# FINANCIAL REPORT TO SHAREHOLDERS

# For the three and six months ended June 30, 2016 and 2015

## Q2 2016

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**BASIS OF PRESENTATION**

This Management's Discussion and Analysis ("MD&A") for Westport Fuel Systems Inc. (formerly known as Westport Innovations Inc.; "Westport Fuel Systems", the "Company", "we", "us", "our") for the three and six months ended June 30, 2016 provides an update to our annual MD&A dated March 29, 2016 for the fiscal year ended December 31, 2015. This information is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2015 and our unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2016. Our interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated as of August 9, 2016.

On June 1, 2016, the Company completed the merger between Westport Innovations Inc. ("Westport") and Fuel Systems Solutions, Inc. ("Fuel Systems"). The merged company was renamed Westport Fuel Systems Inc. and will continue to trade under the WPRT ticker symbol on the Nasdaq Exchange and the WPT ticker symbol on the Toronto Stock Exchange.

Additional information relating to Westport, including our Annual Information Form ("AIF") and Form 40-F, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov. All financial information is reported in U.S. dollars unless otherwise noted.

**FORWARD LOOKING STATEMENTS**

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the orders or demand for our products, our investments, cash and capital requirements, the intentions of partners and potential customers, the performance of our products, our future market opportunities, availability of funding and funding requirements, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, timing of when we will adopt or meet certain accounting and regulatory standards and the alignment of our business segments. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward looking statements. These risks include risks related to revenue growth, operating results, liquidity, industry and products, general economy, conditions of the capital and debt markets, government or accounting policies and regulations, technology innovations, as well as other factors discussed below and elsewhere in this report, including the risk factors contained in the Company's most recent AIF filed on SEDAR at www.sedar.com. The forward-looking statements contained in this MD&A are based upon a number of material factors and assumptions which include, without limitation, market acceptance of our products, merger with Fuel Systems, Cartesian financing, product development delays in contractual commitments, the ability to attract and retain business partners, competition from other technologies, price differential between natural gas and liquefied petroleum gas, unforeseen claims, exposure to factors beyond our control as well as the additional factors referenced in our AIF. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements except as required by applicable legislation.

The forward looking statements contained in this document speak only as of the date of this MD&A. Except as required by applicable legislation, Westport Fuel Systems does not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events or circumstances after this MD&A, including the occurrence of unanticipated events. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

**BUSINESS OVERVIEW AND GENERAL DEVELOPMENTS**

Westport Fuel Systems engineers, manufactures and supplies the world's most advanced alternative fuel systems and components. Specializing in natural gas based systems, our innovative and cost-effective solutions maintain performance while improving efficiency and reducing emissions. Offering a variety of leading brands for transportation and industrial applications, we serve customers in over 70 countries, including some of the world's largest and fastest growing markets.

Our strategic relationships with Original Equipment Manufacturers ("OEMs") provide us with access to their manufacturing capacity, supply chain and global distribution networks minimizing the considerable investment typically associated with these assets. We target commercialization of our technology in markets where demand for clean, low emission engines is prevalent.

Since our founding in 1995, we have invested over $800 million towards the research, development and commercialization of our proprietary technologies and related products. Our research and development efforts and investments have resulted in a substantial patent portfolio that serves as the foundation of our differentiated technology offerings and competitive advantage. Our technologies and related products enable combustion engines to use gaseous fuels, such as natural gas, propane, renewable natural gas ("RNG") and hydrogen. The substitution of natural gas for petroleum-based fuel drives a reduction in harmful combustion emissions, such as particulate matter and greenhouse gases, in addition to providing a cost competitive alternative fuel.

**Merger With Fuel Systems Solutions, Inc.**

On June 1, 2016 ("the acquisition date"), the Company completed the merger between Westport Innovations Inc. and Fuel Systems Solutions, Inc. ("Fuel Systems") (Nasdaq:FSYS). Shareholders of both companies approved the merger at separate special meetings of shareholders. As previously announced, Fuel Systems shareholders received 2.4755 Westport common shares for each share of Fuel Systems common stock owned. Fuel Systems shares are no longer listed on the Nasdaq Exchange or any other securities exchange.

The newly combined company brings together a complementary mix of products, technology and research and development; strong customer relationships; and talented employees, becoming an even stronger, more innovative, global leader in the alternative fuel, engines and vehicle sector. This business combination resulted in a bargain purchase gain as the fair value of the net assets acquired exceeded the total of the fair value of consideration paid by $42.9 million. See Note 3 of the interim condensed consolidated financial statements for additional details.

As a result of the timing of the merger, we are not providing guidance at this time. We don't expect to meet adjusted EBITDA positive by mid-year 2016.

**Cartesian Financing**

On January 11, 2016, the Company announced that it had entered into a financing agreement with Cartesian Capital Group ("Cartesian") for up to $71.3 million in financing to support global growth initiatives, subsequently amended on March 7, 2016 (the "Investment Agreement").

(i) The Investment Agreement immediately provided $17.5 million. (Note 13 "Long-term royalty payable" of our interim condensed consolidated financial statements).

(ii) On April 20, 2016, the Company sold a portion of its economic interest in Weichai Westport Inc. ("WWI") to Cartesian for an upfront payment of $6.3 million plus a potential future payment based on Cartesian's return on investment. The Company recorded a loss on sale of the investment of $5.3 million. (Note 6(a) "Weichai Westport Inc." of our interim condensed consolidated financial statements).

(iii) On June 1, 2016, the Company received $17.5 million in cash from affiliates of Cartesian, in accordance with the Investment Agreement, with the issuance of convertible debt in exchange for 9.0% convertible unsecured notes due June 1, 2021 which are convertible into common shares of the Company in whole or in part, at Cartesian's option, at any time following the twelve month anniversary of the closing at a conversion price of $2.17 per share. (Note 12(a) "Long-term debt" of our interim condensed consolidated financial statements).

**Operating Segments**

As a result of the merger with Fuel Systems, we analyzed our operating segments and the principal focus of the operating business units are summarized below:

**Automotive Business Unit (previously branded as Westport Operations)**
Automotive consists of the Company's passenger and commercial transportation products including both OEM and aftermarket. The business unit designs, manufactures and sells compressed natural gas ("CNG"), liquefied natural gas ("LNG"), and liquefied petroleum gas ("LPG") components and systems to global OEMs on five continents and a distribution network serving 70 countries, including the world's largest and fastest-growing markets.

**Industrial Business Unit**
Industrial consists of the Company's industrial mobile and stationary equipment and auxiliary power unit ("APU") products as well as engines for use in forklifts and other industrial equipment. The business unit is also supplying a series of advanced technology alternative fuel systems in the United States and key markets in Asia and Europe. This is a new segment as a result of the merger with Fuel Systems.

**Corporate and Technology Investments Business Unit**
The Corporate and Technology Investments invests in new research and development programs with OEMs, corporate oversight and general administrative duties. Once a product is commercialized, the associated revenue will be recognized under Automotive or Industrial.

**Cummins Westport Inc. Joint Venture**
Cummins Westport Inc. ("CWI"), our 50:50 joint venture with Cummins, Inc., ("Cummins"), serves the medium- to heavy-duty engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. The fuel for CWI engines is carried on the vehicles as CNG or LNG. CWI engines are produced at certain Cummins' plants, allowing CWI to leverage Cummins' manufacturing footprint without incurring capital investments. CWI also utilizes Cummins' supply chain, back office systems, and distribution and sales networks. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty truck and transit bus industries.

**Weichai Westport Inc. Joint Venture**
As noted above, the Company sold a portion of its economic interest in WWI. As the Company no longer has significant influence in the joint venture and no longer equity accounts for this investment, the Company does not consider WWI a business segment.

## SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the three and six months ended June 30, 2016, and June 30, 2015. The 2016 results include one month's results from Fuel Systems as a result of the merger.

**Selected Consolidated Statements of Operations Data**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| *(expressed in millions of United States dollars, except for per share amounts and shares outstanding)* | | | | |
| Revenue - Westport | $ 23.6 | $ 27.8 | $ 47.6 | $ 55.9 |
| Revenue - Fuel Systems | 20.8 | — | 20.8 | — |
| Total revenue | $ 44.4 | $ 27.8 | $ 68.4 | $ 55.9 |
| Gross margin (1) | $ 10.0 | $ 9.3 | $ 16.4 | $ 14.2 |
| *GM %* | 22.5% | 33.5% | 24.0% | 25.4% |
| Net income (loss) (2) | $ 3.7 | $ (20.5) | $ (19.6) | $ (37.7) |
| Net income (loss) per share - basic | $ 0.05 | $ (0.32) | $ (0.27) | $ (0.59) |
| Net income (loss) per share - diluted | $ 0.04 | $ (0.32) | $ (0.27) | $ (0.59) |
| Weighted average basic shares outstanding | 79,385,839 | 64,117,665 | 71,899,577 | 63,985,492 |
| Weighted average diluted shares outstanding | 96,306,658 | 64,117,665 | 71,899,577 | 63,985,492 |

(1) Gross margin is calculated as revenue less cost of product revenue. The Company has modified current and prior quarters' gross margin to include manufacturing depreciation in cost of sales, which is the presentation historically adopted by Fuel Systems that the Company has elected to adopt for the entire group.

(2) Included in the three and six months ended June 30, 2016 is a bargain purchase gain of $42.9 million related to the acquisition of Fuel Systems.

The following table sets forth a summary of our financial position as at June 30, 2016 and December 31, 2015:

**Selected Balance Sheet Data**

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| *(expressed in millions of United States dollars)* | | |
| Cash and short-term investments | $ 71.2 | $ 27.8 |
| Total assets | 401.1 | 209.7 |
| Long-term debt, including current portion | 81.5 | 62.4 |
| Long-term royalty payable, including current portion | 19.5 | — |

The June 30, 2016 figures above include the acquired assets and liabilities of Fuel Systems. The June 1, 2016 acquired values of cash and cash equivalents was $45.3 million and total assets was $216.5 million.

**SELECTED FINANCIAL INFORMATION (continued):**

The following table sets forth a summary of the financial results of Cummins Westport Inc. ("CWI") for the three and six months ended June 30, 2016, and June 30, 2015:

**Selected CWI Statements of Operations Data**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| *(expressed in millions of United States dollars)* | | | | |
| Total revenue | $ 73.6 | $ 93.1 | $ 138.6 | $ 166.1 |
| Gross margin | 21.0 | 24.7 | 41.6 | 51.3 |
| *GM %* | 28.5% | 26.5% | 30.0% | 30.9% |
| Net income before income taxes | 3.8 | 11.6 | 8.7 | 26.3 |
| Net income attributable to the Company | 1.5 | 3.4 | 3.2 | 9.3 |

**RESULTS FROM OPERATIONS**

The following tables summarize results by segment for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015.

***Items Affecting Comparability of Results***

The three and six months ended June 30, 2016 include one month of Fuel Systems results and this is noted in the "Automotive - Fuel Systems" and "Industrial" segments in the tables below. In addition, WWI results for the three months ended June 30, 2016 are not included in total segment revenue as WWI is no longer considered an operating segment.

**Revenue**
Total segments revenues for the three months ended June 30, 2016 and June 30, 2015 decreased by $44.8 million, or 28% from $162.8 million in 2015 to $118.0 million in 2016.

Total segments revenues for the six months ended June 30, 2016 and June 30, 2015 decreased by $82.9 million, or 26% from $319.8 million in 2015 to $236.9 million in 2016

*(expressed in millions of U.S. dollars)*

| | Three months ended June 30, | | Change | | Six months ended June 30 | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ | % | 2016 | 2015 | $ | % |
| Automotive - Westport | $ 22.7 | $ 24.6 | $ (1.9) | (8)% | $ 45.9 | $ 52.1 | $ (6.2) | (12)% |
| Automotive - Fuel Systems | 12.6 | — | 12.6 | N/A | 12.6 | — | 12.6 | N/A |
| Total Automotive | 35.3 | 24.6 | 10.7 | 43 % | 58.5 | 52.1 | 6.4 | 12 % |
| Industrial | 8.2 | — | 8.2 | N/A | 8.2 | — | 8.2 | N/A |
| Corporate and Technology | 0.9 | 3.2 | (2.3) | (72)% | 1.7 | 3.8 | (2.1) | (55)% |
| CWI | 73.6 | 93.1 | (19.5) | (21)% | 138.6 | 166.1 | (27.5) | (17)% |
| WWI | — | 41.9 | (41.9) | (100)% | 29.9 | 97.8 | (67.9) | (69)% |
| Total segment revenues | $ 118.0 | $ 162.8 | $ (44.8) | (28)% | $ 236.9 | $ 319.8 | $ (82.9) | (26)% |
| Less: equity investees' revenues | 73.6 | 135.0 | (61.4) | (45)% | 168.5 | 263.9 | (95.4) | (36)% |
| Total consolidated | $ 44.4 | $ 27.8 | $ 16.6 | 60 % | $ 68.4 | $ 55.9 | $ 12.5 | 22 % |

**Automotive** revenue for the three months ended June 30, 2016 was $35.3 million compared to $24.6 million for the prior year quarter. Automotive revenue in the Westport business declined as a result of weaker component sales in the European market.

