Financial Report to Shareholders

For the six months ended June 30, 2019

Q2 2019

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Fuel Systems Inc. ("Westport Fuel Systems", the "Company", "we", "us", "our") for the three and six months ended June 30, 2019 provides an update to our annual MD&A dated March 19, 2019 for the fiscal year ended December 31, 2018. 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, 2018 and our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019. 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 8, 2019.

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

FORWARD LOOKING STATEMENTS

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

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

BUSINESS OVERVIEW AND GENERAL DEVELOPMENTS

Westport Fuel Systems is a global company focused on engineering, manufacturing, and supply of alternative fuel systems and components for transportation applications. Our diverse product offering sold under a wide range of established brands enables the deployment of a range of alternative fuels offering environmental and economic advantages, including liquid petroleum gas ("LPG"), compressed natural gas ("CNG"), liquid natural gas ("LNG"), renewable natural gas ("RNG"), and hydrogen. We supply our products and services through a network of distributors and to original equipment manufacturers ("OEMs") and we provide delayed OEM ("DOEM") services. In total, we have customers in more than 70 countries. Today, our products and services are available for passenger car, light-, medium- and heavy-duty truck, cryogenic, and hydrogen applications.

Westport Fuel Systems is well positioned to increase revenues and market share as new stringent environmental regulations mandating greenhouse gas emission reductions have been introduced in key markets around the world. We are leveraging our market-ready products and customer base to capitalize on these opportunities. In addition to our operational competency in well-established transportation markets, our development of new technologies provides us a technology leadership position which 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.

The majority of our revenues are generated through the following businesses:

- Independent aftermarket (“IAM”): we sell systems and components, primarily through a global network of distributors and across a wide range of brands, that consumers can purchase and have installed onto their car to enable passenger cars to use LPG or CNG fuels in addition to gasoline.
- DOEM: we directly or indirectly convert new passenger cars for OEMs or importers, to address local market needs when a global LPG or CNG bi-fuel vehicle platform is not available directly from the OEM.
- Light-duty OEM: we sell systems and components to OEMs that are used to manufacture new, direct off the assembly line LPG or CNG-fueled vehicles.
- Heavy-duty OEM: we sell High Pressure Direct Injection ("Westport HPDI 2.0™" or "HPDI") systems and components to Engine OEMs and Commercial Vehicle OEMs. Our fully integrated Westport HPDI 2.0™ system matches the power, torque, and fuel economy benefits found in traditional compression ignition engines using only diesel fuel but, with our system, powered primarily by natural gas, resulting in reduced greenhouse gas emissions, and the capability to cost-effectively run on renewable fuels.

During 2018, two significant milestones were achieved with respect to our HPDI product. First, in the opening months of the year our European OEM launch partner commercially launched heavy duty trucks incorporating HPDI 2.0™ technology, and these truck models are available and on the road in Europe today. Then in August 2018, Westport entered into definitive development and supply agreements with Weichai Westport Inc. ("WWI") to develop, market, and commercialize a heavy-duty, natural gas engine featuring the Westport HPDI 2.0™ technology, based on one of Weichai Power Co., Ltd.'s ("Weichai Power") heavy-duty engine platforms. The new natural gas engine will be certified to meet China VI emissions standards and is expected to be launched in late 2019. WWI has committed to purchase Westport HPDI 2.0™ components required to produce a minimum of 18,000 Weichai Westport HPDI 2.0™ engines between the launch date and the end of 2023 (see Operating Segments of this MD&A for additional details on WWI).

During the second quarter of 2019, Westport entered into a development agreement with another OEM to apply our HPDI system to their engine for their heavy duty trucks and this development work is expected to run through this year.

The HPDI business is in the early stages of commercial development, and, as a result, is currently generating losses. Meaningful increases in sales are expected to be required for the HPDI business to benefit from economies of scale and become profitable. We anticipate growth in volumes in 2019 and future years through sales to our initial launch partner, our supply arrangement with WWI, and additional OEMs entering into supply agreements for our HPDI technology.

Revenues for the three months ended June 30, 2019 increased by 2.4% to $82.4 million from $80.5 million in the second quarter of 2018, resulting from strength in all aspects of our business, but primarily as a result of increased HPDI revenue in second quarter of 2019. The strong sales during the quarter were somewhat muted by the six percent drop in the Euro as compared to last year. Westport Fuel Systems recorded net loss from continuing operations of $2.3 million for the three months ended June 30, 2019 compared to a net loss from continuing operations of $5.7 million for the three months ended June 30, 2018. The $3.4 million improvement in net loss from continuing operations was a result of lower operating expenses, partially offset by lower margins generated by the Company and lower earnings from Cummins Westport Inc. ("CWI"), our 50:50 joint venture with Cummins, Inc. ("Cummins").

Westport Fuel Systems earned $4.0 million Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") and $8.1 million Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA", see Non-GAAP Measures section in this MD&A) during the three months ended June 30, 2019 as compared to $0.2 million EBITDA and $8.5 million Adjusted EBITDA for the three months ended June 30, 2018.

