZEBs in the backlog as at the end of 2021 Q3 was 1,262 EUs, rather than 1,696 EUs. This represented approximately 16% of the total backlog. As at the end of 2021 Q4, there were 1,414 ZEBs in the backlog, representing approximately 17% of the total backlog, for an increase of 1% quarter-over-quarter.

	2021 Q4			2021 Q3			2020 Q4		
	Firm Orders	Options	Total	Firm Orders	Options	Total	Firm Orders	Options	Total
Beginning of period	3,346	4,757	8,103	3,522	4,646	8,168	3,662	5,220	8,882
New orders	1,157	450	1,607	445	340	785	663	335	998
Options exercised	277	(277)	—	154	(154)	—	171	(171)	—
Shipments[(1)]	(1,087)	—	(1,087)	(752)	—	(752)	(1,230)	—	(1,230)
Cancelled/expired	(58)	(117)	(175)	(23)	(75)	(98)	(26)	(120)	(146)
End of period	**3,635**	**4,813**	**8,448**	**3,346**	**4,757**	**8,103**	**3,240**	**5,264**	**8,504**
Consisting of:									
Heavy-duty transit buses	2,726	4,515	7,241	2,399	4,371	6,770	2,271	4,730	7,001
Motor coaches	373	298	671	445	386	831	621	534	1,155
Cutaway and medium-duty buses	536	—	536	502	—	502	348	—	348
Total Backlog	**3,635**	**4,813**	**8,448**	**3,346**	**4,757**	**8,103**	**3,240**	**5,264**	**8,504**

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

At the end of 2021 Q4, the Company's total backlog (firm and options) of 8,448 EUs (valued at $4.5 billion[)]) increased slightly compared to 8,103 EUs (valued at $4.2 billion) at the end of 2021 Q3. The increase was driven by new awards within North American and UK transit operations, offset by higher deliveries. The summary of the values is provided below.

	2021 Q4		2021 Q3		2020 Q4	
		Equivalent Units		Equivalent Units		Equivalent Units
Total firm orders	$ 1,981.1	3,635	$ 1,720.5	3,346	$ 1,631.5	3,240
Total options	2,553.2	4,813	2,434.4	4,757	2,706.3	5,264
Total backlog	**$ 4,534.3**	**8,448**	**$ 4,154.9**	**8,103**	**$ 4,337.8**	**8,504**

Consolidated Financial Statements of

NFI GROUP INC.

January 2, 2022

TABLE OF CONTENTS

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March 9, 2022

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 January 2, 2022and December 27, 2020, and the consolidated statements of net earnings (loss) and total comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (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 January 2, 2022 and December 27, 2020, 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 Matters

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 January 2, 2022. 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, ADL manufacturing, ADL aftermarket parts operations— Refer to Notes 7, of the financial statements

Key Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the recoverable amount of each cash generating units ("CGU") to their carrying value annually. The Company used the discounted cash flow model to estimate the value-in-use of each CGU. This requires management to make significant estimates and assumptions including those with respect to future cash inflows and outflows, growth rates and discount rates. Changes in these assumptions could have a significant impact on either the recoverable amount, the amount of any goodwill impairment charge, or both. At the annual evaluation date, the recoverable amounts of the CGUs exceeded their carrying amounts and no impairment to goodwill were recognized.

Specifically, due to the impact of COVID-19 pandemic, global supply chain issues and the sensitivity of the ARBOC, ADL manufacturing and ADL aftermarket parts operations due to production constraints, we have identified the goodwill impairment analysis as a key audit matter for the following CGUs (collectively "identified CGUs"):

- ARBOC
- ADL manufacturing
- ADL aftermarket parts operations

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 the discount rates, forecasts of future revenues, revenue growth rates, and operating margins. This required a high degree of 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 discount rates, forecasts of future revenues, revenue growth rates and operating margins used to estimate the recoverable amount of the identified CGU's included the following, among others:

- Evaluated management's ability to accurately forecast future revenues, revenue growth rates and operating margins by comparing actual results to management's historical forecasts.
- Evaluated the reasonableness of the forecast of future revenues, revenue growth rates and operating margins by comparing the forecasts to:
    - Historical revenues and operating margins.
    - Known changes in the Company's operations and its industry, including the impact of the COVID-19 pandemic, global supply issues and sensitivity due to production constraints, which are expected to impact future operating performance;
    - Internal reports including production and backlog;
    - Internal communications to management and the Board of Directors; and
    - Forecasted information included in the Company's press releases as well as in analyst reports
- 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

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.

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 Michael Boucher.

/s/ Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
March 9, 2022

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF NET LOSS AND TOTAL COMPREHENSIVE LOSS

53-weeks ended January 2, 2022 ("Fiscal 2021") and 52-weeks ended December 27, 2020 ("Fiscal 2020")

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

		Fiscal 2021		Fiscal 2020
Revenue (note 23)	$	2,343,794	$	2,419,175
Cost of sales (note 4)		2,108,199		2,219,920
Gross profit		235,595		199,255
Sales, general and administration costs and other operating expenses		205,169		231,303
Foreign exchange gain		(15,585)		(1,509)
Impairment loss on goodwill (note 7)		—		50,790
Earnings (loss) from operations		46,011		(81,329)
(Loss) gain on disposition of property, plant and equipment		(112)		56
Unrealized foreign exchange (loss) gain on monetary items		(11,791)		9,050
Earnings (loss) before interest and income taxes		34,108		(72,223)
Interest and finance costs				
Interest on long-term debt and convertible debt		59,794		48,717
Accretion in carrying value of long-term debt (note 16)		2,075		4,354
Accretion in carrying value of convertible debt and cash conversion option (note 17)		602		—
Interest expense on lease liability		6,478		7,352
Other interest and bank charges		4,161		5,766
Fair market value (gain) loss on interest rate swap		(23,161)		17,680
Fair market value gain on cash conversion option (note 17)		(10,913)		—
		39,036		83,869
Loss before income tax expense		(4,928)		(156,092)
Income tax expense (recovery) (note 15)				
Current income taxes		22,430		26,580
Deferred income taxes recovered		(12,874)		(24,936)
		9,556		1,644
Net loss for the period	$	(14,484)	$	(157,736)
Other comprehensive income (loss)				
Actuarial gain (loss) on defined benefit pension plan - this item will not be reclassified subsequently to profit or loss		11,932		(9,206)
Unrealized foreign exchange (loss) gain on translation of foreign operations - this item will not be reclassified subsequently to profit or loss		(4,898)		7,324
Total comprehensive loss for the period		(7,450)		(159,618)
Net loss per share (basic) (note 19)	$	(0.21)	$	(2.52)
Net loss per share (diluted) (note 19)	$	(0.21)	$	(2.52)

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

NFI GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at January 2, 2022
(in thousands of U.S. dollars)