For the six months ended June 30, 2016, revenue was $58.5 million compared to $52.1 million in the prior year period. The decline in the Automotive revenue in the Westport business resulted from weaker sales in the European and North American markets.

Total Automotive revenue for the three and six months ended June 30, 2016 includes sales from Fuel Systems' business for the one month period since the acquisition.

**Industrial** revenue of $8.2 million for the three and six months ended June 30, 2016 resulted from sales from the Fuel Systems' business for the one month period since acquisition.

**Corporate and Technology Investments** revenue for the three months ended June 30, 2016 decreased by $2.3 million and for the six months ended June 30, 2016 decreased by $2.1 million as compared to the prior period. This is primarily a result of a large service contract which was completed in the second quarter of 2015.

**CWI** revenue for the three months ended June 30, 2016 decreased by $19.5 million, or 21% from $93.1 million to $73.6 million**.** CWI product revenue for the three months ended June 30, 2016 decreased by $24.7 million, or 30.7%, to $55.7 million on sales of 2,061 units compared to $80.4 million and 2,947 units for three months ended June 30, 2015, which was primarily attributed to the decline of the price of oil and other macroeconomic conditions. CWI parts revenue for the three months ended June 30, 2016 was $17.9 million compared to $12.7 million for the three months ended June 30, 2015, which was primarily attributed to the increase of the natural gas engine population in service.

For the six months ended June 30, 2016, revenue decreased $27.5 million, or 17% from $166.1 million to $138.6 million. CWI product revenue for the six months ended June 30, 2016 decreased by $38.5 million, or 27.2%, to $102.9 million on sales of 3,708 units compared to $141.4 million and 5,225 units for six months ended June 30, 2015, which was primarily attributed to the decline of the price of oil and other macroeconomic conditions. CWI parts revenue for the six months ended June 30, 2016 was $35.7 million compared to $24.7 million for the six months ended June 30, 2015, which was primarily attributed to the increase of the natural gas engine population in service.

**Gross Margin for the three months ended June 30, 2016**
Total segments gross margin for the three months ended June 30, 2016 decreased by $8.7 million or 21.9% from $39.7 million in 2015 to $31.0 million for the comparative period in 2016.

The following table presents gross margin by segment for the three months ended June 30, 2016 compared to the three months ended June 30, 2015:

*(expressed in millions of U.S. dollars)*

| | Three Months Ended June 30, 2016 | % of Revenue | Three Months Ended June 30, 2015 | % of Revenue | Change $ | Change % |
|---|---|---|---|---|---|---|
| Automotive - Westport | $ 4.1 | 18.1% | $ 6.1 | 24.8% | $ (2.0) | (32.8)% |
| Automotive - Fuel Systems | 2.9 | 23.0% | — | —% | 2.9 | N/A |
| Total Automotive | 7.0 | 19.8% | 6.1 | 24.8% | 0.9 | 14.8 % |
| Industrial | 2.1 | 25.6% | — | —% | 2.1 | N/A |
| Corporate and Technology Investments | 0.9 | 100.0% | 3.2 | 100.0% | (2.3) | (71.9)% |
| CWI | 21.0 | 28.5% | 24.7 | 26.5% | (3.7) | (15.0)% |
| WWI | — | —% | 5.7 | 13.6% | (5.7) | (100.0)% |
| Total segment gross margin | $ 31.0 | 26.3% | $ 39.7 | 24.4% | $ (8.7) | (21.9)% |
| Less: equity investees' gross margin | 21.0 | 28.5% | 30.4 | 22.5% | (9.4) | (30.9)% |
| Total consolidated gross margin | $ 10.0 | 22.5% | $ 9.3 | 33.4% | $ 0.7 | 7.5 % |

**Automotive** gross margin increased by $0.9 million to $7.0 million, or 19.8% of revenue, for the three months ended June 30, 2016 compared to $6.1 million, or 24.8% of revenue for the three months ended June 30, 2015. The decrease in gross margin and the gross margin percentage for Westport's automotive business is due to inventory obsolescence charges of $1.3 million in the current period compared to $0.3 million in the same period of prior year, and to lower sales. Fuel Systems' Automotive gross margin includes $0.4 million for amortization of the inventory fair value adjustment recorded on acquisition. Excluding this adjustment, the gross margin percentage would have been 26.0%.

**Industrial** gross margin includes $0.3 million for amortization of the inventory fair value adjustment recorded on acquisition. Excluding this adjustment, the gross margin percentage would have been 29.3%.

**CWI** gross margin decreased by $3.7 million to $21.0 million, or 28.5% of revenue from $24.7 million or 26.5% of revenue in the prior year quarter. The decrease in gross margin primarily relates to the 30.0% decrease in the number of engines sold.

**Gross Margin for the six months ended June 30, 2016**

Total segments gross margin for the six months ended June 30, 2016 decreased by $15.8 million or 20.5% from $76.9 million in 2015 to 61.0 million for the comparative period in 2016.

The following table presents gross margin by segment for the six months ended June 30, 2016 compared to the six months ended June 30, 2015:

*(expressed in millions of U.S. dollars)*

| | Six months ended June 30, 2016 | % of Revenue | Six months ended June 30, 2015 | % of Revenue | Change $ | Change % |
|---|---|---|---|---|---|---|
| Automotive - Westport | $ 9.7 | 21.1% | $ 10.4 | 20.0% | $ (0.7) | (6.7)% |
| Automotive - Fuel Systems | 2.9 | 23.0% | — | —% | 2.9 | N/A |
| Total Automotive | 12.6 | 21.5% | 10.4 | 20.0% | 2.2 | 21.2 % |
| Industrial | 2.1 | 25.6% | — | —% | 2.1 | N/A |
| Corporate and Technology Investments | 1.7 | 100.0% | 3.8 | 100.0% | (2.0) | (52.6)% |
| CWI | 41.6 | 30.0% | 51.3 | 30.9% | (9.7) | (18.9)% |
| WWI | 3.0 | 10.0% | 11.4 | 11.7% | (8.4) | (73.7)% |
| Total segment gross margin | 61.0 | 25.7% | 76.9 | 24.0% | (15.8) | (20.5)% |
| Less: equity investees' gross margin | 44.6 | 26.5% | 62.7 | 23.8% | (18.1) | (28.9)% |
| Total consolidated gross margin | $ 16.4 | 24.0% | $ 14.2 | 25.4% | $ 2.3 | 16.2 % |

**Automotive** gross margin increased by $2.2 million to $12.6 million, or 21.5% of revenue, for the six months ended June 30, 2016 compared to $10.4 million, or 20.0% of revenue for the prior year period. The decrease in gross margin from Westport's Automotive business resulted from reduced sales. Fuel Systems' Automotive gross margin includes the one month period since the acquisition. See the previous explanation in the gross margin for the three months ended June 30, 2016.

**Industrial** gross margin for the six months includes the one month period of Fuel Systems since the acquisition.

**CWI** gross margin decreased $9.7 million to $41.6 million from $51.3 million as a result of a 29% decrease in engines sold and an unfavorable $3.5 million net warranty adjustment compared to the prior year period (the prior period included a positive warranty adjustment which did not repeat in the current period).

**Research and Development Expenses**

The following table presents details of research and development ("R&D") expense by segment, excluding equity investees, for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015:

*(expressed in millions of U.S. dollars)*

| | Three months ended June 30, | | Change | | Six months ended June 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ | % | 2016 | 2015 | $ | % |
| Automotive - Westport | $ 3.1 | $ 3.0 | $ 0.1 | 3% | $ 5.2 | $ 6.3 | $ (1.1) | (17)% |
| Automotive - Fuel Systems | 1.5 | — | 1.5 | N/A | 1.5 | — | 1.5 | N/A |
| Total Automotive | 4.6 | 3.0 | 1.6 | 53% | 6.7 | 6.3 | 0.4 | 6 % |
| Industrial | 0.5 | — | 0.5 | N/A | 0.5 | — | 0.5 | N/A |
| Corporate and Technology Investments | 10.3 | 9.8 | 0.5 | 5% | 19.9 | 19.9 | — | — % |
| Total research and development | $ 15.4 | $ 12.8 | $ 2.6 | 20% | $ 27.1 | $ 26.2 | $ 0.9 | 3 % |

**Automotive** R&D expenses for the three and six months ended June 30, 2016 increased by $1.6 million and $0.4 million, respectively. The Westport Automotive R&D expenses for the three months ended June 30, 2016 were consistent with the prior year period. For the six months ended June 30, 2016, Westport Automotive R&D expenses benefited from a reduction in program expenses, decreased headcount and a weaker Canadian dollar.

**Industrial** R&D includes one month of expenses of Fuel Systems since the acquisition.

**Corporate and Technology Investments** R&D expenses for the three and six months ended June 30, 2016 increased by $0.5 million and $nil, respectively. The increase is due to purchases of prototype components as the HPDI program moves towards commercialization.

**Selling, General and Administrative Expenses**

The following table presents details of Selling, General and Administrative ("SG&A") expense by segment, excluding equity investees, for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015:

*(expressed in millions of U.S. dollars)*

| | Three Months Ended June 30, | | Change | | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | $ | % | 2016 | 2015 | $ | % |
| Automotive - Westport | $ 5.5 | $ 5.2 | $ 0.3 | 6% | $ 9.6 | $ 10.6 | $ (1.0) | (9)% |
| Automotive - Fuel Systems | 2.4 | — | 2.4 | N/A | 2.4 | — | 2.4 | N/A |
| Total Automotive | 7.9 | 5.2 | 2.7 | 52% | 12.0 | 10.6 | 1.4 | 13 % |
| Industrial | 0.8 | — | 0.8 | N/A | 0.8 | — | 0.8 | N/A |
| Corporate and Technology Investments | 10.1 | 7.8 | 2.3 | 29% | 19.7 | 15.3 | 4.4 | 29 % |
| Total selling, general and administrative | $ 18.8 | $ 13.0 | $ 5.8 | 45% | $ 32.5 | $ 25.9 | $ 6.6 | 26 % |

**Automotive** SG&A expense for the three and six months ended June 30, 2016 increased by $2.7 million and $1.4 million, respectively. Westport Automotive's SG&A increased during the three month period primarily due to severance costs, offset by decreased headcount.Westport Automotive's SG&A decreased during the six month period due to decreased headcount and a weaker Canadian dollar.

**Industrial** SG&A includes one month of expense of Fuel Systems since the acquisition.

**Corporate and Technology Investments** SG&A expenses for the three and six months ended June 30, 2016 increased by $2.3 million and $4.4 million, respectively. The increases are due to merger costs associated with the acquisition of Fuel Systems, costs associated with the Cartesian Financing and corporate administrative costs at Fuel Systems of $0.6 million for the one month period since the merger. The merger related and Cartesian Financing costs were $4.5 million and $6.5 million for the three and six month periods ended June 30, 2016, respectively.

**Foreign exchange gains and losses** reflect net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly composed of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. In addition, the Company has foreign exchange exposure on Euro denominated monetary assets and liabilities where the functional currency of the subsidiary is not the Euro. For the three and six months ended June 30, 2016, we recognized a net foreign exchange loss of $4.1 million and $5.4 million, respectively, compared to a $1.2 million and $4.0 million gain in the comparative periods due to the movement in the Canadian dollar relative to the U.S. dollar.

**Depreciation and amortization** for the three and six months ended June 30, 2016 was $2.8 million and $5.5 million compared with $3.1 million and $6.1 million for the three and six months ended June 30, 2015. The decrease primarily relates to asset sales made and assets becoming fully depreciated over the past 12 months. The three and six month periods include $0.3 million of depreciation associated with the Fuel Systems property, plant and equipment acquired.

**Loss on sale of investment** for the three and six months ended June 30, 2016 relates to a $5.3 million loss on sale of a portion of our economic interest in WWI, as previously discussed, and a $1.0 million writedown of an investment in a tank developer.

