Financial Report to Shareholders

For the three and six months ended
June 30, 2017

Q2 2017

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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.

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, 2017 provides an update to our annual MD&A dated March 31, 2017 for the fiscal year ended December 31, 2016. 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, 2016 and our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2017. 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 14, 2017.

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.
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

Fuel Systems Solutions, Inc. ("Fuel Systems") and Westport Innovations Inc. ("Westport"), two companies with a strong foundation of innovation and technology leadership in the alternative fuels space were both key players in the development of the global market for gaseous fueled engines and vehicles for transportation and industrial applications. The merger of these two leaders in June 2016 has created Westport Fuel Systems, a premier global company for the engineering, manufacturing, and supply of alternative fuel systems and components.

Our new corporate vision - **"Driving Innovation to Power a Cleaner Tomorrow"** - encompasses our mandate to deliver best-in-class alternative fuel engines, fuel systems, and components. Global trends in greenhouse gas emission reduction regulations and increasingly stringent urban air quality requirements further solidifies our strategy to develop technology solutions and commercialize products that original equipment manufacturers ("OEMs") will need to meet demanding regulatory frameworks. With a broad range of alternative fuel capabilities in liquefied petroleum gas ("LPG"), compressed natural gas ("CNG"), liquefied natural gas ("LNG"), renewable natural gas ("RNG"), and hydrogen and our innovative proprietary technologies, Westport Fuel Systems is well positioned in key on-road, and high horsepower market segments.

Our Automotive business is the solid foundation of our market leadership position and source of competitive advantage. We have been able to realize synergies through a post-merger strategic assessment of our entire portfolio with emphasis on streamlining our operating lines as well as our product and brand portfolios.

In the Automotive segment, we are leveraging our increased scale, customer base, and global sales and distribution networks to continue growing market share; a strategy we believe will lead to a stronger financial position. In addition to our significant operational competency in well-established automotive and industrial markets, our investment in new technologies is expected to drive future growth. Westport Fuel Systems has a track record of innovation, specialized engineering capabilities, and a deep patent portfolio resulting in a strong intellectual property position. We are on track to ship the first commercial Westport High Pressure Direct Injection 2.0 ("Westport™ HPDI 2.0") components to our European OEM launch partner in 2017. Our fully integrated Westport™ HPDI 2.0 system matches the "diesel-like" power, torque, and fuel economy benefits of a true compression ignition engine powered by natural gas, with reduced greenhouse gas emissions, and the capability to run entirely on renewable fuels.

Westport Fuel Systems has a compelling value proposition. We offer technology solutions for global environmental challenges, we occupy a premier technology leadership position, and we have a range of brands and products for diverse applications and markets. Our team has the specialized technical knowledge and engineering talent that can conceive, prototype, demonstrate, and commercialize the next generation of gaseous fueled technologies with our OEM partners. Our operationally focused leadership team has deep expertise in successful organizational restructuring, customer satisfaction, and financial discipline. We are building a sustainable, profitable company that delivers value to customers, shareholders, employees, and the environment.

Since the first quarter, the Company has completed a number of significant undertakings to improve its liquidity position, strengthen its balance sheet and simplify the number of businesses that the Company will focus on.

On April 28, 2017, the Company closed the transaction to sell the Industrial segment's Auxiliary Power Unit ("APU") business for total consideration of $70.0 million

On May 30, 2017, the Company sold additional assets held for sale for total consideration of $17.5 million

In July 2017, the Company completed an equity offering where it issued 19,125,000 common shares for gross proceeds of $28.7 million.

In August 2017, the Company made an offer to the holders of the $CDN 55 million debentures. The holders have the option to either tender their Debentures to the Company for a 1% premium on the principal or can extend their Debentures on similar terms and receive a one-time bonus interest payment. See note 13(a) to the condensed consolidated interim financial statements for additional details.

LIQUIDITY AND GOING CONCERN

Management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the condensed consolidated financial statements ("interim financial statements") are issued. When substantial doubt exists, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the interim financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been approved before the date that the interim financial statements are issued.

The condensed consolidated interim financial statements have been prepared on the basis that the Company will continue as a going concern. At June 30, 2017, the Company's cash and cash equivalents were $87.4 million and its long-term debt was $79.1 million, of which $49.6 million matures in 2017. The Company incurred significant recurring losses and negative cash flows from operating activities during 2016, 2015 and 2014, and anticipates incurring additional losses and cash outflows from continuing operations through 2017, largely due to the start up of production and commercial distribution of HPDI 2.0 in the fourth quarter of 2017. Overall, the Company forecasts negative operating cash flows in 2017.

Principal conditions or events that require management's consideration

The factors which raise substantial doubt as to the Company's ability to continue as a going concern are as follows:

(a) Forecast operating and capital investment requirements

After the merger with Fuel Systems and given the low oil price environment experienced in most of 2015 and 2016, the Company has been rationalizing its operations to achieve the necessary synergies required in order to become cash flow positive from operations. The Company expects to generate positive cash flows from operations throughout its business in 2017 and beyond except for its Technology Investments segment where the Company expects significant costs for final development, testing and capital expenditures on its HPDI 2.0 program with a major original equipment manufacturer ("OEM") in fiscal 2017.

(b) Maturing Debt

Significant debt maturing in 2017 is the CDN $55.0 million Debentures ("Debentures") maturing on September 15, 2017. This debt is classified as a current liability in the condensed consolidated balance sheet as at June 30, 2017. Details of this loan can be found in note 13(a) to the condensed consolidated interim financial statements.

Management's plans

Management considered the following factors and management's plans to alleviate or mitigate substantial doubt:

(a) Asset sales

In conjunction with its rationalization and synergy program, the Company has a number of initiatives to simplify the number of businesses that the Company will focus on. As a result, the Company identified and sold a number of non-core assets during the second quarter of 2017 for gross proceeds of $87.5 million (net proceeds of $79.5 million). See note 5 to the condensed consolidated interim financial statements for additional details of these assets sales.

The Company continues to examine other assets to determine whether it is in the best interest of the Company to monetize these assets in the next year or continue to hold and invest in these assets. The Company's decisions with respect to these assets may depend on its ability to raise additional financings as discussed below. The Company's Board of Directors has approved a sales process and timeline for the sale of certain assets in the event that the financings are not obtained when required.

(b) Maturing debt

The holders of the Debentures have the option to extend, a maximum of six times, the maturity date for an additional period of six months each time (i.e. if all extensions made, an additional three years) provided that greater than CDN$10.0 million of the aggregate principal amount of the Debentures remains outstanding. On August 8, 2017, the Company initiated a tender offer to the Debenture holders to either tender their debentures or to extend on similar terms as the existing debentures. At the date of the condensed consolidated financial statements, it is uncertain as to the amount of debentures, if any, that will be extended as part of this offering.

Subsequent to the quarter end, the Company completed an equity sale of 19,125,000 shares at $1.50 per share for total proceeds of $28.7 million (See note 21 of the condensed consolidated interim financial statements for additional details). This cash, along with the cash raised through the asset sales, will be used to pay down the maturing debt.

The Company has engaged financial advisors to assist with identifying and evaluating alternative sources of funding. As of the date of these interim financial statements, the Company has held discussions and received interest including draft term sheets from potential lenders. While there can be no assurance that the Company will be able to borrow on terms that are acceptable to the Company, management believes that it is probable that new loan(s) will be entered into on a timely basis to further strengthen its balance sheet.

Management's assessment and conclusion

Management is confident that the cash on hand at June 30, 2017 of $87.4 million and the estimated proceeds from financing or asset sales as discussed above will provide the cash flows necessary to fund operations over the next year to August 31, 2018, and as a result, management has determined that substantial doubt has been alleviated by management's plans at a probable level of assurance. Management cautions the readers that there is no absolute assurance that the Company will be able to raise the financing necessary or realize on asset sales, under satisfactory terms and conditions, to continue as a going concern. If the Company was not to continue as a going concern, significant adjustments may be required to the carrying value of its assets and liabilities in the accompanying condensed consolidated interim financial statements and the adjustments could be material.

Operating Segments

The principle focus of the operating business units are summarized below:

Automotive Business Segment

The Westport Fuel Systems Automotive segment designs, manufactures and sells CNG and LPG components and systems for passenger cars, light-duty trucks and medium-duty vehicles including OEM, delayed OEM ("DOEM") and Aftermarket segments. The portfolio of products includes pressure regulators, injectors, electronic control units, valves and filters, in addition to complete bi-fuel, mono-fuel and dual-fuel LPG and CNG conversion kits.

The Automotive segment also designs, manufactures, and sells a wide range of CNG compressors and refueling systems, from BRC FuelMaker home appliance for individuals or small fleets, to complete refueling stations branded CUBOGAS.

We serve more than 70 countries with a strong customer base in Europe, the Americas, Asia, and a growing presence in Africa. Products are either sold directly to the OEM or through a local distributor. We supply a large number of global OEMs including Volkswagen, Tata, GAZ, FCA, General Motors, Ford, Maruti Suzuki, Honda, Volvo Car, Hyundai, and Kia as well as Aftermarket distributors and customers.

With effect from Q1 2017, the high pressure components and electronics product lines, formerly classified under the Industrial Business Segment, were consolidated into the Automotive business and the comparative balances reclassified accordingly.

Industrial Business Segment

On April 28, 2017, the Company completed the sale of the Auxiliary Power Unit ("APU") business, and on May 30, 2017, the Company completed the sale of assets from its Impco Industrial Mobile and Stationary Equipment business. Effective from Q1 2017, the Industrial Business Segment is no longer considered an operating segment and is reclassified to discontinued operations.

Corporate and Technology Investments Segment

The Corporate and Technology Investments segment is responsible for current and advanced research and development programs, corporate oversight, and general administrative duties. Examples of our leading technologies include fully integrated combustion solutions, fuel injectors, and fuel storage and delivery solutions including cryogenics. The corporate oversight and general administrative functions for the Company are grouped under this unit.

Westport's next generation of HPDI technology, Westport™ HPDI 2.0 will provide global vehicle and engine OEMs with a vertically integrated natural gas solution with attractive price, performance, and fuel economy. Developed to OEM quality standards, Westport™ HPDI 2.0 system components are primarily manufactured in partner facilities, and offer ready integration into OEM operations globally. A key component of the Westport™ HPDI 2.0 system is a brand new family of high pressure fuel injectors, co-developed with Delphi, designed to provide better cost, smaller size and improved packaging compared to prior generation Westport™ HPDI injector designs. Westport and Delphi have entered into a joint development agreement which will combine our intellectual property and engineering strengths to co-develop and manufacture high-pressure natural gas fuel injectors designed for multiple engine OEMs. The family of injectors are developed with core components of Westport's HPDI™ 2.0 fuel system.