We continue to cooperate with the Securities Exchange and Commission's ("SEC") investigation that commenced in June 2017 regarding our investment in Weichai Westport Inc. and compliance with the FCPA and securities law related to disclosures in SEC filings. See the Regulatory Compliance section for additional details.

LIQUIDITY AND GOING CONCERN

In connection with preparing financial statements for each annual and interim reporting period, management is required to 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 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 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 financial statements are issued.

At this time, management's evaluation has concluded that there are no known or currently foreseeable conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date these condensed consolidated interim financial statements were issued. The Company's condensed consolidated interim financial statements have therefore been prepared on the basis that the Company will continue as a going concern.

At June 30, 2019, the Company's net working capital was $52.2 million including cash and cash equivalents of $45.4 million, and its long-term debt, including the royalty payable, was $67.5 million, of which $17.4 million matures or is payable in the next twelve months. The Company generated net loss from continuing operations of $2.3 million and cash flows from continuing operations of $2.5 million for the three months ended June 30, 2019 and a loss from continuing operations of $5.4 million and negative cash flows of $12.8 million for the six months ended June 30, 2019. For fiscal year 2018, the loss from continuing operations was $40.7 million and negative cash flows from continuing operations were $27.4 million.

The Company continues to work towards its goals of increasing profitability and achieved improved results from operations and operating cash flows in 2018, and this improvement has continued in 2019. In particular, the commercial launch of Westport HPDI 2.0™ in 2018 has allowed the Company to significantly reduce engineering and development spend and the associated capital expenditures on this product and this reduction has improved current and forecasted future cash flows. The legal fees related to the SEC investigation that began in 2017 (see note 18(b) in the interim financial statements) were significant in 2018 and during the second quarter of 2019, the Company accrued $4.5 million, net of insurance recovery, to reflect the Company's estimate of costs to complete and resolve the SEC investigation. However, since the possible outcomes of this proceeding remain uncertain at this time, it is also necessary to acknowledge that any final determination that the Company's operations or activities are not, or were not, in compliance with the Foreign Corrupt Practices Act ("FCPA") and/or other U.S. securities laws could result in significant civil and criminal financial penalties and other sanctions, which could have a material adverse impact on our financial condition. Lastly, the Company continues to examine non-core assets to determine whether it is in the best interest of the Company to monetize assets or to continue to hold and invest in these assets.

Management believes that the cash on hand at June 30, 2019 and the improvements to the operations expected for 2019 will provide the cash flow necessary to fund operations over the next year to August 31, 2020. The ability of the Company to continue as a going concern beyond one year will be dependent on the Company's ability to generate positive results from operations and cash flows or on its ability to raise additional financings to fund future operations. If, as a result of future events, the Company was to determine it was no longer able to continue as a going concern, significant adjustments would be required to the carrying value of its assets and liabilities in the accompanying financial statements and the adjustments could be material.

Operating Segments

The Company manages and report the results of its business through three segments: Transportation, the CWI Joint Venture, and Corporate. This reflects the manner in which operating decisions and assessing business performance is currently managed by the Chief Operating Decision Maker ("CODM").

The financial information for the Company's business segments evaluated by the 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 made to reconcile the segment measures to the Company's consolidated matters.

Transportation Business Segment

Westport Fuel Systems' Transportation segment designs, manufactures, and sells alternative fuel systems and components for transportation applications. Our diverse product offerings are sold under established global brands and utilize a broad range of alternative fuels, which have numerous environmental and economic advantages including: LPG, CNG, LNG, RNG, and hydrogen. We supply our products and services through a global network of distributors and numerous OEMs and DOEMs in more than 70 countries. Today, our products and services are available for passenger cars, light-, medium- and heavy-duty trucks, cryogenics, and hydrogen applications.

The Transportation group includes the IAM, light-duty OEM, heavy-duty OEM and DOEM programs, electronics, current and advanced research and development programs, supply chain, and product planning activities.

Cummins Westport Inc. ("CWI") Joint Venture

CWI 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 shorthaul 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 RNG.

CWI is a Delaware corporation owned 50% by Westport Power Inc., a wholly-owned subsidiary of Westport Fuel Systems, and 50% by Cummins Inc. ("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 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 developing, marketing and selling 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 and, as per the joint venture agreement, effective from July 1, 2019, either Cummins or the Company can buy out the other's interest based on contractually defined terms and conditions.

Corporate Business Segment

The Corporate business segment is responsible for public company activities, corporate oversight and general administrative duties, as well as R&D expenses relating to the protection of the Company's intellectual property; in particular, the costs associated with patenting our innovations and registering our trademarks, and maintaining our patent and trademark portfolios.

Weichai Westport Inc. ("WWI") Joint Venture

The Company, indirectly through its wholly-owned subsidiary, Westport Innovations (Hong Kong) Limited ("Westport HK"), is currently the registered holder of a 23.33% equity interest in WWI. In April 2016, the Company sold to Cartesian entities a derivative economic interest granting it the right to receive an amount of future income received by Westport HK from WWI equivalent to having an 18.78% equity interest in WWI and concurrently granted a Cartesian entity an option to acquire all of the equity securities of Westport HK for a nominal amount. The Company retained the right to transfer any equity interest held by Westport HK in WWI that was in excess of an 18.78% interest in the event that such option was exercised. As a result of such transactions, the Company's residual 23.33% equity interest in WWI currently corresponds to an economic interest in WWI equivalent to just 4.55%.