**Income from investments accounted for by the equity method** primarily relates to our 50% interest in CWI and our decrease in equity income results primarily from lower earnings from CWI in the current period compared to the prior period.

*(expressed in millions of U.S. dollars)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| CWI - 50% interest | $ 1.5 | $ 3.4 | $ 3.2 | $ 9.3 |
| WWI | — | 0.1 | 0.2 | 0.4 |
| Other | — | — | — | 0.1 |
| Income from investment accounted for by the equity method | $ 1.5 | $ 3.5 | $ 3.4 | $ 9.8 |

**Interest on long-term debt, royalty payable and amortization of discount expense** primarily relates to our interest expense on Canadian dollar and Euro denominated debentures.

*(expressed in millions of U.S. dollars)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Canadian debentures - 9% per annum | $ 1.0 | $ 1.0 | $ 1.9 | $ 2.0 |
| Senior financing facilities | 0.1 | 0.3 | 0.2 | 0.6 |
| Amortization of discount and non cash interest expense of long-term debt | 0.3 | 0.2 | 0.6 | 0.4 |
| Amortization of discount and non cash interest expense of long-term royalty payable | 1.0 | — | 2.0 | — |
| Convertible note - 9% per annum | 0.1 | — | 0.1 | — |
| Total interest on long-term debt | $ 2.5 | $ 1.5 | $ 4.8 | $ 3.0 |

Interest on long-term debt and royalty payable for the three and six months ended June 30, 2016 was $2.5 million and $4.8 million, respectively, compared to interest on long-term debt expense 1.5 million and 3.0 million, respectively for the three and six months ended June 30, 2015. Interest expense primarily increased for the six months ended due to additional interest accrued on the long-term royalty payable.

**Bargain purchase gain** of $42.9 million resulted from the merger with Fuel Systems. The Company believes it was able to acquire the assets of Fuel Systems for less than their fair value due to the weakness in the alternative fuel sector.

**Income tax expense** for the three and six months ended June 30, 2016 was $0.5 million and $0.4 million, respectively, compared to an income tax expense of $0.6 million and $1.1 million for the three and six months ended June 30, 2015, respectively. The Company incurs tax expense in certain profitable jurisdictions and does not record a tax benefit for losses incurred in other jurisdictions. To the extent that the Company earns income in the future, these tax losses will be available to offset any potential tax expense.

**CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY**

As at June 30, 2016, our cash, cash equivalents and short-term investment position was $71.2 million, an increase of $43.4 million from $27.8 million at December 31, 2015. This increase is primarily a result of the merger with Fuel Systems which had $45.3 million of cash and cash equivalents on the acquisition date. Cash and cash equivalents consist of guaranteed investment certificates, term deposits and bankers acceptances with maturities of 90 days or less when acquired. Short-term investments consist of investment grade bankers' acceptances, term deposits and commercial paper. We invest primarily in short-term paper issued by Schedule 1 Canadian banks, R1 high rated corporations and governments.

The Company has sustained net losses since inception and as at June 30, 2016 has an accumulated deficit of $882.9 million. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing or raise cash through the sale of assets while in pursuit of operating profitability. There can be no assurance that the Company will be successful in achieving its objectives. Management believes that the cash balances available as of June 30, 2016, combined with cost cutting measures in place and its ability to find new sources of financing or raise cash through the sale of assets subsequent to the balance sheet date, provide sufficient funds for the Company to meet its obligations beyond the next 12 months. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. See also "Cartesian Financing" in the general developments section of this MD&A for cash raised during the current reporting period. The merger with Fuel Systems further strengthened the Company's balance sheet.

Our plan is to use our current cash, cash equivalents and short-term investments, and our share of CWI dividends (typically declared and paid quarterly) to fund our committed milestones and obligations for our current programs. We will also continue to seek third party and government funding on commercially acceptable terms to offset costs of our investments; however, there are no guarantees that we will be successful in obtaining third party funding on acceptable terms or at all.

*Cash Flow from Operating Activities*

For the three months ended June 30, 2016, our net cash flow used in operating activities was $23.9 million, an increase of $7.1 million from the net cash flow used in operating activities in the three months ended June 30, 2015. The increase is primarily due to an increase in legal expenses related to the Cartesian financing and merger costs of $4.5 million.

*Cash Flow from Investing Activities*.

For the three months ended June 30, 2016, our net cash flow received from investing activities was $53.2 million, an increase of $49.2 million from net cash flows from investing activities for the three months ended June 30, 2015. Of the increase, $45.3 million is due to cash balances at Fuel Systems on the date of acquisition and $6.3 million in proceeds received on the sale of a portion of our economic interest in WWI.

Our net cash used in investing activities consisted primarily of dividends received from joint ventures, offset by purchases of property, plant and equipment property ("PP&E"). Dividends received from joint ventures decreased by $3.0 million to $1.8 million, primarily as a result of lower net income attributable to CWI. PP&E additions increased by $0.5 million to $1.2 million as we prepare for commercial production of HPDI 2.0.

*Cash Flow from Financing Activities*

For the three months ended June 30, 2016, our net cash flow received from financing activities was $16.9 million, an increase of $17.1 million from the net cash flows used in financing activities of $0.2 million for the three months ended June 30, 2015. This is primarily due to the $17.5 million cash received from Cartesian for a convertible note upon completion of the merger.

Westport Fuel Systems' capital requirements will vary depending on a number of factors, including the timing and size of orders for our LNG systems, our ability to successfully launch products on time, our supply chain and manufacturing requirements, our success in executing our business plan, relationships with current and potential strategic partners, commercial sales and margins, product reliability, progress on research and development activities, capital expenditures and working capital requirements. We also continue to review investment and acquisition opportunities on a regular basis for technologies, businesses and markets that would complement our own products or assist us in our commercialization plans. Significant new orders, expanded engine programs, acquisitions or investments could require additional funding. If such additional funding is not available to us, if expected orders do not materialize or are delayed, or if we have significant overspending in our programs, we may be required to delay, reduce or eliminate certain research and development activities, reduce or cancel inventory orders, and possibly forgo new program, acquisition or investment opportunities. Any of those circumstances could potentially result in a delay of the commercialization of our products in development and could have an adverse effect on our business, results of operations, liquidity and financial condition.

This “Capital Requirements, Resources and Liquidity” section contains certain forward looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Readers are encouraged to read the “Forward Looking Statements” and “Basis of Presentation” sections of this MD&A, which discusses forward-looking statements and the “Business Risks and Uncertainties” section of this MD&A and of our AIF.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

| | Carrying amount | Contractual cash flows | < 1 year | 1 - 3 years | 4-5 years | > 5 years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 103.2 | $ 103.2 | $ 103.2 | $ — | $ — | $ — |
| Unsecured subordinated debentures (a) | 41.6 | 47.4 | 3.8 | 43.5 | — | — |
| Senior financing (b) | 6.2 | 6.4 | 4.4 | 0.8 | 0.7 | 0.5 |
| Senior revolving financing (c) | 11.1 | 11.4 | 11.4 | — | — | — |
| Long-term royalty payable (d) | 19.5 | 46.0 | 1.5 | 9.6 | 16.8 | 18.1 |
| Other bank financing | 4.6 | 4.8 | 3.1 | 0.1 | 0.1 | 1.5 |
| Capital lease obligations (e) | 0.8 | 0.8 | 0.4 | 0.4 | — | — |
| Operating lease commitments (e) | — | 68.8 | 8.2 | 16.7 | 31.8 | 37.4 |
| Royalty payments | — | 5.1 | 2.0 | 3.1 | — | — |
| Convertible Debt (f) | 17.3 | 25.2 | — | — | — | — |
| | $ 204.3 | $ 319.1 | $ 138.0 | $ 74.2 | $ 49.4 | $ 57.5 |

Contractual cash flows include both expected interest and principal repayments.

(a) The subordinated debenture notes are unsecured and subordinated to senior indebtedness, mature on September 15, 2017, and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term.

(b) Senior financing comprises the Emer S.p.A ("Emer") senior financing agreement ("Emer senior financing"), the Prins Autogassystemen Holding B.V ("Prins") senior financing agreement ("Prins senior financing"), and the Prins senior mortgage loan ("Prins senior mortgage loan"). The senior financing agreements bear interest at 3 or 6-month Euribor plus a fixed percentage ranging from 1% to 3.5%.

(c) The senior revolving financing facility relates to Emer and bears interest at 6-month Euribor plus 2.5%. Interest is paid semi-annually.

The principal repayment schedule of the senior financings are as follows as at June 30, 2016:

| | Subordinated debenture notes (a) | Emer Senior Financing (b) | Prins Senior Financing (b) | Prins Senior Mortgage Loan (b) | Senior revolving financing (c) | Convertible Debt (f) | Total |
|---|---|---|---|---|---|---|---|
| Remainder of 2016 | $ — | $ 1.9 | $ 0.5 | $ 0.2 | $ — | $ — | $ 2.6 |
| 2017 | 41.6 | 1.1 | 0.6 | 0.3 | 11.1 | — | 54.7 |
| 2018 | — | — | — | 0.3 | — | — | 0.3 |
| 2019 | — | — | — | 0.4 | — | — | 0.4 |
| 2020 and thereafter | — | — | — | 1.0 | — | 17.3 | 18.3 |
| | $ 41.6 | $ 3.0 | $ 1.1 | $ 2.2 | $ 11.1 | $ 17.3 | $ 76.3 |

(d) The long-term royalty payable relates to the first tranche financing between the Company and Cartesian. The contractual cash flows reflect the carrying value accreted to the expected redemption value using the approximate effective interest of 23%.

(e) Capital lease obligations relate primarily to office equipment and machinery, have initial terms of three to five years and have interest rates ranging from 3.1% to 4.9%. Operating lease commitments represent our minimum lease payments under leases related primarily to our operating premises and office equipment.

(f) Convertible debt relates to the third tranche financing between the Company and Cartesian. Under the terms of the agreement, the investment is received in exchange for 9% convertible unsecured notes due June 1, 2021 which are convertible into common shares of Westport Fuel Systems in whole or in part, at Cartesian's option, at any time following the twelve month anniversary of the closing at a conversion price of $2.17 per share.

**SHARES OUTSTANDING**

For the three months ended June 30, 2016 and June 30, 2015, the weighted average number of shares used in calculating the loss per share was 79,385,839 and 64,117,665, respectively. The Common Shares, share options and Share Units outstanding and exercisable as at the following dates are shown below:

| | June 30, 2016 | August 9, 2016 |
|---|---|---|
| | Number | Number |
| Common Shares outstanding | 109,725,229 | 109,809,066 |
| Share Units | | |
| Outstanding (1) | 8,856,303 | 7,690,113 |
| Exercisable | 1,082,207 | 1,080,441 |

(1) As at June 30, 2016, includes 2,965,000 (August 9, 2016 - 2,089,600) PSUs with payout levels ranging between 0% and 150% upon achieving the required performance criteria over the measurement period. None of these PSUs are currently known to be issuable based on the prior achievement of the required 150% conversion ratio as at the date hereof, however such awards have not yet become vested.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our interim consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. Actual amounts may vary significantly from estimates used. The Company's accounting policies are described in Note 2 of our fiscal year ended December 31, 2015 annual consolidated financial statements. There have been no significant changes in accounting policies applied to the June 30, 2016 interim condensed consolidated financial statements. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock-based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in Note 2 of our our fiscal year ended December 31, 2015 annual consolidated financial statements and our 2015 Annual Management and Discussion analysis.

**NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS**

We discuss new accounting standards which have been issued but not yet adopted, their required date of adoption and/or planned date to adopt, if earlier, and the anticipated impact that adoption of the standards are expected to have on our financial position and results of operations in Note 2 - Accounting Changes, in the Notes to the interim condensed consolidated financial statements.

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the three months ended June 30, 2016, there were no changes to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except for the following:

In accordance with the provisions of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Fuel Systems. The Company completed its merger with Fuel Systems on June 1, 2016.

Fuel Systems' contribution to the Company's interim condensed consolidated financial statements for the quarter ended June 30, 2016 was approximately 47% of consolidated sales and 52% of total assets.

**SUMMARY OF QUARTERLY RESULTS**

Our revenues and operating results can vary significantly from quarter to quarter depending on the timing of product deliveries, product mix, product launch dates, research and development project cycles, timing of related government funding, impairment charges, stock-based compensation awards and foreign exchange impacts. Net loss has and can vary significantly from one quarter to another depending on operating results, gains and losses from investing activities, recognition of tax benefits and other similar events.