Cummins Westport Inc. ("CWI") Joint Venture

CWI, our 50:50 joint venture with Cummins, Inc. ("Cummins"), serves the medium and heavy-duty on highway 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. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty truck and transit bus industries.

All CWI natural gas engines are dedicated 100% natural gas engines. The fuel for CWI engines can be carried in tanks on the vehicle as CNG or LNG. All engines are also capable of operating on up to 100% RNG.

CWI is a Delaware corporation owned 50% by Westport Power Inc. ("WPI"), a wholly-owned subsidiary of Westport Fuel Systems, and 50% by Cummins. The board of directors of CWI is comprised of three representatives from each of Westport Fuel Systems and Cummins. On February 19, 2012, Westport Fuel Systems, Cummins and CWI entered into a Second Amended and Restated Joint Venture Agreement (the "Amended JVA") governing the operations of CWI which amended the focus of CWI's future product development investments to North American markets, including engines for on-road applications between the displacement range of 5.9 litres through 12 litres, and to have these engines manufactured in Cummins' North American plants.

The purpose of the joint venture is to engage in the business of selling, marketing and developing spark-ignited natural gas or propane engines for on-highway use. CWI utilizes Cummins' supply chain, back office systems and distribution and sales networks. The joint venture term is scheduled to end on December 31, 2021.

Weichai Westport Inc. Joint Venture

WWI is a joint venture between the Company, Weichai Holding Group Co. Ltd. and Hong Kong Peterson (CNG) Equipment Ltd. focusing on the Chinese market. In April 2016, the Company sold a portion of its economic interest in WWI and the Company discontinued reporting of WWI 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 subsequent to the first quarter of 2016.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the three and six months ended June 30, 2017 and June 30, 2016. The 2016 comparative data includes Fuel Systems' results from June 1, 2016 (acquisition date) and consequently there is only one month included in the three and six months ended June 30, 2016.

Selected Consolidated Statements of Operations Data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
		(Adjusted, Notes 1 and 2)		(Adjusted, Notes 1 and 2)
(expressed in millions of United States dollars, except for per share amounts and shares outstanding)				
Revenue	$ 62.1	$ 37.2	$ 122.1	$ 61.2
Gross margin	$ 15.8	$ 8.2	$ 33.3	$ 14.5
GM %	25.4%	22.0%	27.3%	23.7%
Net income (loss) from continuing operations (3)	$ (13.3)	$ 3.4	$ (26.2)	$ (21.1)
Net income from discontinued operations (1)	$ 45.6	$ 0.3	$ 45.9	$ 0.3
Net income (loss) for the period	$ 32.3	$ 3.7	$ 19.8	$ (20.8)
Net income (loss) per share - basic	$ 0.29	$ 0.05	$ 0.18	$ (0.29)
Net income (loss) per share - diluted	$ 0.26	$ 0.04	$ 0.16	$ (0.29)
Weighted average basic shares outstanding	110,462,019	79,385,839	110,317,330	71,899,577
Weighted average diluted shares outstanding	124,649,197	96,306,658	124,502,087	71,899,577

(1) With effect from the first quarter of 2017, the Industrial business segment has been reclassified as discontinued operations. See note 5 in the condensed consolidated interim financial statements.

(2) As discussed in note 8 of the condensed consolidated interim financial statements dated March 31, 2017 for the fiscal year ended December 31, 2016, the net losses in 2016 have been adjusted for a change in accounting policy at CWI.

(3) The comparative 2016 periods include a $42.9 million bargain purchase gain on the acquisition of Fuel Systems.

The following table sets forth a summary of our financial position as at June 30, 2017 and December 31, 2016:

Selected Balance Sheet Data

	June 30, 2017	**December 31, 2016**
(expressed in millions of United States dollars)		
Cash and short-term investments	$ 87.8	$ 60.9
Total assets	340.3	331.5
Debt, including current portion	79.1	79.0
Royalty payable, including current portion	18.3	21.6
Total liabilities	233.1	246.0
Shareholders' equity	107.2	85.4

SELECTED FINANCIAL INFORMATION (continued):

The following table sets forth a summary of the financial results of Cummins Westport Inc. ("CWI") for the three months ended June 30, 2017, and June 30, 2016.

Selected CWI Statements of Operations Data

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
		(Adjusted, Note 1)		(Adjusted, Note 1)
(expressed in millions of United States dollars)				
Total revenue	$ 79.5	$ 73.6	$ 150.2	$ 138.6
Gross margin	28.6	21.0	50.3	40.4
GM %	35.9%	28.5%	33.5%	29.1%
Net income before income taxes	16.5	3.8	21.7	7.4
Net income attributable to the Company	5.3	1.4	7.1	2.6

(1) As discussed in note 8 of the annual consolidated financial statements for the year ended December 31, 2016, issued on March 31, 2017 for the fiscal year ended December 31, 2016, the net losses in 2016 have been adjusted for a change in accounting policy at CWI.

RESULTS FROM OPERATIONS

The following tables summarize results by segment for the three and six months ended June 30, 2017, compared to the three and six months ended June 30, 2016.

Items Affecting Comparability of Results

WWI results are only included in total segment revenue for the three months ended March 31, 2016, as WWI is no longer considered an operating segment after this date.

The 2016 comparatives only include Fuel Systems results from June 1, 2016. To facilitate a more meaningful comparison with prior period results, certain Q1 2017 information has also been provided in the discussion that follows.

Revenue

Total consolidated revenues from continuing operations for the three months ended June 30, 2017 increased by $24.9 million or 67% from $37.2 million in 2016 to $62.1 million in 2017.

Total consolidated revenues from continuing operations for the six months ended June 30, 2017 increased by $60.9 million or 99% from $61.2 million in 2016 to $122.1 million in 2017.

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2017	2016	$	%	2017	2016	$	%
Automotive	$ 60.9	$ 36.3	$ 24.6	68%	$ 117.2	$ 59.5	57.7	97 %
Corporate and Technology Investments	1.2	0.9	0.3	33%	4.9	1.7	3.2	188 %
CWI	79.5	73.6	5.9	8%	150.2	138.6	11.6	8 %
WWI	—	—	—	—%	—	29.9	(29.9)	(100)%
Total segment revenues	$ 141.6	$ 111.9	$ 29.7	27%	$ 272.3	$ 230.8	$ 41.5	18 %
Less: equity investees' revenues	79.5	73.6	5.9	8%	150.2	168.5	(18.3)	(11)%
Total consolidated revenues	$ 62.1	$ 37.2	$ 24.9	67%	$ 122.1	$ 61.2	$ 60.9	99 %

Automotive revenue for the three and six months ended June 30, 2017 was $60.9 million and $117.2 million compared with $36.3 million and $59.5 million for the three and six months ended June 30, 2016, respectively. The primary reason for the increase was due to the acquisition of Fuel Systems on June 1, 2016. Automotive revenues for Q2 2017 increased $5.0 million over Q1 2017 due to strong aftermarket sales in Europe and a stronger Euro compared to the US dollar.

Corporate and Technology Investments revenue for the three and six months ended June 30, 2017 was $1.2 million and $4.9 million compared with $0.9 million and $1.7 million, respectively, for the three and six months ended June 30, 2016. The Company continues to achieve revenue-generating milestones with its HPDI 2.0 launch customer and various partners.

CWI revenue for the three and six months ended June 30, 2017 was $79.5 million and $150.2 million, respectively, compared with $73.6 million and $138.6 million for the three and six months ended June 30, 2016, respectively. Unit sales for the three and six months ended June 30, 2017 were 2,037 and 3,777 compared to 2,061 and 3,708 for the three and six months ended June 30, 2016. The increase in revenue was primarily due to an increase in parts revenue attributed to the increase in the natural gas engine population in service.

Gross Margin for the three months ended June 30, 2017

Total consolidated gross margin for the three months ended June 30, 2017 increased by $7.6 million from $8.2 million in 2016 to $15.8 million in 2017.

The following table presents gross margin by segment for the three months ended June 30, 2017 compared to the three months ended June 30, 2016:

(expressed in millions of U.S. dollars)

	Three months ended June 30, 2017	% of Revenue	Three months ended June 30, 2016	% of Revenue	Change $	Change %
Automotive	$ 14.6	24%	$ 7.3	21%	$ 7.3	100%
Corporate and Technology Investments	1.2	100%	0.9	100%	0.3	33%
CWI	28.6	36%	21.0	29%	7.6	36%
WWI	—	—%	—	—%	—	N/A
Total segment gross margin	$ 44.4	31%	$ 29.2	27%	$ 15.2	52%
Less: equity investees' gross margin	28.6	36%	21.0	29%	7.6	36%
Total consolidated gross margin	$ 15.8	25%	$ 8.2	23%	$ 7.6	93%

Automotive gross margin increased by $7.3 million to $14.6 million, or 24% of revenue, for the three months ended June 30, 2017, compared to $7.3 million, or 21% of revenue for the three months ended June 30, 2016. Gross margins increased due to higher revenues in the OEM and aftermarket business in Europe resulting from the acquisition of Fuel Systems. Gross margin for the automotive business in the second quarter of 2017 increased $1.0 million from the first quarter of 2017 due to increased sales in Europe and a $1.1 million favourable warranty adjustment, offset by weaker markets in Argentina.

Corporate and Technology Investments gross margin for the three months ended June 30, 2017 was $1.2 million compared with $0.9 million for the three months ended June 30, 2016 as the Company continues to achieve milestones with its HPDI 2.0 launch customer and other partners

CWI gross margin increased by $7.6 million to $28.6 million, or 36% of revenue from $21.0 million or 29% of revenue in the prior year quarter. The increase in gross margin and gross margin percentage is driven by higher revenues, a favorable parts revenue mix compared to the prior year quarter and a positive warranty adjustment of $2.5 million for the three months ended June 30, 2017 compared to a positive warranty adjustment of $1.6 million for the three months ended June 30, 2016.

Gross Margin

Total consolidated gross margin for the six months ended June 30, 2017 increased by $18.8 million or 130% from $14.5 million in 2016 to $33.3 million for the comparative period in 2017.