		January 2, 2022		December 27, 2020
Assets				
Current				
Cash	$	77,318	$	55,769
Accounts receivable (note 3, 22c)		396,535		426,408
Inventories (note 4)		567,698		657,036
Income tax receivable		21,396		18,759
Derivative financial instruments (note 22 a,b)		442		4,490
Prepaid expenses and deposits		7,549		13,308
		1,070,938		1,175,770
Property, plant and equipment (note 5, 23)		221,338		232,150
Right-of-use asset (note 6)		121,761		133,373
Goodwill and intangible assets (note 7)		1,144,963		1,177,381
Accrued benefit asset (note 10)		4,116		319
Other long-term assets (note 8)		36,504		36,922
		2,599,620		2,755,915
Liabilities				
Current				
Accounts payable and accrued liabilities	$	458,864	$	523,461
Income tax payable		1,104		—
Derivative financial instruments (note 22 a,b)		1,799		1,078
Current portion of long-term liabilities (note 9)		142,860		148,610
		604,627		673,149
Accrued benefit liability (note 10)		11,211		21,061
Obligations under leases (note 6)		120,414		130,674
Deferred compensation obligation (note 11)		2,769		3,234
Deferred revenue (note 13)		19,818		15,608
Provisions (note 14)		63,498		56,605
Deferred tax liabilities (note 15)		62,806		76,689
Derivative financial instruments (note 17, 22 a,b)		30,526		33,069
Long-term debt (note 16)		586,411		1,125,685
Convertible debentures (note 17)		225,768		—
		1,727,848		2,135,774
Commitments and contingencies (note 25)				
Shareholders' equity				
Share capital (note 18)		987,943		681,405
Stock option and restricted share unit reserve (note 12)		10,105		8,400
Accumulated other comprehensive income (loss)		5,921		(1,113)
Deficit		(132,197)		(68,551)
	$	871,772	$	620,141
	$	2,599,620	$	2,755,915

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 January 2, 2022

(in thousands of U.S. dollars)

	Share Capital	Stock Option and Restricted Share Unit Reserve	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, December 29, 2019	**$ 680,962**	**$ 6,828**	**$ 769**	**$ 128,639**	**$ 817,198**
Net loss	—	—	—	(157,736)	(157,736)
Other comprehensive loss	—	—	(1,882)	—	(1,882)
Dividends declared on common shares	—	—	—	(39,454)	(39,454)
Share-based compensation, net of deferred income taxes	—	1,931	—	—	1,931
Shares issued	443	(359)	—	—	84
Balance, December 27, 2020	**$ 681,405**	**$ 8,400**	**$ (1,113)**	**$ (68,551)**	**$ 620,141**
Net loss	—	—	—	(14,484)	(14,484)
Other comprehensive income	—	—	7,034	—	7,034
Dividends declared on common shares	—	—	—	(49,162)	(49,162)
Equity transaction cost (note 17, 18)	(10,148)	—	—	—	(10,148)
Share-based compensation, net of deferred income taxes	—	2,191	—	—	2,191
Shares issued	316,686	(486)	—	—	316,200
Balance, January 2, 2022	**$ 987,943**	**$ 10,105**	**$ 5,921**	**$ (132,197)**	**$ 871,772**

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

NFI GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

53-weeks ended January 2, 2022 ("Fiscal 2021") and 52-weeks ended December 27, 2020 ("Fiscal 2020")

(in thousands of U.S. dollars)

	Fiscal 2021	Fiscal 2020
Operating activities		
Net loss for the period	$ (14,484)	$ (157,736)
Income tax expense	9,556	1,644
Depreciation of plant and equipment	64,368	70,333
Amortization of intangible assets	32,786	40,451
Share-based compensation	1,738	1,770
Interest and finance costs recognized in profit or loss	39,036	83,869
Fair value adjustment for total return swap	681	118
Unrealized foreign exchange loss (gain) on non-current monetary items	11,791	(9,050)
Foreign exchange loss on cash held in foreign currency	2,897	11
Impairment loss on goodwill	—	50,790
Loss (gain) on disposition of property, plant and equipment	112	(56)
Impairment loss on property, plant and equipment	682	1,758
Impairment loss on right-of-use asset	1,269	3,597
Defined benefit expense	6,400	5,307
Defined benefit funding	(3,652)	(5,507)
Cash generated by operating activities before non-cash working capital items and interest and income taxes paid	153,180	87,299
Changes in non-cash working capital items (note 20)	45,824	68,762
Cash generated by operating activities before interest and income taxes paid	199,004	156,061
Interest paid	(64,224)	(63,307)
Income taxes paid	(19,550)	(26,693)
Net cash generated by operating activities	115,230	66,061
Financing activities		
Debt issue costs	(10,383)	(3,931)
Repayment of obligations under lease	(18,192)	(18,887)
Proceeds from (repayment of) revolving credit facilities	(546,137)	72,136
Share issuance	316,200	84
Proceeds from issue of convertible debentures	258,716	—
Equity transaction cost	(13,683)	—
Dividends paid	(46,513)	(49,439)
Net cash generated used by financing activities	(59,992)	(37)
Investing activities		
Acquisition of intangible assets	(2,748)	(29)
Proceeds from disposition of property, plant and equipment	6,182	2,765
Investment in long-term restricted deposits	(712)	(15,510)
Acquisition of property, plant and equipment	(33,514)	(25,703)
Net cash used in investing activities	(30,792)	(38,477)
Effect of foreign exchange rate on cash	(2,897)	(11)
Increase in cash	21,549	27,536
Cash — beginning of period	55,769	28,233
Cash — end of period	$ 77,318	$ 55,769

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

1. CORPORATE INFORMATION

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

The Statements are prepared on a 53-week basis ended January 2, 2022, the comparative period is a 52-week basis ended December 27, 2020. Therefore, the amounts presented in the financial statements are not entirely comparable as the current period represents an additional week. For practical reasons the entities accounting period is normally 52-weeks long. Over time, the additional day per year accumulates to a week and the period will be 53-weeks, such is the case this year.

These audited consolidated financial statements (the "Statements") were approved by the Company's board of directors (the "Board") on March 9, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2.2 Principles of consolidation

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

Subsidiaries

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

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 earnings and comprehensive income.

Inter-company transactions between subsidiaries are eliminated on consolidation.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 income.

Monetary balances denominated in a currency other than U.S. dollars are translated at the period end rates of exchange, and the results of the operations are translated at average rates of exchange for 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 earning (loss) and comprehensive income (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 earnings (loss) and comprehensive income (loss) within "foreign exchange gain".

2.5 Revenue recognition

Manufacturing Operations

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 or shipped. 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.

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 earnings (loss) and comprehensive income (loss) due to its operating nature.

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 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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Infrastructure Solutions™ division supplies, 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.

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 senior management and non-employee members of the Board.

For the cash-settled plans (note 11), 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 23) in the consolidated statements of net earnings (loss) and comprehensive income (loss).

For the equity-settled plans (note 12), share-based payments to senior 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 earnings (loss) and comprehensive income (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 earnings (loss) and comprehensive income (loss).

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

2. SUMMARY OF SIGNIFICANT 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 earnings (loss) and comprehensive income (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 Intangible assets

Identifiable intangible assets are initially recorded at fair value. 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

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

2.13 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 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.

2.15 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 at each consolidated statements of financial position date using the 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.

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.