The following table provides summary unaudited consolidated financial data for our last eight quarters:

**Selected Consolidated Quarterly Operations Data (unaudited)**

| **Three months ended** | **30-Sep-14** | **31-Dec-14** | **31-Mar-15** | **30-Jun-15** | **30-Sep-15** | **31-Dec-15** | **31-Mar-16** | **30-Jun-16** |
|---|---|---|---|---|---|---|---|---|
| *(expressed in millions of United States dollars except for per share amounts)* | | | | | | | | (1) |
| Product revenue | $ 24.0 | $ 27.4 | $ 27.0 | $ 24.6 | $ 21.3 | $ 24.9 | $ 23.5 | $ 44.0 |
| Service and other revenue | 1.4 | — | 1.0 | 3.2 | 1.0 | 0.2 | 0.5 | 0.4 |
| Total revenue | 25.4 | 27.4 | 28.0 | 27.8 | 22.3 | 25.1 | 24.0 | 44.4 |
| Cost of product and parts revenue (2) | 18.1 | 29.4 | 23.1 | 18.6 | 21.5 | 22.1 | 17.6 | 34.4 |
| Gross margin | $ 7.3 | $ (2.0) | $ 4.9 | $ 9.2 | $ 0.8 | $ 3.0 | $ 6.4 | $ 10.0 |
| Gross margin percentage | *28.7%* | *(7.3)%* | *17.5%* | *33.1%* | *3.6%* | *12.0%* | *26.7%* | *22.5%* |
| Net loss for the period | $ (25.5) | $ (64.8) | $ (17.2) | $ (20.5) | $ (37.4) | $ (23.3) | $ (23.3) | $ 3.7 |
| EBITDA (3) | $ (20.8) | $ (57.5) | $ (11.7) | $ (14.8) | $ (32.5) | $ (19.3) | $ (18.0) | $ 9.8 |
| Adjusted EBITDA (4) | $ (22.0) | $ (23.0) | $ (9.2) | $ (7.7) | $ (9.8) | $ (12.3) | $ (10.6) | $ (10.3) |
| Earnings (loss) per share | | | | | | | | |
| Basic | $ (0.40) | $ (1.03) | $ (0.30) | $ (0.32) | $ (0.58) | $ (0.35) | $ (0.36) | $ 0.05 |
| Diluted | $ (0.40) | $ (1.03) | $ (0.30) | $ (0.32) | $ (0.58) | $ (0.35) | $ (0.36) | $ 0.04 |
| Income from unconsolidated joint ventures: | | | | | | | | |
| CWI net income attributable to the Company | $ 0.9 | $ 7.6 | $ 5.9 | $ 3.4 | $ 3.5 | $ 4.3 | $ 1.8 | $ 1.5 |
| WWI net income attributable to the Company | $ 1.2 | $ 3.6 | $ 0.3 | $ 0.1 | $ 0.1 | $ 0.5 | $ 0.2 | $ — |

(1) Includes the one month period of results from the merger with Fuel Systems and a bargain purchase gain of $42.9 million.

(2) The Company has modified current and prior quarters' gross margin to include manufacturing depreciation in cost of sales, which is the presentation historically adopted by Fuel Systems that the Company has elected to adopt for the entire group.

(3) The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have a standardized meaning according to U.S. GAAP. See non-GAAP measures for more information.

(4) The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Westport Fuel Systems defines Adjusted EBITDA as EBITDA adjusted for amortization of stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other adjustments. See non-GAAP measures for more information.

**Non-GAAP Measures:**

We use certain non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed in U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

**EBITDA**

The term EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. The Company defines EBITDA as loss before income taxes adjusted for interest expense (net) and depreciation and amortization.

Management believes that EBITDA is an important indicator commonly reported and widely used by investors and analysts as an indicator of the Company’s operating performance and ability. The intent is to provide additional useful information to investors and analysts and such measures do not have any standardized meaning under U.S. GAAP. These measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. Other issuers may define EBITDA differently.

| Three months ended | 30-Sep-14 | 31-Dec-14 | 31-Mar-15 | 30-Jun-15 | 30-Sep-15 | 31-Dec-15 | 31-Mar-16 | 30-Jun-16 |
|---|---|---|---|---|---|---|---|---|
| Income (Loss) before income taxes | $ (26.2) | $ (65.1) | $ (16.7) | $ (19.9) | $ (37.2) | $ (23.9) | $ (23.4) | $ 4.2 |
| Interest Expense, net (1) | 0.7 | 2.5 | 1.4 | 1.6 | 1.4 | 1.3 | 2.3 | 2.7 |
| Depreciation and Amortization | 4.7 | 5.1 | 3.6 | 3.5 | 3.3 | 3.3 | 3.1 | 3.7 |
| EBITDA | $ (20.8) | $ (57.5) | $ (11.7) | $ (14.8) | $ (32.5) | $ (19.3) | $ (18.0) | $ 10.6 |

(1) Interest expense, net is defined as the aggregate of bank charges, interest, and other, interest on long term-debt and amortization of discount.

EBITDA increased $28.6 million in the three months ended June 30, 2016 to $10.6 million from a loss of $18.0 million for the three months ended March 31, 2016 primarily a result of the bargain purchase gain of $42.9 million associated with the Fuel Systems merger, offset by the loss on sales of investments of $6.3 million and merger related costs of $5.4 million.

**Non-GAAP Measures continued:**

**Adjusted EBITDA**

The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP.

Adjusted EBITDA is used by management to review operational progress of its business units and investment programs over successive periods and as a long-term indicator of operational performance since it ties closely to the unit's ability to generate sustained cash flows.

Westport Fuel Systems defines Adjusted EBITDA as EBITDA adjusted for stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other unusual adjustments. Adjusted EBITDA has limitations as an analytical tool, and when assessing the Company's operating performance, investors should not consider Adjusted EBITDA in isolation, or as a substitute for net loss or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Among other things, Adjusted EBITDA does not reflect the Company's actual cash expenditures. Other companies may calculate similar measures differently than Westport Fuel Systems, limiting their usefulness as comparative tools. Westport Fuel Systems compensates for these limitations by relying primarily on its U.S. GAAP results.

| Three months ended | 30-Sep-14 | 31-Dec-14 | 31-Mar-15 | 30-Jun-15 | 30-Sep-15 | 31-Dec-15 | 31-Mar-16 | 30-Jun-16 |
|---|---|---|---|---|---|---|---|---|
| EBITDA | $ (20.8) | $ (57.5) | $ (11.7) | $ (14.8) | $ (32.5) | $ (19.3) | $ (18.0) | $ 10.6 |
| Stock based compensation | 1.0 | — | 3.4 | 4.7 | 3.3 | 3.5 | 4.0 | 2.3 |
| Unrealized foreign exchange (gain) loss | (2.2) | (0.9) | (2.9) | (1.2) | (8.0) | 0.5 | 1.3 | 4.1 |
| Non-cash and other adjustments (1) | — | 35.4 | 2.0 | 3.6 | 27.4 | 3.0 | 2.1 | (27.3) |
| Adjusted EBITDA | $ (22.0) | $ (23.0) | $ (9.2) | $ (7.7) | $ (9.8) | $ (12.3) | $ (10.6) | $ (10.3) |

(1) Non-cash and other adjustments include impairment of long lived assets, provision for inventory purchase commitments, intangible impairment, goodwill impairment, one time inventory obsolescence charges, loss on sale of long-term investments, one time costs related to the Westport and Fuel Systems merger and one time costs related to the Cartesian financing. The three months ended June 30, 2016, includes a $42.9 million bargain purchase gain, offset by a $6.3 million loss on sale of investments, $4.5 million in merger and financing costs and other items of $4.8 million. The three months ended September 30, 2015 included $18.7 million in goodwill impairment, inventory impairments of $5.5 million and other items of $3.3 million. The three months ended December 31, 2014 figure included other unusual adjustments related to the discontinuation of the first generation of Westport HPDI systems.

Adjusted EBITDA increased $0.3 million in the three months ended June 30, 2016 to a loss of $10.3 million from a loss of $10.6 million for the three months ended March 31, 2016.

**RELATED PARTY TRANSACTIONS**

Related party balances and transactions have increased due to the Cartesian financing and acquisition of Fuel Systems. See Note 16 of the condensed consolidated interim financial statements as at June 30, 2016 for details of related party transactions.

**Subsequent Events**

On July 29, 2016, the Company announced the sale of its assets in Plymouth, Michigan for $11.5 million in cash. The book value of the assets were reclassified to assets held for resale as of June 30, 2016. A gain will be recorded in the third quarter of 2016 on the disposal of assets.

On July 22, 2016, the Company announced the appointment of Nancy S. Gougarty as Chief Executive Officer ("CEO"). David R. Demers retired from the Company but will be available to the leadership team in an advisory role through  a transition period.

Condensed Consolidated Interim Financial Statements (unaudited)
(Expressed in thousands of United States dollars)

# WESTPORT FUEL SYSTEMS INC.

(Formerly known as Westport Innovations Inc.)

For the three and six months ended June 30, 2016 and 2015

# WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Balance Sheets (unaudited)

(Expressed in thousands of United States dollars, except share amounts)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 70,369 | $ 27,143 |
| Short-term investments | 855 | 696 |
| Accounts receivable (note 4) | 79,678 | 38,324 |
| Inventories (note 5) | 98,070 | 35,660 |
| Prepaid expenses | 14,618 | 3,475 |
| Assets held for sale (note 20) | 10,888 | — |
| | 274,478 | 105,298 |
| Long-term investments (note 6) | 19,315 | 31,111 |
| Other long-term assets | 4,560 | 2,863 |
| Property, plant and equipment (note 8) | 66,937 | 42,527 |
| Intangible assets (note 9) | 25,561 | 22,307 |
| Deferred income tax assets | 7,178 | 2,538 |
| Goodwill (note 10) | 3,079 | 3,008 |
| | $ 401,108 | $ 209,652 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 11) | $ 103,231 | $ 57,454 |
| Current portion of deferred revenue | 4,112 | 1,779 |
| Current portion of long-term debt (note 12) | 18,843 | 8,257 |
| Current portion of long-term royalty payable (note 13) | 1,500 | — |
| Current portion of warranty liability (note 14) | 7,670 | 5,554 |
| | 135,356 | 73,044 |
| Deferred revenue | 1,018 | 1,513 |
| Long-term debt (note 12) | 62,657 | 54,190 |
| Long-term royalty payable (note 13) | 18,031 | — |
| Warranty liability (note 14) | 8,174 | 8,437 |
| Deferred income tax liabilities | 5,779 | 3,570 |
| Other long-term liabilities | 9,778 | 1,302 |
| | 240,793 | 142,056 |
| Shareholders' equity: | | |
| Share capital (note 15): | | |
| Unlimited common and preferred shares, no par value | | |
| 109,725,229 (2015 - 64,380,819) common shares | 1,039,166 | 937,029 |
| Other equity instruments | 19,685 | 16,460 |
| Additional paid in capital | 10,079 | 9,837 |
| Accumulated deficit | (882,905) | (863,348) |
| Accumulated other comprehensive loss | (25,710) | (32,382) |
| | 160,315 | 67,596 |
| Commitments and contingencies (note 17) | | |
| | $ 401,108 | $ 209,652 |

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

**Brenda J. Eprile** Director **Warren Baker** Director

# WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss) (unaudited)

(Expressed in thousands of United States dollars, except share and per share amounts)

Three and six months ended June 30, 2016 and June 30, 2015

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Product revenue | $ 43,949 | $ 24,557 | $ 67,505 | $ 51,534 |
| Service and other revenue | 408 | 3,289 | 864 | 4,334 |
| | 44,357 | 27,846 | 68,369 | 55,868 |
| Cost of revenue and expenses: | | | | |
| Cost of product revenue | 34,356 | 18,559 | 51,987 | 41,683 |
| Research and development | 15,432 | 12,761 | 27,065 | 26,237 |
| General and administrative | 13,130 | 8,610 | 23,209 | 17,001 |
| Sales and marketing | 5,641 | 4,416 | 9,338 | 8,873 |
| Foreign exchange (gain) loss | 4,098 | (1,174) | 5,445 | (4,049) |
| Depreciation and amortization | 2,788 | 3,085 | 5,513 | 6,106 |
| Loss on sale of investment | 6,312 | — | 6,312 | — |
| Impairment of long-lived assets | — | 3,419 | — | 3,419 |
| | 81,757 | 49,676 | 128,869 | 99,270 |
| Loss from operations | (37,400) | (21,830) | (60,500) | (43,402) |
| | | | | |
| Income from investments accounted for by the equity method | 1,427 | 3,529 | 3,430 | 9,841 |
| Interest on long-term debt and amortization of discount | (2,511) | (1,486) | (4,783) | (2,958) |
| Bargain purchase gain from acquisition (note 3) | 42,862 | — | 42,862 | — |
| Bank charges, interest and other income | (132) | (81) | (194) | (80) |
| Income (loss) before income taxes | 4,246 | (19,868) | (19,185) | (36,599) |
| Income tax expense | 524 | 621 | 372 | 1,094 |
| Net income (loss) for the period | 3,722 | (20,489) | (19,557) | (37,693) |
| Other comprehensive income (loss): | | | | |
| Cumulative translation adjustment | 5,084 | 528 | 6,672 | (10,821) |
| Comprehensive income (loss) | $ 8,806 | $ (19,961) | $ (12,885) | $ (48,514) |
| | | | | |
| Income (loss) per share: | | | | |
| Basic | $ 0.05 | $ (0.32) | $ (0.27) | $ (0.59) |
| Diluted | $ 0.04 | $ (0.32) | $ (0.27) | $ (0.59) |
| Weighted average common shares outstanding: | | | | |
| Basic | 79,385,839 | 64,117,665 | 71,899,577 | 63,985,492 |
| Diluted | 96,306,658 | 64,117,665 | 71,899,577 | 63,985,492 |

See accompanying notes to condensed consolidated interim financial statements.

# WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Statements of Shareholders' Equity (unaudited)

(Expressed in thousands of United States dollars, except share amounts)

Six months ended June 30, 2016 and June 30, 2015

| | Common Shares Outstanding | Share capital | Other equity instruments | Additional paid in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| January 1, 2015 | 63,480,722 | $ 930,857 | $ 7,767 | $ 9,837 | $ (764,960) | $ (15,493) | $ 168,008 |
| Issue of common shares on exercise of share units | 367,125 | 3,947 | (3,947) | — | — | — | — |
| Issue of common shares in connection with acquisition | 325,073 | 1,162 | — | — | — | — | 1,162 |
| Stock-based compensation | — | — | 7,405 | — | — | — | 7,405 |
| Net loss for the period | — | — | — | — | (37,693) | — | (37,693) |
| Other comprehensive loss | — | — | — | — | — | (10,821) | (10,821) |
| June 30, 2015 | 64,172,920 | $ 935,966 | $ 11,225 | $ 9,837 | $ (802,653) | $ (26,314) | $ 128,061 |
| | | | | | | | |
| January 1, 2016 | 64,380,819 | $ 937,029 | $ 16,460 | $ 9,837 | $ (863,348) | $ (32,382) | $ 67,596 |
| Issue of common shares on exercise of share units | 461,628 | 3,395 | (3,395) | — | — | — | — |
| Issue of common shares in connection with acquisition | 44,882,782 | 98,742 | 655 | — | — | — | 99,397 |
| Beneficial conversion feature on convertible debt | — | — | — | 242 | — | — | 242 |
| Stock-based compensation | — | — | 5,965 | — | — | — | 5,965 |
| Net loss for the period | — | — | — | — | (19,557) | — | (19,557) |
| Other comprehensive income | — | — | — | — | — | 6,672 | 6,672 |
| June 30, 2016 | 109,725,229 | $ 1,039,166 | $ 19,685 | $ 10,079 | $ (882,905) | $ (25,710) | $ 160,315 |

See accompanying notes to condensed consolidated interim financial statements.

# WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)
(Expressed in thousands of United States dollars)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Cash flows from (used in) operating activities: | | | | |
| Net income (loss) for the period | $ 3,722 | $ (20,489) | $ (19,557) | $ (37,693) |
| Items not involving cash: | | | | |
| Depreciation and amortization | 3,643 | 3,535 | 6,751 | 7,082 |
| Stock-based compensation expense | 2,328 | 4,681 | 6,322 | 7,928 |
| Unrealized foreign exchange (gain) loss | 4,098 | (1,174) | 5,445 | (4,049) |
| Deferred income tax (recovery) expense | — | 12 | — | 319 |
| Income from investments accounted for by the equity method | (1,427) | (3,529) | (3,430) | (9,841) |
| Accretion of long-term debt | 1,366 | 367 | 2,702 | 763 |
| Impairment of long lived assets | — | 3,419 | — | 3,419 |
| Inventory write-downs to net realizable value | 1,227 | 323 | 1,278 | 2,318 |
| Loss on sale of investments | 6,312 | — | 6,312 | — |
| Change in fair value of derivative liability and bad debt expense | 2,340 | 20 | 2,422 | 370 |
| Bargain purchase gain from acquisition (note 3) | (42,862) | — | (42,862) | — |
| Changes in non-cash operating working capital: | | | | |
| Accounts receivable | (1,152) | (1,843) | (2,475) | 402 |
| Inventories | 3,818 | 1,396 | 3,213 | 275 |
| Prepaid expenses | 491 | (482) | (465) | (1,537) |
| Accounts payable and accrued liabilities | (4,985) | 1,013 | (7,460) | (4,320) |
| Deferred revenue | (420) | (495) | (787) | (651) |
| Warranty liability | (2,348) | (3,483) | (4,347) | (4,026) |
| | (23,849) | (16,729) | (46,938) | (39,241) |
| Cash flows from (used in) investing activities: | | | | |
| Purchase of property, plant and equipment | (1,169) | (727) | (2,600) | (1,705) |
| Sale of short-term investments, net | 1,000 | — | 1,000 | — |
| Proceeds on sale of investments | 6,300 | — | 6,300 | — |
| Cash of acquired business at June 1, 2016 (see note 3) | 45,344 | — | 45,344 | — |
| Dividends received from joint ventures | 1,762 | 4,761 | 6,124 | 11,748 |
| | 53,237 | 4,034 | 56,168 | 10,043 |
| Cash flows from (used in) financing activities: | | | | |
| Repayment of operating lines of credit and long term facilities | (3,100) | (710) | (6,003) | (2,747) |
| Drawings on operating lines of credit | 2,544 | 469 | 3,682 | 2,342 |
| Issuance of convertible debt and royalty payable | 17,500 | — | 35,000 | — |
| | 16,944 | (241) | 32,679 | (405) |
| Effect of foreign exchange on cash and cash equivalents | 124 | 2,262 | 1,317 | (3,742) |
| Increase (decrease) in cash and cash equivalents | 46,456 | (10,674) | 43,226 | (33,345) |
| Cash and cash equivalents, beginning of period | 23,913 | 70,611 | 27,143 | 93,282 |
| Cash and cash equivalents, end of period | $ 70,369 | $ 59,937 | $ 70,369 | $ 59,937 |

# WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Statements of Cash Flows (continued) (unaudited)
(Expressed in thousands of United States dollars)

| | Three months ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Supplementary information: | | | | |
| Interest paid | $ 94 | $ 147 | $ 1,963 | $ 2,352 |
| Taxes paid, net of refunds | 52 | 294 | 159 | 774 |
| Non-cash transactions: | | | | |
| Shares issued on exercise of share units | 2,560 | 717 | 3,395 | 3,947 |
| Shares issued for acquisition (note 3) | 98,742 | — | 98,742 | — |

See accompanying notes to condensed consolidated interim financial statements.

(Expressed in thousands of United States dollars except share and per share amounts)

## 1. Basis of preparation:

On June 1, 2016, Westport Innovations Inc. ("Westport") merged with Fuel Systems Solutions, Inc. ("Fuel Systems"). In conjunction with the merger, Westport Innovations Inc. changed its name to Westport Fuel Systems Inc. ("Westport Fuel Systems"; the "Company") and continues to trade under the WPRT ticker symbol on the Nasdaq Stock Market ("Nasdaq") and the WPT ticker symbol on the Toronto Stock Exchange. These unaudited condensed consolidated interim financial statements include the results of operations of Fuel Systems from June 1, 2016. See note 3(a) for details on the merger.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”).

These unaudited condensed consolidated interim financial statements do not include all note disclosures required on an annual basis, and therefore, should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended December 31, 2015, filed with the appropriate securities regulatory authorities.

In the opinion of management, all adjustments, which include reclassifications and normal recurring adjustments necessary to present fairly the condensed consolidated balance sheet, condensed consolidated results of operations and comprehensive loss, condensed consolidated statements of shareholders' equity and condensed consolidated cash flows as at June 30, 2016 and for all periods presented, have been recorded. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results for the Company's full year.

Certain balances have been reclassified to conform with current year presentation. The Company has modified current and prior periods cost of sales to include manufacturing depreciation, which is the presentation historically adopted by Fuel Systems that the Company has elected to adopt consistently for the entire group.

The Company’s reporting currency for its consolidated financial statement presentation is the United States dollar. The functional currencies of the Company’s operations and subsidiaries include the following: United States, Canadian ("CDN") and Australian dollar, Euro, Argentina Peso, Chinese Renminbi (“RMB”), Swedish Krona, Japanese Yen and Indian Rupee. The Company translates assets and liabilities of non-U.S. dollar functional currency operations using the period end exchange rates, shareholders’ equity balances using the weighted average of historical exchange rates, and revenues and expenses using the monthly average rate for the period with the resulting exchange differences recognized in other comprehensive income.

Except as otherwise noted, all amounts in these financial statements are presented in U.S. dollars. For the periods presented, the Company used the following exchange rates:

| | Period end exchange rate as at: | | Average for the three months ended June 30, | | Average for the six months ended June 30, | |
|---|---|---|---|---|---|---|
| | June 30, 2016 | December 31, 2015 | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Canadian dollar | 0.77 | 0.72 | 0.78 | 0.81 | 0.76 | 0.81 |
| Australian dollar | 0.75 | 0.73 | 0.74 | 0.78 | 0.74 | 0.78 |
| Euro | 1.11 | 1.09 | 1.12 | 1.11 | 1.11 | 1.12 |
| Argentina Peso | 0.07 | 0.08 | 0.07 | 0.11 | 0.07 | 0.11 |
| RMB | 0.15 | 0.15 | 0.15 | 0.16 | 0.15 | 0.16 |
| Swedish Krona | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 |
| Japanese Yen | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Indian Rupee | 0.01 | 0.02 | 0.01 | 0.02 | 0.01 | 0.02 |

**2. Accounting changes:**

(a) New accounting pronouncements adopted in 2016:

*Amendments to the Consolidation Analysis (Topic 810): Consolidation*

In February 2015, the FASB issued ASU 2015-02, which revises the current consolidation guidance which results in a change in the determination of whether an entity consolidates certain types of legal entities. The new standard is effective for annual and interim reporting periods beginning after December 15, 2015, and may be applied on a full or modified retrospective basis. Our adoption of ASU 2015-02 in the first quarter of 2016 did not have a material impact on our consolidated financial statements.

(b) New accounting pronouncements to be adopted in the future:

*Revenue:*

In May 2014, Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606"). Topic 606 removes inconsistencies and weaknesses in revenue accounting requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2017. The Company has not yet evaluated the impact of the adoption of this new standard.

*Going Concern:*

In August 2014, the FASB issued ASU 2014-15. *Presentation of Financial Statements - Going Concern* outlining management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016 with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

*Simplifying the Measurement of Inventory (Topic 330): Inventory*

In July 2015, the FASB issued ASU 2015-11, which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

*Simplifying the transition to equity method accounting (Topic 323): Investment*

In March 2016, the FASB issued ASU 2016-07, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest, or degree of influence, in an investee triggers equity method accounting. The guidance is effective for all entities in annual and interim periods in fiscal years beginning after December 15, 2016 with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

**2. Accounting changes (continued):**

*Improvements to Employee Share-Based Payment Accounting (Topic 718): Compensation*

In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities with early adoption permitted. The Company has not yet evaluated the impact of the adoption of this new standard.

*Leases (Topic 842)*

In February 2016, the FASB issued ASU 2016-02, which increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities with early adoption permitted. The Company has not yet evaluated the impact of the adoption of this new standard.

*Measurement of Credit Losses on Financial Instruments (Topic 326): Financial Instruments - Credit Losses*

In June 2016, the FASB issued ASU 2016-13, which impacts the measurement and recognition of credit impairment for financial assets including loans, debit securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 is effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted in fiscal years beginning after December 15, 2018. The Company has not yet evaluated the impact of the adoption of this new standard.

**3. Business combinations:**

(a) Merger with Fuel Systems Solutions, Inc.

On June 1, 2016 ("the acquisition date"), the Company completed a merger with Fuel Systems. Fuel Systems shareholders received 2.4755 Westport common shares for each share of Fuel Systems common stock owned. The Company issued 44,882,782 common shares to former Fuel Systems shareholders and 653,532 restricted stock units of the Company to replace outstanding Fuel Systems restricted stock units in connection with the merger. No replacement awards were issued for other equity instruments pursuant to the merger agreement.