The following table presents gross margin by segment for the six months ended June 30, 2017 compared to the six months ended June 30, 2016:

(expressed in millions of U.S. dollars)

	Six months ended June 30, 2017	% of Revenue	Six months ended June 30, 2016	% of Revenue	Change $	Change %
Automotive	$ 28.4	24%	$ 12.8	22%	$ 15.6	122 %
Corporate and Technology Investments	4.9	100%	1.7	100%	3.2	188 %
CWI	50.3	33%	40.4	29%	9.9	25 %
WWI	—	N/A	3.0	10%	(3.0)	(100)%
Total segment gross margin	83.6	31%	57.9	25%	25.7	44 %
Less: equity investees' gross margin	50.3	33%	43.4	26%	6.9	16 %
Total consolidated gross margin	$ 33.3	27%	$ 14.5	24%	$ 18.8	130 %

Automotive gross margin increased by $15.6 million to $28.4 million, or 24% of revenue, for the six months ended June 30, 2017 compared to $12.8 million, or 22% of revenue for the six months ended June 30, 2016. The increase in gross margin and the gross margin percentage is due to the acquisition of Fuel Systems on June 1, 2016.

Corporate and Technology Investments gross margin for the six months ended June 30, 2017 was $4.9 million compared with $1.7 million for the six months ended June 30, 2016 as the Company continues to achieved milestones with its HPDI 2.0 launch customer and other partners.

CWI gross margin increased by $9.9 million to $50.3 million, or 33% of revenue from $40.4 million or 29% of revenue in the prior year period. The increase in gross margin and gross margin percentage is driven by higher revenues a favorable parts revenue mix compared to the prior year period and a favorable warranty adjustment of $5.2 million for the six months ended June 30, 2017 compared to a unfavorable warranty adjustment of $2.4 million for the six months ended June 30, 2016.

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, 2017 compared to the three and six months ended June 30, 2016:

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2017	2016	$	%	2017	2016	$	%
Automotive	$ 4.2	$ 4.7	$ (0.5)	(11)%	$ 8.0	$ 6.7	$ 1.3	19 %
Corporate and Technology Investments	10.0	10.3	(0.3)	(3)%	18.3	19.9	(1.6)	(8)%
Total research and development	$ 14.2	$ 15.0	$ (0.8)	(5)%	$ 26.3	$ 26.6	$ (0.3)	(1)%

Automotive Despite a full quarter of R&D expenses from Fuel Systems, R&D expenses decreased $0.5 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease of $0.5 million was due to completion of various R&D programs and reduction in workforce due to restructuring activities in 2016. The Automotive R&D expenses for the six months ended June 30, 2017 was $8.0 million compared to $6.7 million for the six months ended June 30, 2016. R&D expenses in the second quarter of 2017 increased $0.6 million from the first quarter of 2017 as the Company continues to finalize its HPDI launch plans with suppliers.

Corporate and Technology Investments R&D expenses for the three and six months ended June 30, 2017 were $10.0 million and $18.3 million, respectively compared with $10.3 million and $19.9 million for the three and six months ended June 30, 2016, respectively. R&D expenses are expected to reduce when the Company launches HPDI 2.0 in late 2017.

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, 2017 compared to the three and six months ended June 30, 2016:

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2017	2016	$	%	2017	2016	$	%
Automotive	$ 8.1	$ 8.0	$ 0.1	1 %	$ 16.8	$ 12.2	$ 4.6	38 %
Corporate and Technology Investments	7.9	10.1	(2.2)	(22)%	14.4	19.7	(5.3)	(27)%
Total selling, general and administrative	$ 16.0	$ 18.1	$ (2.1)	(12)%	$ 31.2	$ 31.9	$ (0.7)	(2)%

Automotive SG&A expenses for three and six months ended June 30, 2017 were $8.1 million and $16.8 million compared with $8.0 million and $12.2 million for the three and six months ended June 30, 2016. Overall SG&A expense as a percentage of revenue was significantly lower for 2017 as compared to 2016. SG&A expense in Q2 2017 decreased by $0.3 million from Q1 2017.

Corporate and Technology Investments SG&A expenses for the three and six months ended June 30, 2017 was $7.9 million and $14.4 million compared with $10.1 million and $19.7 million for the three and six months ended June 30, 2016. The decrease in expense is primarily due to merger costs associated with the Fuel Systems acquisition in 2016, which did not repeat in the current year, and lower salary expenses resulting from our 2016 restructuring activities and reduction in workforce. SG&A expense in the second quarter of 2017 increased by $0.4 million from the first quarter of 2017 due to a $1.5 million increase in stock based compensation offset by lower expenses due to restructuring activities.

Restructuring costs recognized for the three and six months ended June 30, 2017 were a recovery of $1.5 million and an expense of $nil respectively. The recovery during the second quarter of 2017 was due to a $4.4 million change in estimate relating to the termination of a lease commitment in Vancouver, Canada. Excluding the recovery from the lease settlement, the termination and other exit costs recorded for the three and six months ended June 30, 2017 were $2.8 million and $4.5 million, respectively, due to reductions in workforce in Canada, Italy, and Argentina. They were $nil in the comparative periods in 2016.

Foreign exchange gains and losses from continuing operations 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, 2017, we recognized net foreign exchange losses of $1.0 million and foreign exchange gains of $0.6 million, respectively, compared to foreign exchange losses of $4.1 million and $5.4 million, respectively, in the comparative periods due to movements in the Canadian dollar and Euro relative to the U.S. dollar.

Depreciation and amortization for the three and six months ended June 30, 2017 was $3.6 million and $7.2 million compared with $3.6 million and $6.8 million, respectively for the three and six months ended June 30, 2016. The increase is due to the acquisition of Fuel Systems on June 1, 2016 and consolidation of property, plant and equipment, offset by lower depreciation on assets sold and fully depreciated assets. The amount included in cost of sales for the three and six months ended June 30, 2017 was $1.2 million and $2.4 million compared with $0.8 million and $1.3 million for the three and six months ended June 30, 2016. Depreciation and amortization expense in Q1 2017 was $3.7 million.

Income from investments primarily relates to our 50% interest in CWI, accounted for by the equity method. Up until the end of the first quarter of 2016, the Company also recorded its 35% interest in WWI using the equity method; however, due to our sale of a portion of our economic interest in WWI on April 20, 2016, we no longer have the ability to exercise significant influence and, therefore, with effect from that date we account for our interest using the cost method. The increase in income from investments results primarily from higher revenues and gross margins for CWI in the current year.

During the fourth quarter of 2016, CWI changed its method for determining its warranty liability to exclude, from the estimated cost to settle claims, the parts margin it expects to earn on parts sold and used to service warranty claims. This change was accounted for as a change in accounting policy and the comparative balances were adjusted on a retrospective basis. The Company's income from investments, accumulated deficit and long-term investments have been adjusted to reflect this change in accounting policy.

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016 (Adjusted)	2017	2016 (Adjusted)
CWI - 50% interest	$ 5.3	$ 1.4	$ 7.0	$ 2.0
WWI	—	—	—	0.2
Income from investment accounted for by the equity method	$ 5.3	$ 1.4	$ 7.0	$ 2.2

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,	
	2017	2016	2017	2016
Canadian debentures - 9% per annum	$ 1.1	$ 1.0	$ 1.9	$ 1.9
Senior financing facilities	0.2	0.1	0.3	0.2
Convertible note - 9% per annum	0.4	0.1	0.8	0.1
Royalty payable and other amortization of discount and interest expense	5.5	1.3	7.4	2.6
Total interest on long-term debt	$ 7.2	$ 2.5	$ 10.4	$ 4.8

Interest on long-term debt and royalty payable for the three and six months ended June 30, 2017 was $7.2 million and $10.4 million compared to $2.5 million and $4.8 million for the three and six months ended June 30, 2016. Interest expense increased for the six months ended June 30, 2017 due to additional interest accrued on the convertible debt and the Cartesian royalty payable. The sale of the APU business and the sale of additional Industrial assets resulted in royalty prepayments to Cartesian of approximately $9.7 million, with $1.3 million outstanding as at June 30, 2017. The Company recorded an additional finance charge of $5.2 million as a result of the prepayment of the royalty payable on the completion of these transactions.

Income tax recovery for the three months ended June 30, 2017 was $4.0 million compared to an expense of $0.3 million for the corresponding period in 2016. The tax recovery for 2017 relates to the use of tax losses to offset the tax expense related to the gain on sale of Industrial assets.

Discontinued operations As discussed in note 5 to the condensed consolidated interim financial statements, substantially all of the Industrial business segment (excluding the electronics and high pressure product lines) was sold during the second quarter of 2017. The Company recognized a net gain on sale of assets of $54.9 million.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

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.

Our asset sales that closed during the second quarter of 2017 significantly improved our cash position, with net proceeds of $79.5 million. The equity issuance of 19,125,000 common shares subsequent to quarter end for gross proceeds of $28.7 million further strengthened our balance sheet. These cash inflows provide the Company with the necessary liquidity to repay the Debentures that come due in September 2017. See notes 5 and 13 in the condensed consolidated interim financial statements for further information on the asset sales and the Debentures.

While our Automotive division generates positive cash flows, these cash flows are not sufficient to offset the significant capital investment and research and development expenditures required to support our HPDI 2.0 production start-up during late 2017. The majority of the HPDI 2.0 investment, both in terms of R&D and capital spend will complete in 2017. The Company incurred significant recurring losses from operations as well as negative cash flows from operating activities during the first and second quarter of 2017 and the fiscal years 2016, 2015 and 2014, and anticipates incurring additional losses and negative operating cash flows through 2017. See the Business Overview and General Developments section in this MD&A for further discussion on liquidity and going concern.

Our cash, cash equivalent and short-term investments position has increased by $26.9 million million in the first half of 2017 from $60.9 million at December 31, 2016. The increase is primarily the result of cash flow from the sale of the APU and Industrial businesses, offset by cash invested in our HPDI program and restructuring costs. 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, 2017 has an accumulated deficit of $937.1 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 and its ability to 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, 2017, proceeds from the equity issuance, cost cutting measures and its ability to find new sources of financing, provide sufficient funds for the Company to meet its obligations beyond the next 12 months. The accompanying condensed consolidated interim financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Cash Flow from Operating Activities

For the three months ended June 30, 2017, our net cash flows used in continuing operating activities was $12.4 million, a decrease of $12.0 million from the net cash flows of $24.4 million used in operating activities in the three months ended June 30, 2016. The decrease is primarily due to improved operations since the merger with Fuel Systems and working capital management.

Cash Flow from Investing Activities

For the three months ended June 30, 2017, our net cash flows used in continuing investing activities was $9.2 million, compared to cash inflows from continuing investing of $53.2 million for the three months ended June 30, 2016. The inflows in 2016 were primarily due to the $45.3 million cash received upon acquisition of Fuel Systems on June 1, 2016 and $6.3 million in proceeds from the sale of a portion of our economic interest in WWI. The cash used in continuing investing activities for the three months ended in June 30, 2017 was $13.4 million primarily for capital assets in preparation for the HPDI launch, offset by $1.7 million in dividends received from the CWI joint venture.