2.16 Long-term debt

Long-term debt is 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 earnings (loss) and comprehensive income (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.

2.17 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 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 similiar 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 earnings (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.

2.18 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 earnings (loss) and comprehensive income (loss). Transaction costs are expensed as incurred.

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 consolidated statements of financial position date, which are classified as non-current assets. Assets in this category include accounts 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, 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.

Derivative instruments

Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The Company's 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 "Fair market value gain (loss) on interest rate swap" or "unrealized foreign exchange (loss) gain on non-current monetary items" in the consolidated statements of net earnings (loss) and comprehensive income (loss)consistent with the underlying nature and purpose of the derivative instruments.

Cash Conversion Option

The Company has an embedded derivative associated with the cash conversion option of the Company's convertible debentures (note 17). Changes in fair values are recognized within the consolidated statements of profit or loss.

2.19 Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the consolidated statements of net earnings (loss) and total comprehensive income (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 at each consolidated statements of financial position date 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.

2.20 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 earnings (loss) and comprehensive income (loss), or as a reduction in property, plant and equipment, depending on where the original costs which gave rise to the credits were recorded.

2.21 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.

2.22 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 earnings (loss) and comprehensive income (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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - 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 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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2.6, 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 described in note 2.6, 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 IAS 21. An entity is required to place the greatest weight on the currency that influences the pricing of the transactions that it undertakes rather than focusing on the currency in which the transactions are denominated in. The functional currency of the Company is the U.S. dollar as it is the currency of the primary economic environment in which the Company operates. In addition, it is the competitive forces of the United States marketplace that determines the sales prices of its goods and services. Predominantly, the costs for labour, material and overhead that address the needs and support the Company’s customers are incurred in U.S. dollars, and hence the pricing of goods and services to the customer is more greatly influenced from operations and the competitive forces in the United States.

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.

3. ACCOUNTS RECEIVABLE

	January 2, 2022	December 27, 2020
Trade, net of allowance for doubtful accounts (note 22d)	$ 368,548	$ 383,086
Other	27,987	43,322
	$ 396,535	$ 426,408

4. INVENTORIES

	January 2, 2022	December 27, 2020
Raw materials	$ 281,826	$ 299,476
Work in process	246,364	216,311
Finished goods	39,508	141,249
	$ 567,698	$ 657,036

	Fiscal 2021	Fiscal 2020
Cost of inventories recognized as expense and included in cost of sales	$ 2,047,664	$ 2,107,143
Write-down of inventory to net realizable value in cost of sales (note 29)	3,025	47,274
Reversals of a previous write-down in inventory	—	403

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

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	$ 118,390	$ 190,215	$ 50,582	$ 7,825	$ 44,301	$ 31,438	442,751
Accumulated depreciation	14,349	95,346	28,235	4,317	19,957	11,799	174,003
December 29, 2019 net book value	104,041	94,869	22,347	3,508	24,344	19,639	268,748
Additions	1,434	12,862	3,608	13	7,328	458	25,703
Transfer from inventory	(1,827)	(137)	(8)	(14)	(3,744)	(6,265)	(11,995)
Disposals	(22)	(659)	(136)	(13)	(1,878)	—	(2,708)
Depreciation charge	(3,551)	(23,411)	(5,346)	(700)	(9,219)	(5,199)	(47,426)
Impairment	—	(782)	(976)	—	—	—	(1,758)
Cumulative translation adjustment	278	864	93	—	351	—	1,586
December 27, 2020 net book value	100,353	83,606	19,582	2,794	17,182	8,633	232,150
Additions	2,449	18,097	4,277	193	8,282	216	33,514
Transfer from inventory	(50)	418	—	—	1,241	1,249	2,858
Disposals	(1,226)	(447)	(15)	(20)	(2,829)	—	(4,537)
Depreciation charge	(3,762)	(19,990)	(5,728)	(559)	(8,045)	(3,473)	(41,557)
Impairment	—	(550)	(131)	—	—	—	(681)
Cumulative translation adjustment	(63)	(127)	(73)	—	(118)	(28)	(409)
January 2, 2022 net book value	$ 97,701	$ 81,007	$ 17,912	$ 2,408	$ 15,713	$ 6,597	$ 221,338

	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	$ 118,253	$ 202,225	$ 53,163	$ 7,812	$ 46,358	$ 25,631	$453,442
Accumulated depreciation	17,900	118,619	33,581	5,018	29,176	16,998	221,292
December 27, 2020 net book value	$ 100,353	$ 83,606	$ 19,582	$ 2,794	$ 17,182	$ 8,633	$232,150
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

(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	$ 141,711	$ 48,016	$ 13,506	$ 203,233
Accumulated Depreciation	13,276	24,545	12,089	49,910
December 29, 2019 net book value	128,435	23,471	1,417	$ 153,323
Additions	2,699	3,890	184	6,773
Disposals	(257)	(267)	—	(524)
Impairment	(3,597)	—	—	(3,597)
Depreciation charge	(14,654)	(7,492)	(761)	(22,907)
Cumulative translation adjustment	213	92	—	305
December 27, 2020 net book value	$ 112,839	$ 19,694	$ 840	$ 133,373
Additions	17,178	706	—	17,884
Disposals	(5,756)	(44)	—	(5,800)
Impairment	(1,181)	(88)	—	(1,269)
Depreciation charge	(15,288)	(7,140)	(384)	(22,812)
Cumulative translation adjustment	304	81	—	385
January 2, 2022 net book value	$ 108,096	$ 13,209	$ 456	$ 121,761

	Land, building and building improvements	Machinery and equipment	Computer hardware and software	Total
Recorded as:				
Cost	140,250	49,708	13,690	203,648
Accumulated Depreciation	27,411	30,014	12,850	70,275
December 27, 2020 net book value	112,839	19,694	840	133,373
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

Total cash outflows for payments on lease liabilities was $23.9 million for the period ended January 2, 2022 (2020: $26.2 million) of which $18.2 million (2020: $18.9 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 29). The impairments total of $1.3 million (2020: $3.6 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	Total
Cost	$ 568,908	$ 268,889	$ 153,895	$ 525,538	$ 21,079	$ 1,538,309
Accumulated amortization	—	1,513	124,936	146,528	14,814	287,791
December 29, 2019 net book value	568,908	267,376	28,959	379,010	6,265	1,250,518
Additions	—	—	29	—	—	29
Adjustment to purchase equation for business combinations	9,748	—	—	511	125	10,384
Amortization charge	—	(275)	(8,324)	(25,662)	(6,190)	(40,451)
Impairment loss	(50,790)	—	—	—	—	(50,790)
Cumulative translation adjustment	1,621	1,610	481	4,179	(200)	7,691
December 27, 2020 net book value	529,487	268,711	21,145	358,038	—	1,177,381
Additions	—	—	2,748	—	—	2,748
Amortization charge	—	(275)	(7,576)	(24,935)	—	(32,786)
Cumulative translation adjustment	(904)	(145)	61	(1,392)	—	(2,380)
January 2, 2022 net book value	$ 528,583	$ 268,291	$ 16,378	$ 331,711	$ —	$ 1,144,963
Recorded as:						
Cost	$ 529,487	$ 270,499	$ 154,405	$ 530,228	$ 21,004	$ 1,505,623
Accumulated amortization	—	1,788	133,260	172,190	21,004	328,242
December 27, 2020 net book value	529,487	268,711	21,145	358,038	—	1,177,381
Cost	528,583	270,354	157,470	528,995	21,738	1,507,140
Accumulated amortization	—	2,063	141,093	197,283	21,738	362,177
January 2, 2022 net book value	$ 528,583	$ 268,291	$ 16,377	$ 331,712	$ —	$ 1,144,963

The recoverable amount of the Company's CGUs is determined based on value-in-use calculations. These calculations use estimated cash flow projections based on 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 10% and 13% per annum for the Alexander Dennis Limited ("ADL") and North American bus/coach manufacturing CGUs, between 12% and 14% for the ARBOC CGU, and between 8% and 13% per annum for the NFI parts - aftermarket parts and ADL 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.