Fuel Systems designs and manufactures alternative fuel components and systems for use in transportation and industrial applications and has operations primarily in Italy, United States, Canada, Argentina, India and China. Fuel Systems' components and systems control the pressure and flow of gaseous alternative fuels, such as propane and natural gas, used in internal combustion engines. The merger strengthens the balance sheet and enhances liquidity allowing the Company to scale to effectively deliver strong returns, extend its global reach internationally, enhance research and development and leverage its original equipment manufacturer ("OEM") relationships.

The merger was accounted for as a business combination, with Westport deemed to be the acquirer. The Company determined the purchase price using the Nasdaq closing share price on the acquisition date at $2.20 per share, which resulted in total purchase consideration of $99,397, which includes the fair value of the common shares issued of $98,742 and the fair value of the restricted stock units related to pre-combination services of $655. The Company incurred total acquisition related costs of $9,890, of which $1,532 and $3,881 have been recognized in general and administrative expense for the three and six months ended June 30, 2016, respectively, under the Corporate and Technology Investments segment, and $4,477 was recognized in the year ended December 31, 2015. Consolidated revenue and net loss for the three and six month periods ended June 30, 2016 includes revenue of $20,821 and net loss of $1,079 from Fuel Systems.

The estimated fair values of assets acquired and liabilities assumed below are preliminary and are based on the information that was available as to the date of preparation of these unaudited condensed consolidated interim financial statements to estimate the fair value of assets acquired and liabilities assumed as of the acquisition date. The Company believes that the information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Therefore, the preliminary measurements of inventory, accounts receivable, intangible assets and property, plant and equipment reflected are subject to change and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

This business combination resulted in a bargain purchase transaction, as the fair value of assets acquired and liabilities assumed exceeded the total of the fair value of consideration paid by $42,862. The Company believes it was able to acquire the assets of Fuel Systems for less than their fair value due to the weakness in the alternative fuel sector. The following table summarizes the allocation of the purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition.

(Expressed in thousands of United States dollars except share and per share amounts)

**3. Business combinations (continued):**

| | |
|---|---|
| Consideration allocated to: | |
| Cash and cash equivalents | $ 45,344 |
| Accounts receivable | 42,165 |
| Inventory | 72,734 |
| Property, plant and equipment | 37,192 |
| Intangible assets | 4,240 |
| Deferred income taxes, net | 1,911 |
| Other assets | 12,962 |
| Accounts payable and accrued liabilities | (58,401) |
| Other liabilities | (15,888) |
| Total net identifiable assets | 142,259 |
| Bargain purchase gain | (42,862) |
| Total consideration | $ 99,397 |

The fair value of $42,165 of accounts receivable reflects the cash flows expected to be collectible.

The fair value of inventory of $72,734 assigned to inventory was based on estimated selling prices net of selling costs associated with finished goods, and replacement value for raw materials and unassembled components.

Property, plant and equipment equipment of $37,192 was determined based on depreciable replacement cost values.

The fair value of intangible assets of $4,240 primarily relates to brand value associated with the BRC, IMPCO and ComfortPro brands. The intangible assets are being amortized over their estimated useful life of ten years.

*Proforma Results*

The following unaudited supplemental proforma information presents the consolidated financial results as if the acquisition of Fuel Systems had occurred on January 1, 2015. This supplemental proforma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2015, nor are they indicative of any future results.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Revenue** | | | | |
| Revenue for the period | $ 44,357 | $ 27,846 | $ 68,369 | $ 55,868 |
| Fuel Systems | 40,691 | 67,185 | 96,833 | 130,478 |
| **Proforma revenue for the period** | $ 85,048 | $ 95,031 | $165,202 | $186,346 |
| | | | | |
| **Net income (loss)** | | | | |
| Net income (loss) for the period | $ 3,722 | $(20,489) | $(19,557) | $(37,693) |
| Fuel Systems, net of transaction costs | (3,835) | (6,035) | (6,249) | (17,863) |
| Proforma adjustments (1) | (38,719) | (394) | (36,793) | (788) |
| **Proforma net loss for the period** | $(38,832) | $(26,918) | $(62,599) | $(56,344) |

(1) Includes adjustment of the bargain purchase gain, additional interest expense for the convertible debt, and adjustment for transaction costs related to the merger with Fuel Systems.

(Expressed in thousands of United States dollars except share and per share amounts)

### 4. Accounts Receivable:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Customer trade receivables | $ 79,059 | $ 35,517 |
| Due from related parties (note 16) | 443 | 1,165 |
| Other receivables | 3,381 | 3,617 |
| Income tax receivable | 971 | 1,047 |
| Allowance for doubtful accounts | (4,176) | (3,022) |
| | $ 79,678 | $ 38,324 |

### 5. Inventories:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Purchased parts | $ 68,005 | $ 20,864 |
| Work-in-process | 5,909 | 3,485 |
| Finished goods | 23,665 | 11,311 |
| Inventory on consignment | 491 | — |
| | $ 98,070 | $ 35,660 |

During the three and six months ended June 30, 2016, the Company recorded write-downs to net realizable value of $1,227 (three months ended June 30, 2015 - $323) and $1,278 (six months ended June 30, 2015 - $2,318).

### 6. Long-term investments:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Weichai Westport Inc. (a) | $ 10,055 | $ 19,065 |
| Cummins Westport Inc. (b) | 8,601 | 10,731 |
| Other equity accounted investees | 659 | 1,315 |
| | $ 19,315 | $ 31,111 |

(Expressed in thousands of United States dollars except share and per share amounts)

## 6. Long-term investments (continued):

(a) Weichai Westport Inc.:

On April 20, 2016, the Company sold a portion of its economic interest in Weichai Westport Inc. ("WWI") to Cartesian Capital Group ("Cartesian"), a related party, for an upfront payment of $6,300 million plus a potential future payment based on Cartesian's return on investment. The Company recognized a loss on sale of investment of $5,238. Subsequent to April 20, 2016, the Company no longer has the ability to exercise control or significant influence over the joint venture and, therefore, recorded its investment at cost and prospectively accounts for its interest by the cost method.

(b) Cummins Westport Inc. ("CWI"):

The Company and Cummins Inc. ("Cummins") each own 50% of the common shares of CWI. For the three and six months ended June 30, 2016, the Company recognized its share of CWI's income of $1,453 and $3,214 (three and six months ended June 30, 2015 - income of $3,391 and $5,945), as income from investment accounted for by the equity method.

Assets, liabilities, revenue and expenses of CWI are as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Current assets: | | |
| Cash and short-term investments | $ 106,695 | $ 114,053 |
| Accounts receivable | 6,342 | 4,632 |
| Current portion of deferred income tax assets | 16,200 | 18,990 |
| Other current assets | 143 | 287 |
| | 129,380 | 137,962 |
| Long-term assets: | | |
| Property, plant and equipment | 1,146 | 1,212 |
| Deferred income tax assets | 32,978 | 32,015 |
| | 34,124 | 33,227 |
| Total assets | $ 163,504 | $ 171,189 |
| Current liabilities: | | |
| Current portion of warranty liability | $ 25,996 | $ 37,313 |
| Current portion of deferred revenue | 17,213 | 13,858 |
| Accounts payable and accrued liabilities | 14,648 | 11,852 |
| | 57,857 | 63,023 |
| Long-term liabilities: | | |
| Warranty liability | 40,398 | 37,963 |
| Deferred revenue | 45,125 | 45,859 |
| Other long-term liabilities | 2,908 | 2,908 |
| | 88,431 | 86,730 |
| Total liabilities | $ 146,288 | $ 149,753 |

(Expressed in thousands of United States dollars except share and per share amounts)

**6. Long-term investments (continued):**

(b) Cummins Westport Inc. (continued):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Product revenue | $ 55,697 | $ 80,371 | $ 102,860 | $ 141,359 |
| Parts revenue | 17,896 | 12,701 | 35,699 | 24,713 |
| | 73,593 | 93,072 | 138,559 | 166,072 |
| Cost of revenue and expenses: | | | | |
| Cost of product and parts revenue | 52,571 | 68,375 | 96,912 | 114,815 |
| Research and development | 10,600 | 7,682 | 19,652 | 14,252 |
| General and administrative | 228 | 310 | 526 | 532 |
| Sales and marketing | 6,347 | 5,009 | 12,728 | 9,960 |
| Foreign exchange (gain) loss | (1) | 2 | (9) | 32 |
| Bank charges, interest and other | 184 | 191 | 376 | 359 |
| | 69,929 | 81,569 | 130,185 | 139,950 |
| Income from operations | 3,664 | 11,503 | 8,374 | 26,122 |
| Interest and investment income | 145 | 81 | 281 | 226 |
| Income before income taxes | 3,809 | 11,584 | 8,655 | 26,348 |
| | | | | |
| Income tax expense | 904 | 4,803 | 2,227 | 10,046 |
| Income for the period | $ 2,905 | $ 6,781 | $ 6,428 | $ 16,302 |

(Expressed in thousands of United States dollars except share and per share amounts)

## 7. Variable interest entities ("VIE"):

The carrying amount and maximum exposure to losses relating to VIE in which the Company holds a significant variable interest but is not the primary beneficiary, and which have not been consolidated, is as follows:

| | Balance at June 30, 2016 | | Balance at December 31, 2015 | |
|---|---|---|---|---|
| | Carrying amount | Maximum exposure to loss | Carrying amount | Maximum exposure to loss |
| Cummins Westport Inc. | | | | |
| Equity method investment | $ 8,601 | $ 8,601 | $ 10,731 | $ 10,731 |
| Accounts receivable | 443 | 443 | 1,165 | 1,165 |

Cummins and the Company each own 50% of the common shares of CWI and have equal representation on the Board of Directors. No one shareholder has the unilateral power to govern CWI. The Board of Directors has power over the operating decisions and to direct other activities of CWI that most significantly impact CWI's economic performance as set forth in the governing documents. As decision-making at the Board of Directors' level requires unanimous approval, this power is shared. Accordingly, neither party is the primary beneficiary.

The Company has not historically provided and does not intend to provide financial or other support to CWI that the Company is not contractually required to provide.

## 8. Property, plant and equipment:

| June 30, 2016 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Land and buildings | $ 2,769 | $ 240 | $ 2,529 |
| Computer equipment and software | 9,864 | 7,092 | 2,772 |
| Furniture and fixtures | 7,890 | 2,792 | 5,098 |
| Machinery and equipment | 83,536 | 36,102 | 47,434 |
| Leasehold improvements | 16,090 | 6,986 | 9,104 |
| | $ 120,149 | $ 53,212 | $ 66,937 |

| December 31, 2015 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Land and buildings | $ 2,706 | $ 165 | $ 2,541 |
| Computer equipment and software | 7,171 | 6,234 | 937 |
| Furniture and fixtures | 5,163 | 2,084 | 3,079 |
| Machinery and equipment | 70,415 | 36,739 | 33,676 |
| Leasehold improvements | 10,394 | 8,100 | 2,294 |
| | $ 95,849 | $ 53,322 | $ 42,527 |

(Expressed in thousands of United States dollars except share and per share amounts)

**9. Intangible Assets:**

| June 30, 2016 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Brands, patents and trademarks | $ 21,523 | $ 4,651 | $ 16,872 |
| Technology | 4,986 | 2,978 | 2,008 |
| Customer contracts | 12,320 | 5,815 | 6,505 |
| Other intangibles | 326 | 150 | 176 |
| Total | $ 39,155 | $ 13,594 | $ 25,561 |

| December 31, 2015 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Patents and trademarks | $ 16,964 | $ 4,094 | $ 12,870 |
| Technology | 4,862 | 2,663 | 2,199 |
| Customer contracts | 12,025 | 4,952 | 7,073 |
| Other intangibles | 283 | 118 | 165 |
| Total | $ 34,134 | $ 11,827 | $ 22,307 |

**10. Goodwill:**

A continuity of goodwill is as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Balance, beginning of period | $ 3,008 | $ 23,352 |
| Measurement period adjustments | — | 149 |
| Impairment losses | — | (18,707) |
| Impact of foreign exchange changes | 71 | (1,786) |
| Balance, end of period | $ 3,079 | $ 3,008 |

(Expressed in thousands of United States dollars except share and per share amounts)

**11. Accounts payable and accrued liabilities:**

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Trade accounts payable | $ 67,889 | $ 42,851 |
| Accrued payroll | 14,924 | 3,839 |
| Taxes payable | 1,943 | 2,014 |
| Due to related parties (note 16) | 1,618 | — |
| Accrued interest | 1,247 | 1,037 |
| Other payables | 15,610 | 7,713 |
| | $ 103,231 | $ 57,454 |

**12. Long-term debt:**

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Subordinated debenture notes (a) | $ 41,568 | $ 38,359 |
| Senior financing (b) | 6,230 | 9,123 |
| Senior revolving financing (c) | 11,112 | 10,859 |
| Convertible debt (d) | 17,258 | — |
| Other bank financing | 4,549 | 3,312 |
| Capital lease obligations | 783 | 794 |
| | 81,500 | 62,447 |
| Current portion | (18,843) | (8,257) |
| | $ 62,657 | $ 54,190 |

(a) The subordinated debenture notes are unsecured and subordinated to senior indebtedness, mature on September 15, 2017, and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term.