Cash Flow from Financing Activities

For the three months ended June 30, 2017, our net cash flows used in financing activities from continuing operations was $9.9 million compared to net cash flows from financing activities of $16.9 million for the three months ended June 30, 2016. In Q2 2016, the Company received $17.5 million from Cartesian for a convertible note. In Q2 2017, the Company made a $9.7 million repayment to Cartesian for the royalty payable.

Cash Flow from Discontinued Operations

For the three months ended June 30, 2017, our net cash flows from discontinued operations was $69.5 million due to the sale of the Auxiliary Power Units and Industrial business.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	$ 89.4	$ 89.4	$ 89.4	$ —	$ —	$ —
Restructuring obligations	9.5	9.5	9.5	—	—	—
Long-term debt, principal, (1)	79.0	79.0	49.5	4.5	22.5	2.5
Long-term debt, interest (1)	—	9.6	3.9	3.8	1.7	0.2
Long-term royalty payable (2)	18.3	36.3	3.3	11.1	7.6	14.3
Operating lease commitments	—	16.7	4.4	8.8	3.1	0.4
Royalty payments (3)	3.3	3.3	—	3.3	—	—
	$ 199.5	$ 243.8	$ 160.0	$ 31.5	$ 35.0	$ 17.4

(1) For details of our long-term debt, principal and interest, see note 13 in the notes to the condensed consolidated interim financial statements.

(2) On January 11, 2016, the Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided $17.5 million in cash (the "Royalty Agreement"). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments in respect of the Royalty Agreement 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.

In January 2017, the Company and Cartesian signed a Consent Agreement which allows the Company to sell certain assets in exchange for prepayment of the Cartesian royalty: Cartesian will be paid 15% of the net proceeds from these asset sales to a maximum of $15.0 million, with this payment being allocated on a non-discounted basis to future years' minimum payments. The sale of the APU business and the sale of additional Industrial assets resulted in a $9.7 million royalty prepayment to Cartesian during the quarter. For additional information on the Cartesian royalty, see note 14 of the condensed consolidated interim financial statements.

(3) The Company is obligated to repay funding received from Industrial Technologies Office ("ITO") in the form of royalties equal to the greater of $1.0 million (CDN $1.4 million) or 0.33% of the Company's gross annual revenue from all sources, including CWI, provided that gross revenue exceeds $10.1 million (CDN$13.5 million) in any aforementioned fiscal year, until the earlier of March 31, 2018 or until cumulative royalties total of $21.0 million (CDN$28.2 million) has been repaid. As at June 30, 2017, $3.3 million remains accrued in accounts payable and accrued liabilities.

SHARES OUTSTANDING

For the three months ended June 30, 2017 and June 30, 2016, the weighted average number of shares used in calculating the loss per share was 110,462,019 and 64,413,316, respectively. The Common Shares, share options and Share Units outstanding and exercisable as at the following dates are shown below:

	June 30, 2017	August 14, 2017
	Number	Number
Common Shares outstanding	111,175,191 (1)	130,401,758,000
Share Units		
Outstanding (2)	6,120,241	6,328,049
Exercisable	1,990,006	1,924,153

(1) Subsequent to June 30, 2017, the Company issued 19,125,000 common shares at $1.50 per share for gross proceeds of $28.7 million.

(2) As at June 30, 2017, the outstanding share units include 1,670,000 (August 14, 2017 - 1,670,000) performance share units ("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. In addition, these awards have not yet become vested.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated interim 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 3 of our year ended December 31, 2016 annual consolidated financial statements. There have been no significant changes in accounting policies applied to the June 30, 2017 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 3 of our fiscal year ended December 31, 2016 annual consolidated financial statements and our 2016 annual Management and Discussion analysis, dated March 31, 2017.

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 4 of the notes to the condensed consolidated interim financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended June 30, 2017, 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.

REGULATORY COMPLIANCE

On June 15, 2017, the Enforcement Division of the SEC issued a subpoena to Westport Fuel Systems for information concerning its Weichai Westport Inc. joint venture and compliance with the U.S. Foreign Corrupt Practices Act ("FCPA") in connection with the Company's operations in China. Westport Fuel Systems is cooperating with this request and cannot predict the duration, scope or outcome of the SEC's investigation.

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, restructuring 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 and adjusted note (6))

Three months ended	**30-Sep-15**	**31-Dec-15**	**31-Mar-16**	**30-Jun-16**	**30-Sep-16**	**31-Dec-16**	**31-Mar-17**	**30-Jun-17**
(expressed in millions of United States dollars except for per share amounts)				(1)(2)	(2)	(2)		(3)
Product revenue	$ 21.3	$ 24.9	$ 23.5	$ 36.8	$ 53.5	$ 59.2	$ 56.3	$ 60.9
Service and other revenue	1.0	0.2	0.5	0.4	2.6	0.9	3.7	1.2
Total revenue	22.3	25.1	24.0	37.2	56.1	60.1	60.0	62.1
Cost of product and parts revenue (4)	21.5	22.1	17.6	29.1	47.4	47.0	42.5	46.3
Gross margin	$ 0.8	$ 3.0	$ 6.4	$ 8.2	$ 8.7	$ 13.1	$ 17.5	$ 15.8
Gross margin percentage	*3.6%*	*12.0%*	*26.7%*	*22.0%*	*15.5%*	*21.8%*	29.2%	*25.4%*
Net income (loss) from continuing operations	$ (37.2)	$ (24.5)	$ (24.6)	$ 3.4	$ (33.7)	$ (44.4)	$ (12.8)	$ (13.4)
Net income (loss)	$ (37.2)	$ (24.5)	$ (24.6)	$ 3.7	$ (33.5)	$ (43.2)	$ (12.5)	$ 32.3
EBITDA (5)	$ (32.3)	$ (20.5)	$ (19.3)	$ 9.7	$ (26.1)	$ (33.5)	$ (6.5)	$ (7.5)
Adjusted EBITDA (6)	$ (9.6)	$ (13.5)	$ (11.9)	$ (11.5)	$ (10.8)	$ (11.0)	$ (4.1)	$ (5.3)
Earnings (loss) per share								
Basic	$ (0.58)	$ (0.38)	$ (0.38)	$ 0.05	$ (0.31)	$ (0.43)	$ (0.11)	$ 0.29
Diluted	$ (0.58)	$ (0.38)	$ (0.38)	$ 0.04	$ (0.31)	$ (0.43)	$ (0.11)	$ 0.26
Income from unconsolidated joint ventures:								
CWI net income attributable to the Company (7)	$ 3.7	$ 3.1	$ 0.5	$ 1.5	$ 2.8	$ 0.8	$ 1.8	$ 5.3
WWI net income attributable to the Company	$ 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 information for Q2, Q3 and Q4 to exclude substantially all of the Industrial business segment, which has been reclassifed as discontinued operations.

(3) During the second quarter of 2017, the Company completed the sale of non-core assets from its Industrial business unit and recognized a gain on sale of assets of $54.9 million.

(4) 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.

(5) 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. EBITDA for Q2, Q3 and Q4 has been adjusted for the discontinued operations of the Industrial business segment (excluding the electronics and high pressure product lines).

(6) 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 to exclude amortization of stock-based compensation, unrealized foreign exchange gain or loss, and other adjustments. See non-GAAP measures for more information.

(7) The Company's income from investments, retained earnings and long-term investments have also been adjusted to reflect a change in accounting policy in its joint venture. See condensed consolidated interim financial statements note 8(a).

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 net loss from continuing operations 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. 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-15**	**31-Dec-15**	**31-Mar-16**	**30-Jun-16**	**30-Sep-16**	**31-Dec-16**	**31-Mar-17**	**30-Jun-17**
Income (loss) before income taxes from continuing operations	$ (37.0)	$ (25.1)	$ (24.7)	$ 3.4	$ (34.4)	$ (41.7)	$ (13.6)	$ (17.3)
Interest expense, net (1)	1.4	1.3	2.3	2.7	3.1	4.3	3.4	6.3
Depreciation and amortization	3.3	3.3	3.1	3.6	5.2	3.9	3.7	3.5
EBITDA	$ (32.3)	$ (20.5)	$ (19.3)	$ 9.7	$ (26.1)	$ (33.5)	$ (6.5)	$ (7.5)

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

EBITDA decreased $1 million from a loss of $6.5 million for the three months ended March 31, 2017 to a loss of $7.5 million in the three months ended June 30, 2017. The change is primarily a result of higher revenues and gross margin from the Automotive business.

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 from continuing operations adjusted for stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other 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-15**	**31-Dec-15**	**31-Mar-16**	**30-Jun-16**	**30-Sep-16**	**31-Dec-16**	**31-Mar-17**	**30-Jun-17**
EBITDA	$ (32.3)	$ (20.5)	$ (19.3)	$ 9.7	$ (26.1)	$ (33.5)	$ (6.5)	$ (7.5)
Stock based compensation	3.3	3.5	4.0	2.3	2.9	1.2	1.1	3.1
Unrealized foreign exchange (gain) loss	(8.0)	0.5	1.3	4.1	(7.1)	8.1	(1.6)	1.0
Goodwill impairment	18.7	—	—	—	—		—	—
Asset impairment	—	—	—	—	—	2.7	—	—
Inventory impairment from product line closure	5.5	—	—	—	4.3	1.3	—	—
Bargain purchase gain	—	—	—	(42.9)	—	7.1	—	—
Merger and financing costs	3.2	1.3	2.1	4.5	0.4		—	—
Amortization of fair value inventory adjustment recorded on acquisition	—	—	—	0.4	1.0		—	—
(Gain) loss on sale of investments	—	—	—	6.3	(3.9)	(0.3)	—	—
Loss on disposal of assets	—	0.8	—	—	—		—	—
Restructuring, termination and other exit costs	—	—	—	—	17.5	1.5	1.6	(1.6)
Other	—	1.0	—	4.1	0.2	0.9	1.3	(0.3)
Adjusted EBITDA	$ (9.6)	$ (13.5)	$ (11.9)	$ (11.5)	$ (10.8)	$ (11.0)	$ (4.1)	$ (5.3)

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

WESTPORT FUEL SYSTEMS INC.