The impacts of the COVID-19, and the global supply chain issues have impacted the cash flow projections for all of the 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, ADL manufacturing CGU or aftermarket parts CGU.

Impairment of the remaining CGUs may result if one of the following changes occurs:

ARBOC CGU

- the cash flow projections are lower by 18.8% annually;
- the long-term average annual growth rate is decreased by 3.1% ; or
- the discount rate is higher by at least 2.0%.

ADL manufacturing CGU

- the discount rate is higher by at least 3.2%.

ADL parts CGU

- the discount rate is higher by at least 3.5%

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

7. GOODWILL AND INTANGIBLE ASSETS (Continued)

During the third quarter of 2020, the Company announced its commitment to a significant restructuring program called “NFI Forward” (see Note 29). The NFI Forward program combined the North American aftermarket parts operations of ADL and NFI parts. As a result of this combination, the Company reallocated $6.2 million of goodwill and $10.5 million of intangible assets from the ADL aftermarket parts operations CGU to the NFI parts - aftermarket parts operations CGU for impairment testing purposes (note 30).

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 $1,238 at January 2, 2022) which is amortized over its useful life, which ends in 2025.

8. OTHER LONG-TERM ASSETS

		January 2, 2022		December 27, 2020
Long-term restricted deposit (note 15c)	$	30,712	$	30,000
Long-term accounts receivable		5,792		5,113
Non-current asset held for sale		—		1,809
	$	36,504	$	36,922

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

9. CURRENT PORTION OF LONG TERM LIABILITIES

		January 2, 2022		December 27, 2020
Deferred revenue (note 13)	$	98,408	$	99,454
Provisions (note 14)		20,151		28,208
Deferred compensation obligation (note 11)		1,040		1,045
Obligations under leases (note 6)		23,261		19,903
	$	142,860	$	148,610

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

10. ACCRUED BENEFIT 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, 2019 and December 31, 2020.

Information in respect of the Company's defined benefit plans is as follows:	**January 2, 2022**	December 27, 2020
Change in plan assets		
Plan assets at fair value — beginning of period	$ 108,750	$ 101,436
Interest income	2,520	3,106
Remeasurement gains - return on plan assets (excluding amounts in net interest)	4,948	4,911
Administrative expenses	(183)	(159)
Employer’s contributions	3,565	5,678
Benefits paid	(6,478)	(4,078)
Foreign exchange loss	(3,798)	(2,144)
Plan assets at fair value — end of period	109,324	108,750
Change in defined benefit obligation		
Defined benefit obligation — beginning of period	129,492	109,473
Current service cost	5,088	5,279
Interest cost	2,998	3,317
Benefits paid	(12,522)	(7,921)
Plan settlement	—	(683)
Foreign exchange loss	2,331	1,997
Actuarial (gain) loss arising from changes in financial assumptions	(10,834)	14,749
Actuarial (gain) loss arising from experience adjustments assumptions	(134)	3,281
Defined benefit obligation — end of period	116,419	129,492
Accrued benefit liability - present value of unfunded obligations	$ (7,095)	$ (20,742)

The actual gain on the plan assets for Fiscal 2021 was $7,468 (Fiscal 2020: $8,017).

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

		Fiscal 2021	Fiscal 2020
Country	Mortality Table	Discount Rate	
Canada	CPM2014 Private sector with Scale MI-2017 with size adjustment	2.40 %	3.10 %
Canada	CPM2014 Private sector with Scale MI-2017 with no size adjustment	3.00 %	2.60 %

			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, 2020	Dec. 31, 2023	16.4 %	21.1 %	1.5 %	1.5 %
Canada	Dec. 31, 2019	Dec. 31, 2022	23.8 %	31.0 %	2.4 %	2.3 %

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

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

10. ACCRUED BENEFIT LIABILITY (Continued)

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 January 2, 2021 are $5,674.

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 2021	Fiscal 2020
Current service costs	$ 5,088	$ 5,279
Net interest expense	477	211
Administrative expenses	183	159
Plan settlement	—	(683)
Foreign exchange loss	652	341
Components of defined benefit costs recognized in net earnings (loss)	$ 6,400	$ 5,307

	Fiscal 2021	Fiscal 2020
Remeasurement gains - return on plan assets (excluding amounts in net interest)	$ 4,948	$ 4,911
Actuarial gains (losses) arising from changes in financial assumptions	10,834	(14,749)
Actuarial gains (losses) arising from experience adjustments assumptions	134	(3,281)
Foreign exchange gain	65	825
	15,981	(12,294)
Deferred income taxes recorded through other comprehensive (loss) income	(4,049)	3,088
Net actuarial gains (losses) recognized in other comprehensive income (loss)	$ 11,932	$ (9,206)

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

	January 2, 2022	December 27, 2020
Asset category		
Cash and cash equivalents	0.0%	0.6%
Canadian equities	18.0%	11.8%
Foreign equities	27.6%	24.1%
Real estate	5.5%	16.2%
Bonds	48.9%	47.3%
	100.0%	100.0%

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

11. DEFERRED COMPENSATION OBLIGATION

	January 2, 2022	December 27, 2020
Performance share units under PRSU Plan (officers and senior management)	$ —	$ 473
Restricted share units under PRSU Plan (officers and senior management)	1,040	1,045
Deferred share units under DSU Plan (non-employee board of directors)	2,769	2,761
	3,809	4,279
Less: current portion	1,040	1,045
	$ 2,769	$ 3,234

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 senior 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.

RSUs and PSUs granted in Fiscal 2021 were determined based on the volume weighted average trading price of a Share for the last five trading days of 2020 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”) 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.