(b) Senior financing comprises the Emer S.p.A ("Emer") senior financing agreement ("Emer senior financing"), the Prins Autogassystemen Holding B.V ("Prins") senior financing agreement ("Prins senior financing"), and the Prins senior mortgage loan ("Prins senior mortgage loan"). The senior financing agreements bear interest at 3 or 6-month Euribor plus a fixed percentage ranging from 1% to 3.5%.

(c) The senior revolving financing facility relates to Emer and bears interest at 6-month Euribor plus 2.5%. Interest is paid semi-annually.

(d) On January 11, 2016, the Company entered into a financing agreement with Cartesian to support global growth initiatives. As part of the agreement, on June 1, 2016, a convertible debt was issued in exchange for 9.0% convertible unsecured notes due June 1, 2021, which are convertible into common shares of the Company in whole or in part, at Cartesian's option, at any time following the twelve month anniversary of the closing at a conversion price of $2.17 per share. Interest is payable annually in arrears on December 31 of each year during the term. The convertible debt is held by a related party as Peter Yu, founder and managing partner of Cartesian, became a member of the Board of Directors of the Company in January, 2016 (Note 16(k)).

(Expressed in thousands of United States dollars except share and per share amounts)

## 12. Long-term debt (continued):

The principal repayment schedule of the senior financings and convertible debt are as follows as at June 30, 2016:

| | Subordinated debenture notes (a) | Emer Senior Financing (b) | Prins Senior Financing (b) | Prins Senior Mortgage Loan (b) | Senior revolving financing (c) | Convertible Debt (d) | Total |
|---|---|---|---|---|---|---|---|
| Remainder of 2016 | $ — | $ 1,945 | $ 500 | $ 167 | $ — | $ — | $ 2,612 |
| 2017 | 41,568 | 1,035 | 583 | 333 | 11,112 | — | 54,631 |
| 2018 | — | — | — | 333 | — | — | 333 |
| 2019 | — | — | — | 334 | — | — | 334 |
| 2020 and thereafter | — | — | — | 1,000 | — | 17,258 | 18,258 |
| | $ 41,568 | $ 2,980 | $ 1,083 | $ 2,167 | $ 11,112 | $ 17,258 | $ 76,168 |

The Company maintains various revolving lines of credit in Italy and Argentina. The revolving lines of credit in Italy include $2.3 million, which is unsecured, and $3.8 million which is collateralized by accounts receivable. The interest rates on these revolving lines of credit are fixed and variable and range from 0.7% to 3.7% as of June 30, 2016. As at June 30, 2016, there were no balances outstanding.

The revolving lines of credit in Argentina consist of two lines for a total amount of availability of approximately $2.6 million. These lines are unsecured with no balance outstanding as at June 30, 2016. As at June 30, 2016, the interest rates for the lines of credit in Argentina ranged from 4.5% to 30.0%.

## 13. Long-term royalty payable:

On January 11, 2016, The Company entered into a financing agreement with Cartesian to support global growth initiatives. The financing agreement immediately provided $17.5 million in cash (the "Tranche 1 Financing"). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments in respect of the Tranche 1 Financing based on the greater of (i) a percentage of amounts received by the Company on select high pressure direct injection systems and joint venture products in excess of agreed thresholds through 2025 and (ii) stated fixed amounts per annum (referred to as the long-term royalty payable). The carrying value is being accreted to the expected redemption value using the effective interest method, which is approximately 23% per annum.

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Balance, beginning of period | $ — | $ — |
| Issuance of Additional Debentures | 17,500 | — |
| Accretion expense | 2,031 | — |
| Balance, end of period | 19,531 | — |
| Current portion | (1,500) | — |
| | $ 18,031 | $ — |

(Expressed in thousands of United States dollars except share and per share amounts)

The minimum repayments of the long-term royalty payable are as follows as at June 30, 2016:

| | | |
|---|---|---|
| 2016 | $ | — |
| 2017 | | 1,500 |
| 2018 | | 3,426 |
| 2019 | | 6,164 |
| 2020 | | 7,722 |
| 2021 and thereafter | | 27,166 |
| | $ | 45,978 |

## 14. Warranty liability:

A continuity of the warranty liability is as follows:

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| Balance, beginning of period | $ 11,996 | $ 20,866 | $ 13,991 | $ 23,109 |
| Warranty assumed on acquisition | 5,180 | — | 5,180 | — |
| Warranty claims paid | (1,909) | (2,433) | (4,914) | (5,620) |
| Warranty accruals | 586 | 107 | 645 | 286 |
| Impact of foreign exchange changes | (9) | (102) | 942 | 663 |
| Balance, end of period | 15,844 | 18,438 | 15,844 | 18,438 |
| Less: Current portion | (7,670) | (8,266) | (7,670) | (8,266) |
| Long-term portion | $ 8,174 | $ 10,172 | $ 8,174 | $ 10,172 |

## 15. Share capital, stock options and other stock-based plans:

On June 1, 2016, the Company issued 44,882,782 common shares to former Fuel Systems' shareholders and 653,532 restricted stock units in connection with the merger described in note 3.

During the six months ended June 30, 2016, the Company issued 461,628 common shares, net of cancellations, upon exercises of share units (six months ended June 30, 2015 – 692,198 common shares). The Company issues shares from treasury to satisfy stock option and share unit exercises.

(a) Share Units ("Units"):

The value assigned to issued Units and the amounts accrued are recorded as other equity instruments. As Units are exercised or vest and the underlying shares are issued from treasury of the Company, the value is reclassified to share capital.

During the six months ended June 30, 2016, the Company recognized $6,322 (six months ended June 30, 2015 - $7,928) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

(Expressed in thousands of United States dollars except share and per share amounts)

**15. Share capital, stock options and other stock-based plans (continued):**

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of June 30, 2016 and June 30, 2015 are as follows:

| | Six months ended June 30, 2016 | | | Six months ended June 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Number of units | | Weighted average grant date fair value (CDN $) | Number of units | | Weighted average grant date fair value (CDN $) |
| Outstanding, beginning of year | 9,657,921 | $ | 7.62 | 5,337,873 | $ | 10.27 |
| Granted | 684,402 | | 2.90 | 5,343,277 | | 6.82 |
| Exercised/Vested | (461,628) | | 9.54 | (367,125) | | 13.57 |
| Forfeited/expired | (1,024,392) | | 10.19 | (204,868) | | 10.39 |
| Outstanding, end of year | 8,856,303 | $ | 6.79 | 10,109,157 | $ | 7.87 |
| Units outstanding and exercisable, end of period | 1,082,207 | $ | 9.68 | 125,643 | $ | 13.20 |

As at June 30, 2016, $18,536 of compensation cost related to Units awards has yet to be recognized in results from operations and will be recognized over a weighted average period of 1.6 years.

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units at June 30, 2016 as follows:

| | | June 30, 2016 CDN$ |
|---|---|---|
| Share units: | | |
| Outstanding | $ | 19,130 |
| Exercisable | | 2,338 |
| Exercised | | 997 |

(c) Stock-based compensation:

Stock-based compensation associated with the Unit plans and the stock option plan is included in operating expenses as follows:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2016 | | 2015 | | 2016 | | 2015 |
| Research and development | $ | 530 | $ | 699 | $ | 1,179 | $ | 1,183 |
| General and administrative | | 1,246 | | 3,355 | | 3,825 | | 5,612 |
| Sales and marketing | | 552 | | 627 | | 1,318 | | 1,133 |
| | $ | 2,328 | $ | 4,681 | $ | 6,322 | $ | 7,928 |

Included in the amount of $6,322 for stock-based compensation, $358 relates to 2,420,000 Performance Stock Units ("PSUs") outstanding granted in 2015 and is conditional upon Shareholders of the Company approving an increase in the number of awards available for issuance pursuant to the Westport Omnibus Plan. As a result, these PSU's are being treated as a liability until this condition is met.

(Expressed in thousands of United States dollars except share and per share amounts)

**16. Related party transactions:**

The Company is reporting a larger number of related party transactions compared to 2015 as a consequence of the appointment of Mr. Peter Yu and Mr. Mariano Costamagna as directors of the Company and the merger with Fuel Systems. The following table sets forth amounts that are included within the captions noted on the condensed consolidated balance sheet at June 30, 2016 representing related party transactions with the Company:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Current receivables with related parties:** | | |
| Bianco S.p.A. (a) | $ 232 | $ — |
| TCN S.r.L. (b) | 20 | — |
| Others (c) | 13 | — |
| **Current receivables with joint ventures:** | | |
| Cummins Westport Inc. (d) | 169 | 1,165 |
| Ideas & Motion S.r.L. (e) | 9 | — |
| | $ 443 | $ 1,165 |
| **Current payables with related parties:** | | |
| TCN Vd S.r.L. (f) | $ 687 | $ — |
| TCN S.r.L. (b) | 478 | — |
| Europlast S.r.L. (g) | 252 | — |
| A.R.S. Elettromeccanica (h) | 172 | — |
| Ningbo Topclean Mechanical Technology Co. Ltd. (i) | 7 | — |
| Others (c) | 3 | — |
| Erretre S.r.L. (j) | 15 | — |
| **Current payable with joint ventures:** | | |
| Ideas & Motion S.r.L. (e) | 4 | — |
| | $ 1,618 | $ — |

(a) Bianco S.p.A. is 100% owned by TCN S.r.L. (see note (b) below).

(b) TCN S.r.L. is 30% owned by Mariano Costamagna, a member of the Board of Directors of the Company, along with one immediate family member.

(c) Includes Biemmedue S.p.A. (100% owned by Mariano Costamagna, along with one immediate family member), MTM Hydro S.r.L. (46% owned by the Mariano Costamagna along with one immediate family member), Immobiliare IV Marzo (30% owned directly and indirectly by Mariano Costamagna, along with one immediate family member and two employees of the Company), Delizie Bakery Srl (100% owned by IMCOS Due S.r.L., which is owned 100% by Mariano Costamana and members of his immediate family), and Galup S.r.L. (90% owned by TCN S.r.L., see note (b) above).

(d) Pursuant to the amended and restated Joint Venture Agreement, Westport engages in transactions with CWI (see note 7 (a)). Amounts receivable relate to costs incurred by the Company on behalf of CWI. The amounts are generally reimbursed by CWI to the Company in the month following the month in which the payable is incurred.

(e) Ideas & Motion S.r.L. is an Italian consulting and services company in which the Company owns an equity ownership interest of 14.28%.

(f) TCN Vd S.r.L. is 90% owned by TCN S.r.L. (see note (b) above) as well as 3% by Mariano Costamagna, along with one immediate family member.

(g) Europlast S.r.L. is 90% owned by Mariano Costamagna, and member of his immediate family.

(h) A.R.S. Elettromeccanica is 100% owned by Biemmedue S.p.A. (see note (c) above).

(i) Ningbo Topclean Mechanical Technology Co. Ltd. is 100% owned by MTM Hydro S.r.L. (see note (c) above).

(j) Erretre S.r.l. is 70% owned by Mariano Costamagna's immediate family.

(Expressed in thousands of United States dollars except share and per share amounts)

**16. Related party transactions (continued):**

The following table sets forth amounts (services and goods) purchased from and sold to related parties.