For the three and six months ended June 30, 2017 and 2016

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Balance Sheets (unaudited)

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

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 87,395	$ 60,057
Short-term investments	352	848
Accounts receivable (note 6)	74,110	66,660
Inventories (note 7)	57,258	53,300
Prepaid expenses	4,228	4,572
Current assets held for sale (note 5)	7,146	28,325
	230,489	213,762
Long-term investments (note 8)	14,974	13,422
Property, plant and equipment (note 9)	58,380	54,576
Intangible assets (note 10)	21,567	21,832
Deferred income tax assets	2,256	1,640
Goodwill	3,162	2,923
Other long-term assets	9,427	14,532
Long-term assets held for sale (note 5)	—	8,773
	$ 340,255	$ 331,460
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	$ 89,448	$ 79,943
Current portion of restructuring obligations (note 12)	9,455	5,408
Current portion of deferred revenue	2,898	3,544
Current portion of long-term debt (note 13)	49,572	48,097
Current portion of long-term royalty payable (note 14)	3,296	1,500
Current portion of warranty liability (note 15)	5,044	6,032
Current liabilities held for sale (note 5)	12,691	15,216
	172,404	159,740
Restructuring obligations (note 12)	—	8,715
Deferred revenue	287	590
Long-term debt (note 13)	29,518	30,935
Long-term royalty payable (note 14)	15,016	20,062
Warranty liability (note 15)	4,833	6,207
Deferred income tax liabilities	5,078	5,909
Other long-term liabilities	5,918	5,657
Long-term liabilities held for sale (note 5)	—	8,207
	233,054	246,022
Shareholders' equity:		
Share capital (note 16):		
Unlimited common and preferred shares, no par value		
111,175,191 (2016 - 110,109,092) common shares	1,048,038	1,042,410
Other equity instruments	18,342	20,926
Additional paid in capital	10,079	10,079
Accumulated deficit	(937,140)	(956,890)
Accumulated other comprehensive loss	(32,118)	(31,087)
	107,201	85,438
Commitments and contingencies (note 18)		
	$ 340,255	$ 331,460

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board: **Brenda J. Eprile** Director **Colin Johnston** 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, 2017 and 2016

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
		(Adjusted, note 5 and 8)		(Adjusted, note 5 and 8)
Product revenue	$ 60,863	$ 36,828	$ 117,192	$ 60,384
Service and other revenue	1,214	408	4,908	864
	62,077	37,236	122,100	61,248
Cost of revenue and expenses:				
Cost of product revenue	46,271	29,071	88,783	46,702
Research and development	14,223	14,970	26,304	26,603
General and administrative	11,819	12,745	22,639	22,824
Sales and marketing	4,186	5,330	8,522	9,027
Restructuring costs (recovery) (note 12)	(1,545)	—	29	—
Foreign exchange (gain) loss	1,004	4,098	(567)	5,445
Depreciation and amortization	2,379	2,722	4,750	5,447
Loss on sale of investment and assets	—	6,312	(67)	6,312
	78,337	75,248	150,393	122,360
Loss from operations	(16,260)	(38,012)	(28,293)	(61,112)
Income from investments accounted for by the equity method	5,275	1,418	7,043	2,166
Interest on long-term debt and amortization of discount	(7,219)	(2,511)	(10,445)	(4,783)
Bargain purchase gain from acquisition	—	42,862	—	42,862
Interest and other income, net of bank charges	897	(35)	773	(97)
Income (loss) before income taxes	(17,307)	3,722	(30,922)	(20,964)
Income tax expense (recovery)	(3,961)	277	(4,751)	125
Net income (loss) from continuing operations	(13,346)	3,445	(26,171)	(21,089)
Net income from discontinued operations (note 5)	45,620	268	45,921	268
Net income (loss) for the period	32,274	3,713	19,750	(20,821)
Other comprehensive income (loss):				
Cumulative translation adjustment	(993)	5,084	(1,031)	6,672
Comprehensive income (loss)	$ 31,281	$ 8,797	$ 18,719	$ (14,149)
Earnings (Loss) per share:				
From continuing operations - basic and diluted	$ (0.12)	$ 0.04	$ (0.24)	$ (0.29)
From discontinued operations - basic	$ 0.41	0.01	0.42	0.00
Net income (loss) - basic	$ 0.29	$ 0.05	$ 0.18	$ (0.29)
From discontinued operations - diluted	$ 0.37	0.00	$ 0.37	0.00
Net income (loss) - diluted	$ 0.26	$ 0.04	$ 0.16	$ (0.29)
Weighted average common shares outstanding:				
Basic	110,462,019	79,385,839	110,317,330	71,899,577
Diluted	124,649,197	96,306,658	124,502,087	71,899,577

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, 2017 and 2016

	Common Shares Outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
January 1, 2016	64,380,819	$ 937,029	$ 16,460	$ 9,837	$ (859,317)	$ (32,382)	$ 71,627
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	—	—	—	—	(20,821)	—	(20,821)
Other comprehensive income	—	—	—	—	—	6,672	6,672
June 30, 2016 (Adjusted, note 8)	109,725,229	$ 1,039,166	$ 19,685	$ 10,079	$ (880,138)	$ (25,710)	$ 163,082
January 1, 2017	110,109,092	$ 1,042,410	$ 20,926	$ 10,079	$ (956,890)	$ (31,087)	$ 85,438
Issue of common shares on exercise of share units	1,066,099	5,628	(5,628)	—	—	—	—
Stock-based compensation	—	—	3,044	—	—	—	3,044
Net income for the period	—	—	—	—	19,750	—	19,750
Other comprehensive loss	—	—	—	—	—	(1,031)	(1,031)
June 30, 2017	111,175,191	$ 1,048,038	$ 18,342	$ 10,079	$ (937,140)	$ (32,118)	$ 107,201

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 and six months ended June 30, 2017

	Three months ended June 30, 2017		Six months ended June 30, 2017	
	2017	2016	2017	2016
Cash flows from (used in) operating activities:		(Adjusted, note 5 and 8)		(Adjusted, note 5 and 8)
Net income (loss) for the period from continuing operations	$ (13,346)	$ 3,445	$ (26,171)	$ (21,089)
Items not involving cash:				
Depreciation and amortization	3,640	3,643	7,256	6,751
Stock-based compensation expense	3,000	2,328	4,169	6,322
Unrealized foreign exchange gain	1,004	4,098	(567)	5,445
Deferred income tax	(1,258)	—	(2,048)	—
Income from investments accounted for by the equity method	(5,275)	(1,418)	(7,043)	(2,166)
Accretion of long-term debt	2,797	1,366	6,022	2,702
Inventory write-downs to net realizable value	277	1,227	277	1,278
Bargain purchase gain from acquisition	—	(42,862)	—	(42,862)
Change in fair value of derivatives and bad debts expense	—	2,340	—	2,422
Restructuring obligations	(4,204)	—	(4,668)	—
Loss on sale of investment	—	6,312	—	6,312
Changes in non-cash operating working capital:				
Accounts receivable	(5,536)	(1,152)	(7,450)	(2,475)
Inventories	(3,029)	3,516	(3,958)	2,911
Prepaid and other assets	6,073	491	(615)	(465)
Accounts payable and accrued liabilities	4,726	(4,985)	8,136	(7,460)
Deferred revenue	(467)	(420)	(996)	(787)
Warranty liability	(793)	(2,348)	(1,575)	(4,347)
Net cash used in operating activities of continuing operations	(12,391)	(24,419)	(29,231)	(47,508)
Net cash from (used in) operating activities of discontinued operations	(7,755)	570	(3,715)	570
Cash flows from (used in) investing activities:				
Purchase of property, plant and equipment and other assets	(11,178)	(1,169)	(13,397)	(2,600)
Sale of short-term investments, net	199	1,000	366	1,000
Acquisition, net of acquired cash	—	45,344	—	45,344
Proceeds on sale of investments	—	6,300	—	6,300
Dividends received from joint ventures	1,733	1,762	5,534	6,124
Proceeds on sale of assets	—	—	67	—
Net cash from (used in) investing activities of continuing operations	(9,246)	53,237	(7,430)	56,168
Net cash from investing activities of discontinued operations	77,290	—	77,148	—
Cash flows from (used in) financing activities:				
Repayment of operating lines of credit and long term facilities	(1,969)	(3,100)	(17,721)	(6,003)
Drawings on operating lines of credit and long-term facilities	1,728	2,544	15,822	3,682
Prepayment of royalty payable	(9,650)	—	(9,650)	—
Issuance of convertible debt and royalty payable	—	17,500	—	35,000
Net cash from (used in) financing activities	(9,891)	16,944	(11,549)	32,679
Effect of foreign exchange on cash and cash equivalents	2,041	124	2,115	1,317
Increase in cash and cash equivalents	40,048	46,456	27,338	43,226
Cash and cash equivalents, beginning of period	47,347	23,913	60,057	27,143
Cash and cash equivalents, end of period	$ 87,395	$ 70,369	$ 87,395	$ 70,369

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of United States dollars)
Three and six months ended June 30, 2017

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Supplementary information:				
Interest paid	$ 247	$ 94	$ 2,225	$ 1,963
Taxes paid, net of refunds	—	52	—	159
Shares issued for acquisition	—	98,742	—	98,742

See accompanying notes to condensed consolidated interim financial statements.

1. Company organization and operations

Westport Fuel Systems Inc. (the “Company”) was incorporated under the Business Corporations Act (Alberta) on March 20, 1995. On June 1, 2016, the Company merged with Fuel Systems Solutions, Inc. ("Fuel Systems"). The Company engineers, manufactures and supplies alternative fuel systems and components for use in the transportation and industrial markets on a global basis. The Company's components and systems control the pressure and flow of gaseous alternative fuels, such as propane and natural gas used in internal combustion engines. As discussed in note 5, the Company's Industrial operating segment (excluding the electronics and high pressure product lines) met the classification requirements of assets held for sale during the first quarter of 2017 and were sold in the second quarter of 2017. The Company has reclassified the comparative figures in the balance sheet as assets held for sale and reported the results of the operations of the Industrial businesses sold as discontinued operations in the consolidated statements of operation and comprehensive income.

2. Liquidity and going concern

Management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management’s plans that have not been fully implemented as of the date that the condensed consolidated interim financial statements ("interim financial statements") are issued. When substantial doubt exists, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company’s ability to continue as a going concern. The mitigating effect of management’s plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the interim financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been approved before the date that the interim financial statements are issued.

These interim financial statements have been prepared on the basis that the Company will continue as a going concern. At June 30, 2017, the Company's cash and cash equivalents were $87,395 and its long-term debt was $79,090, of which $49,572 matures in 2017. The Company incurred significant recurring losses and negative cash flows from operating activities during 2016, 2015 and 2014, and anticipates incurring additional losses and cash outflows from continuing operations through 2017, largely due to the start up of production and commercial distribution of HPDI 2.0 in the fourth quarter of 2017. Overall, the Company forecasts negative operating cash flows in 2017.