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

11. DEFERRED COMPENSATION OBLIGATION (Continued)

	PSUs	RSUs	DSUs	Total
Units outstanding at December 29, 2019	151,477	40,349	106,348	298,174
Units granted	126,381	63,191	32,271	221,843
Distribution units granted	15,574	5,802	6,969	28,345
Units Expired	(70,876)	(6,744)	—	(77,620)
Units Redeemed	—	—	—	—
Vested and reclassified as current liability	(4,665)	(25,580)	—	(30,245)
Units outstanding at December 27, 2020	217,891	77,018	145,588	440,497
Units granted	129,106	64,553	23,704	217,363
Distribution units granted	2,039	3,549	5,042	10,630
Units Expired	(349,036)	(10,754)	—	(359,790)
Units Redeemed	—	(21,644)	—	(21,644)
Vested and reclassified as current liability	—	(57,320)	—	(57,320)
Units outstanding at January 2, 2022	—	55,402	174,334	229,736
Vested units	—	—	174,334	174,334
Unvested units	—	55,402	—	55,402

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 share options. 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. One quarter of the share options become vested on the first grant date anniversary and an additional one-quarter on the second, third and fourth anniversary of such date.

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. No options have been granted under the 2020 Option Plan.

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	$10.20	$1.55
December 30, 2013	612,050	(602,419)	(9,631)	—	—	December 30, 2021	$10.57	$1.44
December 28, 2014	499,984	(252,233)	(11,368)	(236,383)	—	December 28, 2022	$13.45	$1.83
December 28, 2015	221,888	(19,532)	—	(202,356)	—	December 28, 2023	$26.75	$4.21
September 8, 2016	2,171	—	(2,171)	—	—	September 8, 2024	$42.83	$8.06
January 3, 2017	151,419	(1,610)	(11,888)	(137,921)	—	January 3, 2025	$40.84	$7.74
January 2, 2018	152,883	—	(26,271)	(126,612)	—	January 2, 2026	$54.00	$9.53
January 2, 2019	284,674	—	(55,540)	(172,764)	56,370	January 2, 2027	$33.43	$5.01
July 15, 2019	2,835	—	—	(1,418)	1,417	July 15, 2027	$35.98	$4.90
December 31, 2019	519,916	—	(76,004)	(223,345)	220,567	December 31, 2027	$26.81	$3.36
December 28, 2020	258,673	—	(22,562)	(59,030)	177,081	December 28, 2028	$24.70	$6.28
February 10, 2021	1,894	—	—	(474)	1,420	December 28, 2028	$28.74	$6.28
August 16, 2021	601	—	—	(150)	451	August 16, 2029	$30.79	$6.28
	3,199,344	(1,366,150)	(215,435)	(1,160,453)	457,306		$28.82	

The following reconciles the share options outstanding:

	Fiscal 2021		Fiscal 2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of period	1,503,117	C$29.32	1,068,906	C$30.77
Granted during the period	261,168	C$24.73	519,916	C$26.81
Expired during the period	(110,449)	C$31.93	(77,059)	C$34.26
Exercised during the period	(36,077)	C$10.49	(8,646)	C$13.45
Balance at end of period	1,617,759	C$28.82	1,503,117	C$29.32

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 2021 and Fiscal 2020 are the following:

Options grant date	**December 28, 2020**	**December 31, 2019**
Fair value at grant date (C$)	$6.28	$3.36
Share price (C$)	$24.70	$26.81
Exercise price (C$)	$24.70	$26.81
Expected volatility	44.0 %	28.4 %
Option life (expected weighted average life)	5.5 years	5.5 years
Expected dividends	4.57 %	6.16 %
Risk-free interest rate (based on government bonds)	0.45 %	1.64 %

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.

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

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

A director generally must make the election prior to the end of the calendar year preceding the year to which such election is to apply. 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 – December 29, 2019	30,675
Director RSUs issued	40,344
Director RSUs exercised	(25,549)
Balance – December 27, 2020	45,470
Director RSUs issued	37,926
Director RSUs exercised	(13,828)
Balance – January 2, 2022	69,568

13. DEFERRED REVENUE

	January 2, 2022	December 27, 2020
Extended warranties	$ 25,970	$ 29,327
Progress payments	92,256	85,735
	118,226	115,062
Less: current portion of deferred revenue (note 9)	(98,408)	(99,454)
	$ 19,818	$ 15,608

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 one-year basic warranty period

14. PROVISIONS

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

The restructuring provision consists of employee termination benefits associated with the "NFI Forward" restructuring initiative that was announced on July 27, 2020 (note 29).

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

The movements in the provisions are as follows:

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

14. PROVISIONS (Continued)

		Insurance Risk Retention	Restructuring	Warranty	Total
December 29, 2019	$	27,497	—	63,997	91,494
Additions		6,352	20,102	39,889	66,343
Amounts used/realized		(8,137)	(15,184)	(41,045)	(64,366)
Unused provision		(2,533)	(1,401)	(5,163)	(9,097)
Unwinding of discount and effect of changes in the discount rate		—	—	60	60
Exchange rate differences		—	189	190	379
December 27, 2020	$	23,179	3,706 $	57,928 $	84,813
Additions		7,785	3,114	44,837	55,736
Amounts used/realized		(4,745)	(3,695)	(46,975)	(55,415)
Unused provision		(974)	(654)	—	(1,628)
Unwinding of discount and effect of changes in the discount rate		—	—	39	39
Exchange rate differences		(2)	14	92	104
		25,243	2,485	55,921	83,649
Less current portion (note 8)		3,000	2,485	14,666	20,151
January 2, 2022	$	22,243 $	— $	41,255 $	63,498

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 statements of financial position are as follows:

		January 2, 2022	December 27, 2020
Deferred tax liabilities		62,806	76,689
	$	62,806 $	76,689

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

		Fiscal 2021	Fiscal 2020
Beginning of period	$	(76,689) $	(105,023)
Assumed as a result of business acquisitions		—	259
Exchange rate differences		1,217	535
Tax recorded through net earnings (loss)		12,874	24,936
Tax recorded through other comprehensive loss		(4,074)	3,335
Tax recorded through equity		3,866	(731)
End of period	$	(62,806) $	(76,689)

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**
December 29, 2019	**(16,109)**	**(156,876)**	**(28,565)**	**(2,868)**	$ (204,418)
Tax recorded through net earnings (loss)	(4,272)	5,237	2,415	(360)	3,020
Assumed as a result of business acquisition	—	400	—	—	400
Cumulative translation adjustment	—	(892)	—	—	(892)
December 27, 2020	**(20,381)**	**(152,131)**	**(26,150)**	**(3,228)**	**(201,890)**
Tax recorded through net earnings (loss)	3,132	(497)	2,679	(5,743)	(429)
Cumulative translation adjustment	—	(113)	—	—	(113)
January 2, 2022	**$ (17,249)**	**$ (152,741)**	**$ (23,471)**	**$ (8,971)**	**$ (202,432)**