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2016 | | 2015 | |
| | Purchases | Sales | Purchases | Sales | Purchases | Sales | Purchases | Sales |
| **Related party company:** | | | | | | | | |
| TCN Vd S.r.L. | $ 174 | $ — | $ — | $ — | $ 174 | $ — | $ — | $ — |
| Ningbo Topclean Mechanical Technology Co. Ltd. | 95 | — | — | — | 95 | — | — | — |
| A.R.S. Elettromeccanica | 78 | — | — | — | 78 | — | — | — |
| TCN S.r.L. | 102 | — | — | — | 102 | — | — | — |
| Europlast S.r.L. | 57 | — | — | — | 57 | — | — | — |
| Erretre S.r.L. | 12 | — | — | — | 12 | — | — | — |
| Bianco S.p.A. | — | 65 | — | — | — | 65 | — | — |
| Others | 3 | 4 | — | — | 3 | 4 | — | — |
| **JVs and related partners:** | | | | | | | | |
| Cummins Westport Inc. | — | 577 | — | 1,235 | — | 1,543 | — | 2,850 |
| Ideas & Motion S.r.L. | — | — | — | — | — | — | — | — |
| | $ 521 | $ 646 | $ — | $ 1,235 | $ 521 | $ 1,612 | $ — | $ 2,850 |

(k) Other transactions with related parties:

The Company leases buildings under separate facility agreements from IMCOS Due S.r.L., a real estate investment company owned 100% by Mariano Costamagna and members of his immediate families. The terms of these leases reflect the fair market value of such properties based upon appraisals. These lease agreements begin to expire in 2016, with the last agreement ending in 2020. The Company made payments to IMCOS Due S.r.L. of $0.2 million for the three months ended June 30, 2016. In relation to a lease previously abandoned, IMCOS Due S.r.L, agreed to reimburse the Company approximately $0.3 million for the improvements made based on the related increase in market value of the facility. IMCOS Due S.r.l. will pay this amount in twelve half-yearly installments, subject to annual revaluation on the basis of local inflation indices. As of June 30, 2016, approximately $31 of related obligations is included in other current assets and $0.2 million is included in other assets on the condensed consolidated balance sheet.

The Company leases a building from Immobiliare 4 Marzo S.a.s., a real estate investment company owned 30% by Mariano Costamagna, along with one immediate family member and two employee of the Company. The Company made payments to Immobiliare 4 Marzo S.a.s. of less than $0.1 million for the three months ended June 30, 2016. The terms of this lease reflects the fair market value of such property based upon an appraisal.

Peter Yu, founder and managing partner of Cartesian, was elected as a Director in January 2016. The convertible debt (note 12 (d)) and royalty payable (note (13)) are related party balances. In addition, the Company sold a portion of its economic interest in WWI to Cartesian (note 6(a)). The Company has not made any cash payments to Cartesian relating to the convertible debt or royalty payable as at June 30, 2016, but has accrued interest in accordance with the terms of the agreements.

(Expressed in thousands of United States dollars except share and per share amounts)

## 17. Commitments and contingencies:

(a) Contractual Commitments:

Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment:

| | | |
|---|---|---|
| 2016 | $ | 3,386 |
| 2017 | | 6,270 |
| 2018 | | 8,374 |
| 2019 | | 7,366 |
| 2020 | | 5,580 |
| Thereafter | | 37,782 |
| | $ | 68,758 |

The Company is a party to a variety of agreements in the ordinary course of business under which it is obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts for sale of the Company's product to customers where the Company provides indemnification against losses arising from matters such as product liabilities. The potential impact on the Company's financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, the Company has not incurred significant costs related to these types of indemnifications.

The Company is engaged in certain legal actions in the ordinary course or business and believes that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

(b) Purchase commitments:

The Company purchases components from a variety of suppliers and contract manufacturers. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with suppliers and contract manufacturers. A portion of our reported estimated purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. The Company may be subject to penalties, and may lose important suppliers, if it is unable to meet its purchase commitments.

## 18. Segment information:

The financial information for the Company's business segments evaluated by the Chief Operating Decision Maker ("CODM") includes the results of CWI as if they were consolidated, which is consistent with the way the Company manages its business segments. As CWI is accounted for under the equity method of accounting, an adjustment is reflected in the tables below to reconcile the segment measures to the Company's consolidated measures.

The Company's business operates in four operating segments:

**Automotive Business Unit (previously branded as Westport Operations)**
Automotive consists of the Company's passenger and commercial transportation products including both OEM and aftermarket. The business unit designs, manufactures and sells compressed natural gas ("CNG"), liquefied natural gas ("LNG"), and liquefied petroleum gas ("LPG") components and systems to global OEMs on five continents and a distribution network serving 70 countries, including the world's largest and fastest-growing markets.

**Industrial Business Unit**
Industrial consists of the Company's industrial mobile and stationary equipment and auxiliary power unit ("APU") products as well as engines for use in forklifts and other industrial equipment. The business unit is also supplying a series of advanced technology alternative fuel systems in the United States and key markets in Asia and Europe. This is a new segment as a result of the merger with Fuel Systems.

**Corporate and Technology Investments Business Unit**
The Corporate and Technology Investments invests in new research and development programs with OEMs, corporate oversight and general administrative duties. Once a product is commercialized, the associated revenue will be recognized under Automotive or Industrial.

**Cummins Westport Inc. Joint Venture**
CWI serves the medium- to heavy-duty engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. The fuel for CWI engines is carried on the vehicles as CNG or LNG. CWI engines are produced at certain Cummins' plants, allowing CWI to leverage Cummins' manufacturing footprint without incurring capital investments. CWI also utilizes Cummins' supply chain, back office systems, and distribution and sales networks. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty truck and transit bus industries.

**Weichai Westport Inc. Joint Venture**
On April 20, 2016, the Company sold a portion of its economic interest in WWI (note 6(a)) and the Company discontinued reporting of WWI results on an equity basis. As the Company no longer has significant influence in the joint venture, the Company does not consider WWI a business segment.

The accounting policies for the reportable segments are consistent with those described in the Company's annual consolidated financial statements for the year ended December 31, 2015. The CODM evaluates segment performance based on the net operating income (loss), which is before income taxes and does not include depreciation and amortization, impairment charges, foreign exchange gains and losses, bank charges, interest and other expenses, interest and other income, and gain on sale of long-term investments.

(Expressed in thousands of United States dollars except share and per share amounts)

**18. Segment information (continued):**

Financial information by business segment as follows:

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| Revenue: | | | | |
| Automotive | $ 35,310 | $ 24,622 | $ 58,509 | $ 52,073 |
| Industrial | 8,189 | — | 8,189 | — |
| Corporate and Technology Investments | 858 | 3,224 | 1,671 | 3,795 |
| CWI | 73,593 | 93,072 | 138,559 | 166,072 |
| WWI | — | 41,906 | 29,931 | 97,784 |
| Total segment revenues | 117,950 | 162,824 | 236,859 | 319,724 |
| Less: equity investees' revenue | (73,593) | (134,978) | (168,490) | (263,856) |
| Net consolidated revenue | $ 44,357 | $ 27,846 | $ 68,369 | $ 55,868 |

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| Operating loss: | | | | |
| Automotive | $ (5,848) | $ (3,105) | $ (7,625) | $ (8,717) |
| Industrial | 696 | — | 696 | — |
| Corporate and Technology Investments | (21,838) | (16,480) | (41,814) | (35,315) |
| Foreign exchange (gain) loss | (4,098) | 1,174 | (5,445) | 4,049 |
| Loss on sale of investment | (6,312) | — | (6,312) | — |
| Impairment | — | (3,419) | — | (3,419) |
| CWI | 3,848 | 11,505 | 8,742 | 26,112 |
| WWI | — | 1,500 | 718 | 480 |
| Total segment operating loss | (33,552) | (8,825) | (51,040) | (16,810) |
| Less: equity investees' operating income | (3,848) | (13,005) | (9,460) | (26,592) |
| Net Consolidated operating loss | $ (37,400) | $ (21,830) | $ (60,500) | $ (43,402) |

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|---|---|
| Total additions to long-lived assets, excluding business combinations: | | | | |
| Automotive | $ 218 | $ 95 | $ 340 | $ 676 |
| Industrial | 102 | — | 102 | — |
| Corporate and Technology Investments | 849 | 632 | 2,158 | 1,029 |
| | $ 1,169 | $ 727 | $ 2,600 | $ 1,705 |

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide it by geographical regions. Revenues are attributable to geographical regions based on location of the Company's customers presented as follows:

(Expressed in thousands of United States dollars except share and per share amounts)

**18. Segment information (continued):**

| | % of total revenue | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Americas | 28% | 34% | 27% | 34% |
| Asia | 14% | 12% | 14% | 10% |
| Europe | 58% | 54% | 59% | 56% |

As at June 30, 2016, total goodwill of $3,079 (December 31, 2015 - $3,008) was allocated to the Automotive segment.

As at June 30, 2016, total long-term investments of $18,792 (December 31, 2015 - $30,565) was allocated to the Corporate and Technology Investments segment and $523 (December 31, 2015 - $546) was allocated to Automotive.

Total assets are allocated as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Automotive | $ 288,762 | $ 157,452 |
| Industrial | 74,597 | — |
| Corporate and Technology Investments and unallocated assets | 37,749 | 52,200 |
| CWI | 163,504 | 171,189 |
| WWI | — | 125,724 |
| | 564,612 | 506,565 |
| Less: equity investees' total assets | (163,504) | (296,913) |
| Total consolidated assets | $ 401,108 | $ 209,652 |

(Expressed in thousands of United States dollars except share and per share amounts)

## 19. Financial Instruments:

(a) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company has sustained losses and negative cash flows from operations since inception. At June 30, 2016, the Company has $71,224 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at June 30, 2016:

| | Carrying amount | Contractual cash flows | < 1 year | 1-3 years | 4-5 years | >5 years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 103,231 | $ 103,231 | $ 103,231 | $ — | $ — | $ — |
| Unsecured subordinated debentures (note 12(a)) | 41,568 | 47,370 | 3,832 | 43,538 | — | — |
| Senior financing (note 12(b)) | 6,230 | 6,377 | 4,429 | 772 | 676 | 500 |
| Senior revolving financing (note 12(c)) | 11,112 | 11,354 | 11,354 | — | — | — |
| Convertible debt | 17,258 | 25,244 | 1,575 | 3,150 | 20,519 | — |
| Long-term royalty payable (note 13) | 19,531 | 45,979 | 1,500 | 9,590 | 16,777 | 18,112 |
| Other bank financing | 4,549 | 4,799 | 3,142 | 92 | 92 | 1,473 |
| Capital lease obligations | 783 | 824 | 399 | 399 | 26 | — |
| Operating lease commitments | — | 68,758 | 6,517 | 13,490 | 11,343 | 37,408 |
| Royalty payments | — | 5,134 | 2,009 | 3,125 | | |
| | $ 204,262 | $ 319,070 | $ 137,988 | $ 74,156 | $ 49,433 | $ 57,493 |

**19. Financial Instruments (continued):**

(b) Fair value of financial instruments:

The carrying amounts reported in the condensed consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities their fair values due to the short-term period to maturity of these instruments.

The Company's short-term investments are recorded at fair value. The long-term investment represents the Company's interest in WWI accounted for using the cost method and interest in CWI and other equity accounted investees, which are accounted for using the equity method.

The carrying value reported in the condensed consolidated balance sheet for obligations under capital lease, which is based upon discounted cash flows, approximates its fair value.

The carrying values reported in the condensed consolidated balance sheet for the unsecured subordinated debenture notes (note 12) is greater than its fair value based on a recent financing the Company performed with the Cartesian Group (note 13). The approximate fair value of the unsecured subordinated debenture notes is approximately $32,500 (CDN $44,900). Additionally, the interest rate on the notes approximates the interest rate being demanded in the market for debt with similar terms and conditions.

The carrying value reported in the condensed consolidated balance sheet for senior financing agreements (note 12) approximates their fair values as at June 30, 2016, as the interest rates on the debt are floating and therefore approximate the market rates of interest. The Company's credit spreads in these subsidiaries also have not substantially changed from the premiums currently paid.

The Company categorizes its fair value measurements for items measured at fair value on a recurring basis into three categories as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

When available, the Company uses quoted market prices to determine fair value and classify such items in Level 1. When necessary, Level 2 valuations are performed based on quoted market prices for similar instruments in active markets and/or model–derived valuations with inputs that are observable in active markets. Level 3 valuations are undertaken in the absence of reliable Level 1 or Level 2 information.

As at June 30, 2016, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

**20. Subsequent Events:**

On July 29, 2016, the Company announced the sale of its assets in Plymouth, Michigan for $11.5 million in cash. The book value of the assets were reclassified to assets held for sale as of June 30, 2016. A gain will be recorded in the third quarter of 2016 on the disposal of assets.

On July 22, 2016, the Company announced the appointment of Nancy S. Gougarty as Chief Executive Officer ("CEO") effective immediately. David R. Demers retired from the Company but will be available to the leadership team in an advisory role through a transition period.