Principal conditions or events that require management's consideration

The factors which raise substantial doubt as to the Company’s ability to continue as a going concern are as follows:

(a) Forecast operating and capital investment requirements

After the merger with Fuel Systems and given the low oil price environment experienced in most of 2015 and 2016, the Company has been rationalizing its operations to achieve the necessary synergies required in order to become cash flow positive from operations. The Company expects to generate positive cash flows from operations throughout its business in 2017 and beyond except for its Corporate and Technology Investments segment where the Company expects significant costs for final development, testing and capital expenditures on its HPDI 2.0 program with a major original equipment manufacturer ("OEM") in fiscal 2017.

(b) Maturing Debt

Significant debt maturing in 2017 is the CDN$55,000 debentures ("Debentures") maturing on September 15, 2017. This debt is classified as a current liability in the condensed consolidated balance sheet as at June 30, 2017. Details of this loan can be found in note 13(a) to these interim financial statements.

Management's plans

Management considered the following factors and management’s plans to alleviate or mitigate substantial doubt:

(a) Asset sales

In conjunction with its rationalization and synergy program, the Company has a number of initiatives to simplify the number of businesses that the Company will focus on. As a result, the Company identified and sold a number of non-core assets during the second quarter of 2017 for gross proceeds of $87,500 (net proceeds of $79,521). See note 5 to these interim financial statements for additional details of these assets sales.

The Company continues to examine other assets to determine whether it is in the best interest of the Company to monetize these assets in the next year or continue to hold and invest in these assets. The Company’s decisions with respect to these assets may depend on its ability to raise additional financings as discussed below. The Company's Board of Directors has approved a sales process and timeline for the sale of certain assets in the event that the financings are not obtained when required.

(b) Maturing debt

The holders of the Debentures have the option to extend, a maximum of six times, the maturity date for an additional period of six months each time (i.e. if all extensions made, an additional three years) provided that greater than CDN$10,000 of the aggregate principal amount of the Debentures remains outstanding. On August 8, 2017, the Company initiated a tender offer to the Debenture holders to either tender their debentures or to extend on similar terms as the existing debentures. At the date of these interim financial statements, it is uncertain as to the amount of Debentures, if any, that will be extended as part of this tender.

Subsequent to the quarter ended June 30, 2017, the Company issued a total of 19,125,000 shares at $1.50 per share for total proceeds of $28,688 (See note 16 and 21 for additional details). This cash, along with the cash raised through the asset sales, will be used to pay down the maturing debt.

The Company has engaged financial advisors to assist with identifying and evaluating alternative sources of funding. As of the date of these interim financial statements, the Company has held discussions and received interest including draft term sheets from potential lenders. While there can be no assurance that the Company will be able to borrow on terms that are acceptable to the Company, management believes that it is probable that new loan(s) will be entered into on a timely basis to further strengthen its balance sheet.

Management's assessment and conclusion

Management is confident that the cash on hand at June 30, 2017 of $87,395 and the estimated proceeds from financing or asset sales as discussed above will provide the cash flow necessary to fund operations over the next year to August 31, 2018, and as a result, management has determined that substantial doubt has been alleviated by management’s plans at a probable level of assurance. Management cautions the readers that there is no absolute assurance that the Company will be able to raise the financing necessary or realize on asset sales, under satisfactory terms and conditions, to continue as a going concern. If the Company was not to continue as a going concern, significant adjustments may be required to the carrying value of its assets and liabilities in the accompanying interim financial statements and the adjustments could be material.

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

3. Basis of preparation:

(a) Basis of presentation:

These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

These 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 year ended December 31, 2016, 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, 2017 and for all periods presented, have been recorded. The results of operations for the six months ended June 30, 2017 are not necessarily indicative of the results for the Company's full year.

(b) Foreign currency translation:

The Company’s functional currency is the Canadian dollar and its reporting currency for its consolidated financial statement presentation is the United States dollar. The functional currencies for the Company's subsidiaries include the following: United States, Canadian ("CDN") and Australian dollars, 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.

Transactions that are denominated in currencies other than the functional currency of the Company’s operations or its subsidiaries are translated at the rate in effect on the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated to the applicable functional currency at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate. All foreign exchange gains and losses are recognized in the statement of operations, except for the translation gains and losses arising from available-for-sale instruments, which are recorded through other comprehensive income until realized through disposal or impairment.

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

		Period ended	Average for the three months ended		Average for the six months ended	
	June 30, 2017	December 31, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Canadian dollar	0.77	0.74	0.74	0.78	0.75	0.76
Australian dollar	0.77	0.72	0.75	0.74	0.75	0.74
Euro	1.14	1.06	1.10	1.12	1.08	1.11
Argentina Peso	0.06	0.06	0.06	0.07	0.06	0.07
RMB	0.15	0.14	0.15	0.15	0.15	0.15
Swedish Krona	0.12	0.11	0.11	0.12	0.11	0.12
Japanese Yen	0.01	0.01	0.01	0.01	0.01	0.01
Indian Rupee	0.02	0.01	0.02	0.01	0.02	0.01

4. Accounting changes:

(a) 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 Accounting Standards Codification. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2017.

ASU 2014-09 and related ASUs may be adopted using either the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. We expect to adopt ASU 2014-09 and related ASUs on January 1, 2018, using the modified retrospective method. The Company has begun its detailed preliminary analysis and has made progress in the assessment in the second quarter of 2017. The Company is continuing to evaluate the impact on the financial statements and processes and expects to complete its assessment in the fourth quarter of 2017.

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, which increases 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.

Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, which provides cash flow classification guidance on eight specific cash flow issues to reduce diversity in practice for which authoritative guidance did not previously exist. ASU 2016-15 is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

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

5. Sale of assets:

Consistent with the Company's strategy to simplify the number of businesses that the Company will focus on, the Board of Directors approved the plan to sell substantially all of the Industrial business segment (excluding the electronics and high pressure product lines). These assets and liabilities were available for sale during the first quarter of 2017 and were accounted for as held for sale at March 31, 2017. The comparative balances of the discontinued Industrial business segment were also reclassified as at December 31, 2016, with impact to the following balance sheets accounts: accounts receivable, inventories, property, plant and equipment, intangible assets, accounts payable and accrued liabilities, and warranty liability. The notes for these account balances have been adjusted for these reclassifications in these interim financial statements.

On April 28, 2017, the Company closed the transaction to sell the Industrial segment's Auxiliary Power Unit ("APU") business for total consideration of $70,000. The Company received proceeds of $62,732, net of a $7,000 holdback and a $268 working capital adjustment. The holdback is to indemnify the purchaser for certain contingencies that could arise within two years from the closing of the transaction. The Company will be entitled to receive payment from the purchaser in the event that the contingent items are settled for less than $7,000, with interim settlement reviews and payments occurring at nine, eighteen and twenty four months. A net gain of $59,286 was recorded in the second quarter of 2017.

On May 30, 2017, the Company sold additional assets held for sale for total consideration of $17,500. The Company received proceeds of $16,250, net of $1,250 holdback. This transaction resulted in a net loss of $4,402 during the second quarter.

As discussed in note 14, a proportion of the consideration received on asset sales was paid or is payable against the royalty payable.

The Company entered into Transition Supply Agreements ("TSA") with the purchasers which required the Company to maintain certain levels of inventory until the end of the respective TSA. Under the TSA, any remaining inventory will be purchased by the purchasers at the end of their terms.

The carrying amount of the major classes of assets and liabilities for the held for sale Industrial business segment at June 30, 2017 and December 31, 2016 are shown below:

	June 30, 2017	December 31, 2016
Accounts receivable	$ 722	$ 10,518
Inventories	4,364	17,324
Other current assets	222	483
	5,308	28,325
Property, plant, and equipment	1,838	5,106
Intangible assets	—	1,026
Deferred income tax assets	—	2,127
Other non-current assets	—	514
	1,838	8,773
Total assets classified as held for sale	$ 7,146	$ 37,098
Accounts payable and accrued liabilities	$ 5,324	$ 13,302
Income taxes payable	5,953	—
Other current liabilities	298	1,914
	11,575	15,216
Other non-current liabilities	1,116	8,207
Total liabilities classified as held for sale	$ 12,691	$ 23,423

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

5. Sale of assets (continued):

The Industrial business was acquired on June 1, 2016 as a result of the acquisition of Fuel Systems and thus, there was only one month of discontinued operations disclosed for the three and six months ended June 30, 2016. The following table presents financial results of the Industrial business segment which are included in net income from discontinued operations for the three and six months ended June 30, 2017:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Product revenue	$ 10,459	$ 7,121	$ 28,005	$ 7,121
Cost of product revenue	8,038	5,285	21,284	5,285
Research and development	769	494	1,945	494
General and administrative	1,176	320	2,524	320
Sales and marketing	677	410	1,626	410
	10,660	6,509	27,379	6,509
Operating income (loss) from discontinued operations	(201)	612	626	612
Other expenses	373	97	613	97
Gain on sale of assets	(54,884)	—	(54,884)	—
Income from discontinued operations before income tax	54,310	515	54,897	515
Income tax expense	8,690	247	8,976	247
Net income from discontinued operations	$ 45,620	$ 268	$ 45,921	$ 268

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

6. Accounts Receivable:

	June 30, 2017	December 31, 2016
Customer trade receivables	$ 69,174	$ 62,763
Due from related parties (note 8(a))	630	488
Other receivables	6,384	4,982
Income tax receivable	1,152	1,638
Allowance for doubtful accounts	(3,230)	(3,211)
	$ 74,110	$ 66,660

7. Inventories:

	June 30, 2017	December 31, 2016
Purchased parts	$ 39,029	$ 37,894
Work-in-process	3,782	3,794
Finished goods	13,765	11,095
Inventory on consignment	682	517
	$ 57,258	$ 53,300

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

8. Long-term investments:

	June 30, 2017	December 31, 2016
Cummins Westport Inc. (a)	$ 12,472	$ 10,950
Weichai Westport Inc.	1,824	1,824
Other equity-accounted investees	678	648
	$ 14,974	$ 13,422

(a) 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, 2017, the Company recognized its share of CWI's income of $5,322 and $7,056, respectively (three and six months ended June 30, 2016 - $1,448 and $2,582, respectively) in income from investments accounted for by the equity method.

As of June 30, 2017, the Company has a related party accounts receivable balance of $630 from CWI.