Deferred tax assets	Reserves and accruals not currently deductible	Provisions	Right of Use Assets	Loss carry forward	Pension	Deferred Financing Costs and Interest	Other	**Total**
December 29, 2019	$ 26,050	$ 22,440	$ 29,831	$ 11,546	$ 3,479	$ 1,416	$ 4,633	$ 99,395
Tax recorded through net earnings (loss)	1,612	880	(1,884)	16,723	(22)	(155)	4,762	21,916
Tax recorded through other comprehensive income	—	—	—	—	3,335	—	—	3,335
Tax recorded through equity	—	—	—	—	—	—	161	161
Assumed as a result of business acquisition	—	—	—	—	—	—	(146)	(146)
Exchange rate differences	141	122	162	63	19	8	25	540
December 27, 2020	$ 27,803	$ 23,442	$ 28,109	$ 28,332	$ 6,811	$ 1,269	$ 9,435	$ 125,201
Tax recorded through net earnings (loss)	(10,464)	(5,079)	(2,410)	18,184	1,148	10,217	1,707	$ 13,303
Tax recorded through other comprehensive income (loss)	—	—	—	—	(4,074)	—	—	$ (4,074)
Tax recorded through equity	—	—	—	—	—	3,586	393	$ 3,979
Exchange rate differences	285	233	280	282	68	13	56	$ 1,217
January 2, 2022	$ 17,624	$ 18,596	$ 25,979	$ 46,798	$ 3,953	$ 15,085	$ 11,591	$ 139,626

Deferred income tax assets are recognized for income tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. At January 2, 2022, the Company has recognized all of its deferred income tax assets with the exception of $6.6 million of net operating losses in the U.S, which were acquired through the acquisition of ADL, and $26.7 million of tax credits shown below. These losses are restricted to a maximum utilization of $0.2 million per year. At January 2, 2022 the Company has the following tax credits 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 Losses	Tax Losses
2022-2026	—	1,251	—	—
2027	2,685	250	—	—
2028	1,169	250	—	—
2029	6,990	250	—	—
2030	11,370	222	—	—
2031-2037	4,505	1,078	329	—
2038	—	154	11,893	—
2039	—	154	26,008	—
2040	—	154	20,583	—
2041	—	154	16,058	—
2042-2063	—	3,522	—	—
No expiry	—	—	—	105,146

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

	Fiscal 2021	Fiscal 2020
Earnings before income tax expense	$ (4,928)	$ 99,695
Tax calculated using a 21% U.S. tax rate	(1,035)	(32,779)
Tax effect of:		
Withholding and other taxes	1,732	2,869
Non-taxable income	(2,523)	(1,231)
Non-deductible impairment loss on goodwill	—	10,746
Revision of tax estimates	2,762	2,278
Foreign exchange impact	(1,266)	(138)
State taxes	2,578	(406)
Impact of rate change on deferred income taxes	2,669	3,695
Foreign tax credit pools and base erosion and anti-abuse tax	4,889	20,356
Rate differential on income taxed at other than U.S. statutory rate	(17)	(3,869)
Other	(233)	123
Income tax expense	$ 9,556	$ 1,644

Current income taxes	$ 22,430	$ 26,580
Deferred income taxes recovered	(12,874)	(24,936)
Income tax expense for the period	$ 9,556	$ 1,644

16. LONG-TERM DEBT

	Face Value	Unamortized Transaction Costs	**Net Book Value January 2, 2022**	Net Book Value December 27, 2020
Revolving Credit Facility, Secured (“Credit Facility”)	588,797	2,148	586,649	1,060,847
Revolving Credit Facility, Secured ("UK Facility")	—	238	(238)	64,838
	588,797	2,386	586,411	1,125,685

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

16. LONG-TERM DEBT (Continued)

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

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

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

17. 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 issues 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. Holders converting their Debentures will be entitled to accrued and unpaid interest to the date immediately prior to the date of conversion. Upon conversion of the Debentures, in lieu of delivering Shares, the Company may elect to pay the holder cash ("Cash Conversion Option"). If the Company elects, in its sole discretion, to exercise the Cash Conversion Option, the Company will deliver to the holder an amount in cash based on the average daily volume weighted price of the Shares on the TSX as measured over a period of 10 consecutive trading days commencing on the third day following the conversion date.

On the Maturity Date, the Company shall repay the holders in cash the principal of the Debentures outstanding and all accrued and unpaid interest thereon, up to but excluding the Maturity Date. The Debentures are redeemable, at the option of the Company, on and after January 15, 2025 and prior to the Maturity Date, in whole or in part, from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date of redemption, provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price.

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

	Convertible Debenture	Cash Conversion Option	**Net Book Value January 2, 2022**
Proceeds from issue of Debentures	234,382	33,150	267,532
Debenture issuance costs	9,214	1,322	10,536
Net proceeds	225,168	31,828	256,996
Fair market value adjustment	—	(10,913)	(10,913)
Accretion in carrying value of liability	583	19	602
Exchange rate differences	17	(316)	(299)
Net book value	225,768	20,618	246,386

18. SHARE CAPITAL

		January 2, 2022		December 27, 2020
Authorized - Unlimited				
Issued - 77,130,747 Common Shares (December 27, 2020: 62,524,842)	$	987,943	$	681,405

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

Shares	Number (000s)		Net Book Value
Balance – December 27, 2020	62,525	$	681,405
Stock options exercised	36		498
Restricted share units exercised	14		281
Issuance of Shares	14,556		305,759
Balance – January 2, 2022	77,131	$	987,943

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

On December 2, 2021, NFI closed a bought-deal equity offering with a syndicate of underwriters pursuant to which NFI issued 6,110,000 Shares at a price of C$24.55 per share for gross proceeds to the Company of C$150 million. Net proceeds of the offering were $112.2 million.

19. LOSS PER SHARE

		Fiscal 2021		Fiscal 2020
Net loss attributable to equity holders	$	(14,484)	$	(157,736)
Weighted average number of Shares in issue		70,039,835		62,510,544
Weighted average number of Shares for diluted earnings per Share		70,039,835		62,510,544
Net loss per Share (basic)	$	(0.2068)	$	(2.5234)
Net loss per Share (diluted)	$	(0.2068)	$	(2.5234)

Basic loss per Share is calculated by dividing the net loss 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 RSUs granted by the Company, as determined by the treasury stock method.

20. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

Cash inflow (outflow)		Fiscal 2021		Fiscal 2020
Accounts receivable	$	22,555	$	105,328
Income tax receivable		(5,517)		—
Inventories		86,480		22,483
Prepaid expenses and deposits		5,760		(3,214)
Accounts payable and accrued liabilities		(64,576)		(64,001)
Deferred revenue		3,164		7,336
Provisions		(1,164)		(11,764)
Other		(1,982)		12,594
	$	45,824	$	68,762

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

21. 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 2021	Fiscal 2020
Defined contribution pension expense	$ 10,270	$ 12,783

Cash payments contributed by the Company during Fiscal 2021 for its defined benefit plans and defined contribution pension plans amounted to $13.8 million (2020: $18.5 million).

22. 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
Derivative financial instruments	Fair value through profit or loss

(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)

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

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

(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 earnings (loss) and total comprehensive income (loss) consistent with the underlying nature and purpose of the derivative instruments.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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. The Company elected not to apply hedge accounting to its derivative financial instruments.

Interest rate risk

The Company's borrowing under the Credit Facility are at variable rates of interest and expose the Company to interest rate risk. 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.