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

	June 30, 2017	December 31, 2016
Current assets:		
Cash and short-term investments	$ 99,040	$ 95,623
Accounts receivable	90	5,018
Other current assets	104	209
	99,234	100,850
Long-term assets:		
Property, plant and equipment	1,419	1,074
Deferred income tax assets	41,868	45,321
	43,287	46,395
Total assets	$ 142,521	$ 147,245
Current liabilities:		
Current portion of warranty liability	$ 25,953	$ 26,206
Current portion of deferred revenue	22,214	20,070
Accounts payable and accrued liabilities	8,768	7,125
	56,935	53,401
Long-term liabilities:		
Warranty liability	20,033	27,282
Deferred revenue	37,735	41,788
Other long-term liabilities	2,863	2,863
	60,631	71,933
Total liabilities	$ 117,566	$ 125,334

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

8. Long-term investments (continued):

(a) Cummins Westport Inc. (continued):

During the fourth quarter of 2016, CWI changed its method for determining its warranty liability to exclude, from the estimated cost to settle claims, the parts margin it expects to earn on parts sold to dealers and used to service warranty claims. The change was accounted for as a change in accounting policy by CWI and the Company and the comparative balances were restated on a retrospective basis. The associated adjustment for the three and six months ended June 30, 2016 was a net loss of $9 and $1,264, respectively.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
		(Adjusted)		(Adjusted)
Product revenue	$ 59,507	$ 55,697	$ 110,505	$ 102,860
Parts revenue	20,004	17,896	39,732	35,699
	79,511	73,593	150,237	138,559
Cost of revenue and expenses:				
Cost of product and parts revenue	50,930	52,580	99,893	98,176
Research and development	7,137	10,600	17,888	19,652
General and administrative	322	228	647	526
Sales and marketing	4,706	6,347	10,225	12,728
Foreign exchange (gain) loss	14	(1)	13	(9)
Bank charges, interest and other	152	184	306	376
	63,261	69,938	128,972	131,449
Income from operations	16,250	3,655	21,265	7,110
Interest and investment income	228	145	402	281
Income before income taxes	16,479	3,800	21,667	7,391
Income tax expense	5,833	904	7,556	2,227
Income for the period	$ 10,645	$ 2,896	$ 14,111	$ 5,164

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

9. Property, plant and equipment:

June 30, 2017	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 4,754	$ 1,280	$ 3,474
Computer equipment and software	8,256	7,443	813
Furniture and fixtures	5,018	2,982	2,036
Machinery and equipment	82,242	37,725	44,517
Leasehold improvements	13,906	6,366	7,540
	$ 114,176	$ 55,796	$ 58,380

December 31, 2016	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 4,471	$ 1,127	$ 3,344
Computer equipment and software	8,682	6,970	1,712
Furniture and fixtures	6,004	2,544	3,460
Machinery and equipment	72,992	33,893	39,099
Leasehold improvements	13,597	6,636	6,961
	$ 105,746	$ 51,170	$ 54,576

10. Intangible Assets:

June 30, 2017	Cost	Accumulated amortization	Net book value
Brands, patents and trademarks	$ 20,998	$ 6,079	$ 14,919
Technology	5,137	3,576	1,561
Customer contracts	12,338	7,267	5,071
Other intangibles	334	318	16
Total	$ 38,807	$ 17,240	$ 21,567

December 31, 2016	Cost	Accumulated amortization	Net book value
Patents and trademarks	$ 19,679	$ 5,028	$ 14,651
Technology	4,735	3,068	1,667
Customer contracts	11,419	6,053	5,366
Other intangibles	319	171	148
Total	$ 36,152	$ 14,320	$ 21,832

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

11. Accounts payable and accrued liabilities:

	June 30, 2017	December 31, 2016
Trade accounts payable	$ 65,996	$ 59,096
Accrued payroll	13,772	11,617
Taxes payable	1,005	695
Due to related parties	—	1,191
Accrued interest	1,892	1,977
Other payables	6,783	5,367
	$ 89,448	$ 79,943

12. Restructuring, termination and other exit obligations:

	June 30, 2017			December 31, 2016		
	Termination	Lease-exit	Total	Termination	Lease-exit	Total
Balance, beginning of period	$ 3,278	$ 10,845	$ 14,123	$ —	$ —	$ —
Additions	4,452	—	4,452	7,198	11,802	19,000
Additions: interest and others	—	698	698	—	509	509
Payments	(4,556)	(1,206)	(5,762)	(3,876)	(1,196)	(5,072)
Impact of foreign exchange	116	250	366	(44)	(270)	(314)
Change in estimate	—	(4,422)	(4,422)	—	—	—
Balance, end of period	3,290	6,165	9,455	3,278	10,845	14,123
Less: current portion	(3,290)	(6,165)	(9,455)	(2,903)	(2,505)	(5,408)
Long-term portion	$ —	$ —	$ —	$ 375	$ 8,340	$ 8,715

During the third quarter of 2016, the Company initiated a series of restructuring activities which included the consolidation of facilities in Argentina, Canada, China and the United States. This resulted in an implementation of a reduction in workforce resulting in employee severance, one-time termination benefits and contract termination costs associated with the restructuring activities.

During 2017, the Company continued its restructuring activities and further implemented reductions in workforce, resulting in employee severance and termination benefits in Canada, Italy and Argentina.

The remaining balance of the lease-exit obligations as at June 30, 2017 is related to a 10-year lease commitment for 116,000 square feet of office space located in Vancouver, Canada, which the Company exited as part of the restructuring activities. The lease commitment was negotiated and a final settlement agreement signed in July 2017 and the Company reversed $4,422 on the lease-exit estimate. The remaining liability as at June 30, 2017 of $6,165 is to be settled in three payments: CDN$4,000 in July 2017 (paid subsequent to quarter end); CDN$2,000 in September 2017; and CDN$2,000 in January 2018.

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

13. Long-term debt:

	June 30, 2017	December 31, 2016
Subordinated debenture notes (a)	$ 42,383	$ 40,463
Senior financing (b)	11,126	10,553
Convertible debt (c)	17,310	17,286
Other bank financing (d)	7,668	9,949
Capital lease obligations (e)	603	781
Balance, end of period	79,090	79,032
Current portion	(49,572)	(48,097)
Long-term portion	$ 29,518	$ 30,935

(a) The subordinated debenture notes are unsecured, 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. The holders of the Debentures have the option to extend, a maximum of six times, the maturity date for an additional period of six months each time (i.e. if all extensions made, an additional three years), provided that greater than CDN$10,000 of the aggregate principal amount of the Debentures remains outstanding.

The Debenture holders have not elected to extend their Debentures; however, on August 8, 2017 the Company made an offer to the Debenture holders to either tender their Debentures to the Company at a 1% premium, or extend on similar terms to the previous Debentures and receive a one-time 2% interest bonus as part of the extension. The extended Debentures, if any, will carry interest at 9%, have a three-year term, and be callable by the Company. The Company can amend the Debentures to automatically extend all Debentures holders that have not accepted the tender offer if the Company obtains (i) two-thirds of Debentures holders approval of the offer in writing; or (ii) two-thirds of Debentures holders present in person or by proxy vote in favour at a meeting of Debentures holders.

(b) The €10,000 senior financing facility was renewed on March 24, 2017. The loan bears interest at the 6-month Euribor plus 3.3% and can increase or decrease by 30 basis points based on an annual leverage ratio calculation. Interest is paid semi-annually. The Company has pledged its interest in EMER S.p.A. as a general guarantee for its senior financing.

(c) On January 11, 2016, the Company entered into a financing agreement with Cartesian Capital Group ("Cartesian") to support the Company's global growth initiatives. As part of the agreement, on June 1, 2016, 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. Cartesian is secured by an interest in the Company's HPDI intellectual property and a priority interest in the Company's CWI joint venture interest.

(d) Other bank financing consists of various secured and unsecured bank financing arrangements that carry rates of interest ranging from 0.75% to 3.75% and have various maturities out to 2022. Security includes a building owned by the Company in the Netherlands, and certain accounts receivable in one of our Italian subsidiaries.

(e) The Company has capital lease obligations that have terms of three to five years at interest rates ranging from 3.07% to 12.0%.

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

The principal repayment schedule of the senior financings and convertible debt are as follows as at June 30, 2017:

	Subordinated debenture notes	Senior financing	Convertible Debt	Other bank financing	Capital lease obligations	Total
Remainder of 2017	$ 42,383	$ 717	$ —	$ 6,127	$ 345	$ 49,572
2018	—	1,753	—	342	146	2,241
2019	—	1,882	—	342	55	2,279
2020	—	2,012	—	342	51	2,405
2021 and thereafter	—	4,762	17,310	515	6	22,593
	$ 42,383	$ 11,126	$ 17,310	$ 7,668	$ 603	$ 79,090

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

14. Long-term royalty payable:

On January 11, 2016, the Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided $17,500 in cash (the "Royalty Agreement"). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments in respect of the Royalty Agreement 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. Cartesian is secured by an interest in the Company's HPDI intellectual property and a priority interest in the Company's CWI joint venture interest.

In January 2017, the Company and Cartesian signed a Consent Agreement which allows the Company to sell certain assets in exchange for prepayment of the Cartesian royalty: Cartesian will be paid 15% of the net proceeds from these asset sales to a maximum of $15,000, with this payment being allocated on a non-discounted basis to future years' minimum payments.

The sale of the APU business and the sale of additional Industrial assets resulted in royalty prepayments to Cartesian of approximately $9,650, with $1,285 outstanding as at June 30, 2017. The Company recorded an additional finance charge of $5,236 on the partial extinguishment of the royalty payable on the completion of these transactions.

	June 30, 2017	December 31, 2016
Balance, beginning of period	$ 21,562	$ —
Issuance of additional debentures	—	17,500
Accretion expense	1,164	4,062
Repayment	(9,650)	—
Additional finance charge from prepayment	5,236	—
Balance, end of period	18,312	21,562
Current portion	(3,296)	(1,500)
Long-term portion	$ 15,016	$ 20,062

The table below shows the expected minimum outstanding repayments for the long-term royalty payable as at June 30, 2017:

	Minimum repayment
2017	$ 1,285
2018	2,011
2019	4,749
2020	6,307
2021	7,639
2022 and thereafter	14,338
	$ 36,329

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

15. Warranty liability:

A continuity of the warranty liability is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance, beginning of period	$ 11,626	$ 11,996	$ 12,168	$ 13,991
Warranty assumed on acquisition	—	5,180	—	5,180
Warranty claims paid	(614)	(1,909)	(1,372)	(4,914)
Warranty accruals	305	586	592	645
Change in estimate	(1,117)	—	(1,117)	—
Impact of foreign exchange changes	(323)	(9)	(394)	942
Balance, end of period	9,877	15,844	9,877	15,844
Less: current portion	(5,044)	(7,670)	(5,044)	(7,670)
Long-term portion	$ 4,833	$ 8,174	$ 4,833	$ 8,174

16. 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 with Fuel Systems.

During the six months ended June 30, 2017, the Company issued 1,066,099 common shares, net of cancellations, upon exercises of share units (six months ended June 30, 2016 – 461,628 common shares). The Company issues shares from treasury to satisfy stock option and share unit exercises.

Subsequent to quarter end, on July 19, 2017, the Company issued 16,700,000 common shares at a price of $1.50 per share, for gross proceeds of $25,050. On July 28, 2017, the Company issued an additional 2,425,000 common shares at $1.50 for gross proceeds of $3,638, when the underwriters exercised their over-allotment option.

(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, 2017, the Company recognized $4,169 (six months ended June 30, 2016 - $6,332) 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)

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of June 30, 2017 and June 30, 2016 are as follows:

	Six months ended June 30, 2017			Six months ended June 30, 2016		
	Number of units		Weighted average grant date fair value (CDN $)	Number of units		Weighted average grant date fair value (CDN $)
Outstanding, beginning of period	6,664,591	$	6.75	9,657,921	$	7.62
Granted	684,284		2.26	684,402		2.90
Exercised	(1,066,099)		7.03	(461,628)		9.54
Forfeited/expired	(162,535)		6.03	(1,024,392)		10.19
Outstanding, end of period	6,120,241	$	6.26	8,856,303	$	6.79
Units outstanding and exercisable, end of period	1,990,006	$	6.16	1,082,207	$	9.68

As at June 30, 2017, $4,735 of compensation cost related to Units awards has yet to be recognized in results from operations and will be recognized ratably over the next four quarters.

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units at June 30, 2017 as follows:

		June 30, 2017 CDN$
Share units:		
Outstanding	$	18,850
Exercisable		6,129
Exercised		3,272

(c) Stock-based compensation

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

	Six months ended June 30,			
		2017		2016
Research and development	$	659	$	1,179
General and administrative		2,735		3,825
Sales and marketing		775		1,318
	$	4,169	$	6,322

Included in the amount of $4,169 for stock-based compensation, $1,125 (2016 - $357) relates to 1,670,000 Performance Stock Units ("PSUs") outstanding that were granted in 2015 and are conditional upon the 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 PSUs are being treated as a liability until this condition is met.

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

17. Related party transactions:

The Company enters into related party transactions with the CWI joint venture and Cartesian on convertible debt and the royalty payable. Refer to note 8(a) for the related party transactions with CWI, and notes 13(c) and 14 for transactions with Cartesian.

18. 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:

2017	$	3,178
2018		5,563
2019		3,990
2020		2,477
2021		914
Thereafter		574
	$	16,696

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.

19. 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.

Automotive Business Segment

The Westport Fuel Systems Automotive segment designs, manufactures and sells CNG and LPG components and systems for passenger cars, light-duty trucks and medium-duty vehicles including OEM, delayed OEM (“DOEM”) and Aftermarket segments. The portfolio of products includes pressure regulators, injectors, electronic control units, valves and filters, in addition to complete bi-fuel, mono-fuel and dual-fuel LPG and CNG conversion kits.

The Automotive segment also designs, manufactures, and sells a wide range of CNG compressors and refueling systems, from BRC FuelMaker home appliance for individuals or small fleets, to complete refueling stations branded CUBOGAS.

We serve more than 70 countries with a strong customer base in Europe, the Americas, Asia, and a growing presence in Africa. Products are either sold directly to the OEM or through a local distributor. We supply a large number of global OEMs including Volkswagen, Tata, GAZ, FCA, General Motors, Ford, Maruti Suzuki, Honda, Volvo Car, Hyundai, and Kia as well as Aftermarket distributors and customers.

With effect from the first quarter of 2017, the high pressure components and electronics product lines, formerly classified under the Industrial Business segment, were consolidated into the Automotive business and the comparative balances were reclassified accordingly.

Industrial Business Segment

On April 17, 2017, the Company reached an agreement to sell its APU business and on May 30, 2017, the Company sold additional assets of the Industrial business. The Industrial Business segment is no longer considered an operating segment and is reclassified to discontinued operations.

Corporate and Technology Investments Segment

The Corporate and Technology Investments segment is responsible for current and advanced research and development programs, corporate oversight, and general administrative duties. Examples of our leading technologies include fully integrated combustion solutions, fuel injectors, and fuel storage and delivery solutions including cryogenics. The corporate oversight and general administrative functions for the Company are grouped under this unit.

Westport’s next generation of HPDI technology, Westport™ HPDI 2.0, will provide global vehicle and engine OEMs with a vertically integrated natural gas solution with attractive price, performance, and fuel economy. Developed to OEM quality standards, Westport™ HPDI 2.0 system components are primarily manufactured in partner facilities, offer ready integration into OEM operations globally. A key component of the Westport™ HPDI 2.0 system is a brand new family of high pressure fuel injectors, co-developed with Delphi, designed to provide better cost, smaller size and improved packaging compared to prior generation Westport™ HPDI injector designs. Westport and Delphi have entered into a joint development agreement which will combine our intellectual property and engineering strengths to co-develop and manufacture high-pressure natural gas fuel injectors designed for multiple engine OEMs. The family of injectors are developed with core components of Westport's HPDI 2.0 fuel system.

Cummins Westport Inc. Joint Venture

CWI, our 50:50 joint venture with Cummins, serves the medium and heavy-duty on highway 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.

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

19. Segment information (continued):

Weichai Westport Inc. Joint Venture

WWI is a joint venture between the Company, Weichai Holding Group Co. Ltd. and Hong Kong Peterson (CNG) Equipment Ltd. focusing on the Chinese market. In April 2016, the Company sold a portion of its economic interest in WWI and the Company discontinued reporting of WWI 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 subsequent to the first quarter of 2016.

Financial information by business segment as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue:				
Automotive	$ 60,828	$ 36,378	$ 117,157	$ 59,577
Corporate and Technology Investments	1,249	858	4,943	1,671
CWI	79,511	73,593	150,237	138,559
WWI	—	—	—	29,931
Total segment revenues	141,588	110,829	272,337	229,738
Less: equity investees' revenue	(79,511)	(73,593)	(150,237)	(168,490)
Consolidated revenue from continuing operations	$ 62,077	$ 37,236	$ 122,100	$ 61,248
Consolidated revenue from discontinued operations	$ 10,459	$ 7,121	$ 28,005	$ 7,121

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Operating income (loss):				
Automotive	$ 215	$ (5,764)	$ 246	$ (7,541)
Corporate and Technology Investments	(17,016)	(21,838)	(29,144)	(41,814)
Restructuring, termination and other exit costs	1,545	—	(29)	—
Foreign exchange gain (loss)	(1,004)	(4,098)	567	(5,445)
Gain (loss) on sale of investment	—	(6,312)	67	(6,312)
CWI	16,402	3,848	21,571	8,742
WWI	—	—	—	718
Total segment operating loss	142	(34,164)	(6,722)	(51,652)
Less: equity investees' operating income	(16,402)	(3,848)	(21,571)	(9,460)
Consolidated operating loss from continuing operations	$ (16,260)	$ (38,012)	$ (28,293)	$ (61,112)
Consolidated operating income (loss) from discontinued operations	$ (201)	$ 612	$ 626	$ 612

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

19. Segment information (continued):

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Total additions to long-lived assets, excluding business combinations:				
Automotive	$ 2,127	$ 218	$ 2,916	$ 340
Corporate and Technology Investments	4,381	849	5,811	2,158
	6,508	1,067	8,727	2,498
Add: assets held for sale	—	102	—	102
	$ 6,508	$ 1,169	$ 8,727	$ 2,600

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:

	% of total revenue from continuing operations			
	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Europe	57%	58%	61%	59%
Americas	20%	28%	22%	27%
Asia	10%	14%	9%	14%
Others	13%	—%	8%	—%

As at June 30, 2017, total long-term investments of $14,465 (December 31, 2016 - $12,876) was allocated to the Corporate and Technology Investments segment and $509 (December 31, 2016 - $546) was allocated to Automotive.

Total assets are allocated as follows:

	June 30, 2017	December 31, 2016
Automotive	$ 238,942	$ 270,594
Corporate and Technology Investments and unallocated assets	94,167	23,768
CWI	142,521	147,245
	475,630	441,607
Add: assets held for sale	7,146	37,098
Less: equity investees' total assets	(142,521)	(147,245)
Total consolidated assets	$ 340,255	$ 331,460

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

20. Financial instruments:

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, 2017, the Company has $87,747 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at June 30, 2017:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	$ 89,448	$ 89,448	$ 89,448	$ —	$ —	$ —
Restructuring obligation	9,455	9,455	9,455	—	—	—
Unsecured subordinated debentures (note 13(a))	42,383	44,131	44,131	—	—	—
Senior financing (note 13 (b))	11,126	12,327	998	4,262	4,561	2,506
Convertible debt (note 13 (c))	17,310	23,669	1,575	3,150	18,944	—
Other bank financing (note 13 (d))	7,668	7,820	6,261	699	689	171
Long-term royalty payable (note 14)	18,312	36,329	3,296	11,056	7,639	14,338
Capital lease obligations (note 13 (e))	603	673	447	169	57	—
Operating lease commitments	—	16,696	4,413	8,788	3,100	395
Royalty payments	3,268	3,268	—	3,268	—	—
	$ 199,573	$ 243,816	$ 160,024	$ 31,392	$ 34,990	$ 17,410

20. 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 approximate 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 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 their fair values.

The carrying values reported in the condensed consolidated balance sheet for the unsecured subordinated debenture notes (note 13(a)) approximates their fair value due to the short term to maturity and the cash position of the Company.

The carrying value reported in the condensed consolidated balance sheet for senior financing agreements (note 13(b)) approximates their fair values as at June 30, 2017, 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, 2017, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

21. Subsequent Events:

In July 2017, the Company issued a total of 19,125,000 common shares for gross proceeds of $28,688. See note 16 for additional details.

In August 2017, the Company made an offer to the holders of the CDN$55,000 debentures. The holders have the option to either tender their Debentures to the Company for a 1% premium on the principal or can extend their Debentures on similar terms and receive a one-time bonus interest payment. See note 13(a) for additional details.