The interest rate swap is subject to interest rate risk. As an illustration, if the interest rates at the Consolidated Statements of Financial Position date had been 100 basis points lower, with all other variable held constant, net loss and comprehensive loss for Fiscal 2021 would have been higher by $11.8 million (Fiscal 2020: $17.9 million), arising mainly as a result of the related fair value adjustment recorded due to lower interest rate. If interest rates had been 100 basis points higher, with all other variables held constant, net loss and comprehensive loss for Fiscal 2021 would have been lower by $11.8 million (Fiscal 2020: $17.9 million), arising mainly as a result of the related fair value adjustment recorded due to higher interest rate. The fair value adjustments have a greater impact than the interest charged, as the Company is over hedged as it relates to the swap position.

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 Credit Facility. The interest rate swap fixes the interest rate at 2.27% plus applicable margin until October 2023.

On July 9, 2020, the Company entered into a $200 million amortizing notional interest rate swap designed to hedge floating rate exposure on its Credit Facility. The interest rate swap fixes the interest rate at 0.243% plus applicable margin until July 2025. The swap begins amortizing on December 9, 2022 at a rate of $20 million per annum.

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 at January 2, 2022 the Company held a position of 253,834 Shares at a weighted average price of C$29.36. The Company does not apply hedge accounting to these derivative instruments and as such, gains and losses arising from marking these derivatives to market are recognized in net earnings in the period in which they arise.

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 2021, 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 $15.6 million during Fiscal 2021 (Fiscal 2020: $1.5 million). This was comprised of a $11.1 million gain on settlement of foreign exchange contracts and a $4.5 million foreign currency gain on translation of Canadian dollar denominated working capital and dividends.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

At January 2, 2022, the Company had $148.0 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 2022 to April 2022. The related asset of $0.4 million (December 27, 2020: $4.5 million) is recorded on the statements of financial position as a current derivative financial instruments asset and the corresponding change in the fair value of the foreign exchange forward contracts is recorded in the consolidated statements of net loss and total 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 January 2, 2022 if the Canadian dollar had weakened 10 percent against the U.S. dollar, with all variable held constant, net loss for Fiscal 2021 would have been lower by $18.3 million (Fiscal 2020: $0.6 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 $22.3 million for Fiscal 2021 (Fiscal 2020: $0.7 million).

(d) Liquidity Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. At January 2, 2022, the Company had a cash balance of $77.3 million (December 27, 2020: $55.8 million), $588.8 million under the Credit Facility due in 2024 (December 27, 2020: $1.063 billion), $nil under the UK Facility (December 27, 2020: $65.1 million), and $11.8 million of outstanding letters of credit (December 27, 2020: $11.8 million). In addition, there are $65.8 million of the letters of credit outstanding outside of the Credit Facility. The Credit Facility has a total borrowing limit of $1.250 billion, which includes a $100 million letter-of-credit facility and a $250 million accordion feature. The UK Facility has a total borrowing limit of £50.0 million. The liquidity position as at January 2, 2022 is $794.3 million.

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

The following table outlines the maturity analysis of the undiscounted cash flows of certain non-financial liability and committed leases as at January 2, 2022:

US dollars in thousands	Total	2022	2023	2024	2025	2026	Post 2026
Leases	219,661	26,653	22,938	17,913	14,149	14,228	123,780
Accrued benefit liability	5,672	5,672	—	—	—	—	—
	$ 225,333	$ 32,325	$ 22,938	$ 17,913	$ 14,149	$ 14,228	$ 123,780

Credit risk

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

Additionally, up to 80% of the capital cost of new transit buses and coaches sold to public transit authorities and municipalities in the United States typically come from the U.S. Federal Transit Administration, while the remaining 20% comes from the state and municipal sources. The maximum exposure to the risk of credit for accounts receivable corresponds to their book value. Historically, the Company has experienced nominal bad debts as a result of the customer base being principally compromised of municipal and other local transit authorities. During Fiscal 2021, the Company recorded a bad debt expense of $70 as compared to $574 bad debt expense in Fiscal 2020.

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 consolidated statements of net earnings (loss) and total comprehensive income (loss) within "sales, general and administration costs and other operating expenses". 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 "sales, general and administration costs and other operating expenses":

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

		January 2, 2022		December 27, 2020
Current, including holdbacks	$	375,012	$	380,328
Past due amounts but not impaired				
1 – 60 days		15,857		39,988
Greater than 60 days		5,892		7,081
Less: Allowance for doubtful accounts		(270)		(989)
Total accounts receivables, net	$	396,491	$	426,408

As at January 2, 2022, there was no amount that would otherwise be past due or impaired whose terms have been renegotiated.

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

Under the terms of the amended facilities, the total leverage and interest coverage ratios were adjusted for the fourth quarter of 2021; the total leverage ratio changed from less than 6.25 to 1, to less than 5.25 to 1; and the interest coverage ratio changed from greater than 3.00 to 1, to greater than 2.00 to 1. Also under the terms of the amended facilities, the total leverage and interest coverage ratios for 2022 and 2023 have been relaxed, furthermore, the total net debt to capital ratio will no longer be required starting in the third quarter of 2022.

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

	Total Leverage Ratio	**Interest Coverage Ratio**
January 3, 2022 - July 3, 2022	N/A	>1.50
July 4, 2022 - October 2, 2022	<6.25	>1.50
October 3, 2022 - January 1, 2023	<5.25	>2.00
January 2, 2023 - April 2, 2023	<4.00	>2.50
April 3, 2023 and thereafter	<3.75	>3.00

The amended facilities also allow the Company to use a covenant increase option beginning in the fourth quarter of 2022 for the total leverage ratio. If the covenant increase option is used, the Company will be required to maintain a total leverage ratio of less than 5.75 to 1 from October 3, 2022 to January 1, 2023; of less than 4.50 to 1 from January 2, 2023 to April 2, 2023; of less than 4.25 to 1 from April 3, 2023 to July 2, 2023; of less than 4.00 to 1 from July 3, 2023 to October 1, 2023; and of less than 3.75 to 1 thereafter.

If the covenant increase option is not used, the Company will also have to comply with a $50 million minimum liquidity covenant at all times until April 3, 2023. If the covenant increase option is used, the Company will have to comply with a $150 million minimum liquidity covenant at all times until October 2, 2023. The amended facilities also require the dividend payment to not exceed the current level.

Through the amendments, NFI has provided the lenders security on certain of its assets, including a general security agreement on NFI's personal property, but excluding security on real property. The general security agreement, which was effective on February 19, 2021, will be in place until NFI has delivered three consecutive fiscal quarters with a total leverage ratio of less than 2.75 to 1.

The calculation of the financial covenants at January 2, 2022 are provided below. As at January 2, 2022, the Company was in compliance with the requirements under the amended facilities.

	January 2, 2022	December 27, 2020
Total Leverage Ratio (must be less than 5.25 [2020: 6.25])	3.79	4.90
Interest Coverage Ratio (must be greater than 2.00 [2020: 3.00])	2.28	4.11
Total Net Debt to Capitalization Ratio (must be less than 0.70:1.00 [2020: N/A])	0.37	N/A

US dollars in thousands		**January 2, 2022**		December 27, 2020
Liquidity Position (must be greater than $50 million)	$	794,332	$	233,459

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

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company expects it's ability to comply with certain financial covenants in the first quarter of Fiscal 2022 to be challenged. Management is currently in detailed discussions with its banking partners to obtain covenant relief extending into the first half of 2023.

Compliance with financial covenants under the amended facilities is reported quarterly to the Board. Other than the requirements imposed by letters of credit collateral (note 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.

(e) 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 Shares. 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 issue additional Shares, repurchase Shares, borrow additional funds or refinance debt at different terms and conditions.

23. SEGMENT INFORMATION

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

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

The Manufacturing Operations segment has recorded vendor rebates of $266 (2020: $278), which have been recognized into earnings during 2021, but for which the full requirements for entitlement to these rebates have not yet been met.

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

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

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

Segment information about profits and assets is as follows:

	Fiscal 2021			
	Manufacturing Operations	Aftermarket Operations	Unallocated	Total
Revenue from external customers	$ 1,869,766	$ 474,028	—	$ 2,343,794
Operating costs and expenses	1,915,870	390,698	42,154	2,348,722
(Loss) earnings before income tax expense	(46,104)	83,330	(42,154)	(4,928)
Total assets	1,812,254	480,759	306,607	2,599,620
Addition of capital expenditures	32,116	1,398	—	33,514
Addition of goodwill and intangibles assets	2,748	—	—	2,748
Indefinite-life intangible assets	248,175	18,959	—	267,134
Goodwill	336,870	191,713	—	528,583

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

23. SEGMENT INFORMATION (Continued)

	Fiscal 2020			
	Manufacturing Operations	**Aftermarket Operations**	**Unallocated**	**Total**
Revenue from external customers	$ 2,017,729	$ 401,446	—	2,419,175
Operating costs and expenses	2,133,872	349,342	92,053	2,575,267
(Loss) earnings before income tax expense	(116,143)	52,104	(92,053)	(156,092)
Total assets	1,966,973	487,580	301,362	2,755,915
Addition of capital expenditures	24,989	714	—	25,703
Addition of goodwill and intangibles assets	10,413	—	—	10,413
Impairment loss on goodwill	(50,790)	—	—	(50,790)
Indefinite-life intangible assets	248,231	18,968	—	267,199
Goodwill	340,389	189,098	—	529,487

The Company's revenue by geography is summarized below:

	Fiscal 2021	**Fiscal 2020**
North America	$ 1,776,247	$ 1,968,918
UK and Europe	440,500	332,512
Asia Pacific	127,046	117,745
Other	—	—
Total	$ 2,343,793	$ 2,419,175

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

	Fiscal 2021	**Fiscal 2020**
Transit buses	$ 1,429,462	$ 1,593,390
Motor coaches	361,579	334,421
Medium-duty and cutaway buses	35,357	41,712
Pre-owned coach	20,713	18,424
Infrastructure solutions	17,598	24,714
Fiberglass reinforced polymer components	5,057	5,068
Manufacturing revenue	$ 1,869,766	$ 2,017,729

24. RELATED PARTY TRANSACTIONS

Compensation of key management

Key management includes the roles of the Board, 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 2021	Fiscal 2020
Salaries and short-term employee benefits	$ 11,775	$ 9,692
Post-employment benefits	619	455
Share-based payment benefits	2,144	3,821
	$ 14,538	$ 13,968

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

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

25. COMMITMENTS AND CONTINGENCIES

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

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

The Company's guarantee under each bond issued by the surety companies expires on completion of obligations under the customer contract to which the bond relates. The estimated maturity dates of the surety bonds outstanding at January 2, 2022 range from January 2022 to December 2026.

At January 2, 2022, outstanding surety bonds guaranteed by the Company totaled $375.9 million (December 27, 2020: $357.2 million). The Company has not recorded any liability under these guarantees, as management believes that no material events of default exist under any contracts with customers.

(c) The Company has a letter of credit sub-facility of $100.0 million as part of the Credit Facility (December 27, 2020: $100.0 million). As at January 2, 2022, letters of credit totaling $11.8 million (December 27, 2020: $11.8 million) remain outstanding as security for contractual obligations of the Company under the Credit Facility.

The Company has an additional bi-lateral credit facility of £50.0 million as part of the UK Facility. As at January 2, 2022, letters of credit totaling $40.6 million were outstanding under the bi-lateral credit facility (December 27, 2020: $22.1 million). Additionally, there are $25.3 million of letters of credit outstanding outside of the Credit Facility and the bi-lateral credit facility.

As at January 2, 2022, management believes that the Company was in compliance in all material respects with all applicable contractual obligations and the Company has not provided for any costs associated with these letters of credit.

(d) Through the normal course of operations, the Company has guaranteed payments and residual values to third party lenders on behalf of customers. As at January 2, 2022, the Company had guaranteed $3.3 million of these arrangement. The Company has not provided for any of these costs, as it does not believe they will have to pay out on any of these arrangements.

26. 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.

27. SUPPLEMENTARY EXPENSE INFORMATION

	Fiscal 2021	Fiscal 2020
Employee salary and benefit expenses	$ 412,616	$ 517,602
Depreciation of plant and equipment	64,368	70,333
Amortization of intangible assets	32,786	40,451

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

Fiscal 2020 Employee salary and benefit expense were restated due to an error in the prior year. The corrected error is $200 million.

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

28. GOVERNMENT GRANTS

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

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

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

On September 27, 2020, the Canada Emergency Rent Subsidy ("CERS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of their commercial rent or property expenses during the COVID-19 pandemic. The Company will continue to evaluate its eligibility under the CERS program in subsequent periods.

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

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

	Fiscal 2021	**Fiscal 2020**
Canada Emergency Wage Subsidy (CEWS)		
Cost of sales	43,116	25,922
Selling, general and administration costs and other operating expenses	6,716	4,568
Total	49,832	30,490
Coronavirus Job Retention Scheme (CJRS)		
Cost of sales	5,266	20,818
Selling, general and administration costs and other operating expenses	107	2,222
Total	5,373	23,040
Canada Emergency Rent Subsidy (CERS)		
Selling, general and administration costs and other operating expenses	1,236	—
Total	1,236	—
Total government grants - cost of sales	48,382	46,740
Total government grants - selling, general and administration costs and other operating expenses	8,059	6,790
Total government grants	56,441	53,530

An additional $1,443 of CEWS was used to reimburse employee vacation credits in 2020 Q2.

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

	January 2, 2022	December 27, 2020
Canada Emergency Wage Subsidy (CEWS)	1,183	9,727
Coronavirus Job Retention Scheme (CJRS)	—	995
Canada Emergency Rent Subsidy (CERS)	53	—
Total	1,236	10,722

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

29. 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. The items included in net loss for NFI Forward are as follows:

	Fiscal 2021	Fiscal 2020
Employee termination benefits (note 14)	$ 4,284	$ 18,339
Right-of-use asset impairments (note 6)	1,169	3,028
Write-down of inventory to net realizable value (note 4)	4,725	1,849
Write-down of property, plant and equipment (note 5)	681	1,728
Other	1,294	485
Total restructuring costs	$ 12,153	$ 25,429

30. COMPARATIVE FIGURES

Certain comparative figures have been restated where necessary to conform with current period presentation (note 7, 27).