The Company has not considered WWI a business segment since March 31, 2016 due to the Company's reduced interest pursuant to a sale of a derivative economic interest to the Cartesian entities as noted above.

As discussed in the Business Overview and General Developments section of this MD&A, Westport Fuel Systems entered into development and supply agreements with WWI on August 28, 2018.

SELECTED FINANCIAL INFORMATION

Selected Consolidated Statements of Operations Data

The following table sets forth a summary of our financial results for the three and six months ended June 30, 2019 and June 30, 2018.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(expressed in millions of United States dollars, except for per share amounts and shares outstanding)				
Revenue	$ 82.4	$ 80.5	$ 155.6	$ 144.3
Gross margin	$ 19.3	$ 21.7	$ 36.5	$ 36.4
GM %	23.4%	27.0%	23.5%	25.2%
Net loss from continuing operations	$ (2.3)	$ (5.7)	$ (5.4)	$ (18.3)
Net income (loss) from discontinued operations	$ (0.2)	$ 0.8	$ (0.2)	$ (0.9)
Net loss	$ (2.6)	$ (4.9)	$ (5.6)	$ (19.2)
Net loss per share from continuing operations - basic and diluted	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.14)
Weighted average basic and diluted shares outstanding	133,600,880	131,946,818	133,525,464	131,836,351

Selected Balance Sheet Data

The following table sets forth a summary of our consolidated financial position as at June 30, 2019 and December 31, 2018:

(expressed in millions of United States dollars)	June 30, 2019	December 31, 2018
Cash and cash equivalents	$ 45.4	$ 61.1
Total assets	294.6	269.9
Long-term debt, including current portion	50.9	55.3
Long-term royalty payable, including current portion	16.6	20.9
Total liabilities	208.0	179.3
Shareholders' equity	86.6	90.7

(1) The increase in total assets and total liabilities is primarily due to the adoption of the new leasing standard. See note 4 of our condensed consolidated interim financial statements for additional details.

SELECTED FINANCIAL INFORMATION (continued):

Selected CWI Statements of Operations Data

The following table sets forth a summary of the financial results of Cummins Westport Inc. ("CWI") for the three and six months ended June 30, 2019 and June 30, 2018.

	Three months ended June 30,				Six months ended June 30,			
		2019		2018		2019		2018
(expressed in millions of United States dollars)								
Total revenue	$	84.0	$	86.9	$	176.3	$	139.1
Gross margin		25.2		29.5	$	53.1	$	42.7
GM %		30.0%		33.9%		30.1%		30.7%
Net income		11.7		15.5	$	28.9	$	18.5
Net income attributable to the Company		5.9		7.8	$	14.5	$	9.3

RESULTS FROM OPERATIONS

A significant portion of our revenues are denominated in Euros and a significant portion of our expenses are denominated in Euros and Canadian dollars. The Euro and the Canadian dollar weakened approximately 6% and 3%, respectively against the US dollar in Q2 2019 as compared to Q2 2018, resulting in lower revenues and lower expenses than would have been reported with no change in exchange rates.

The following tables summarize results by segment for the three and six months ended June 30, 2019, compared to the three and six months ended June 30, 2018.

The 2018 comparative figures have been revised to reflect the reclassification of the CNG Compressor business to discontinued operations.

Revenue

Total consolidated revenues from continuing operations for the three months ended June 30, 2019 increased by $1.9 million or 2% from $80.5 million in 2018 to $82.4 million in 2019.

Total consolidated revenues from continuing operations for the six months ended June 30, 2019 increased by $11.3 million or 8% from $144.3 million in 2018 to $155.6 million in 2019.

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2019	2018	$	%	2019	2018	$	%
Transportation	$ 82.4	$ 80.5	$ 1.9	2 %	$ 155.6	$ 144.3	$ 11.3	8%
CWI	84.0	86.9	(2.9)	(3)%	176.3	139.1	37.2	27%

Transportation revenue for the three and six months ended June 30, 2019 was $82.4 million and $155.6 million, respectively compared with $80.5 million and $144.3 million for the three and six months ended June 30, 2018. For the three and six months ended June 30, 2019, the IAM business decreased slightly by $1.3 million and $0.5 million, respectively due to the 6% decrease in the average Euro exchange rate. Revenue increased by $3.0 million and $11.5 million in the OEM business for the three and six months ended June 30, 2019, primarily driven by HPDI 2.0™ product sales, which was commercially launched in 2018.

CWI revenue for the three and six months ended June 30, 2019 was $84.0 million and $176.3 million, respectively, compared with $86.9 million and $139.1 million for the three and six months ended June 30, 2018, respectively. Unit sales for the three and six months ended June 30, 2019 were 1,745 and 3,736 compared to 2,124 and 2,941 for the three and six months ended June 30, 2018. The low unit sales in the second quarter of 2019 is a result of the timing of customer purchases which can fluctuate. The six months ended June 30, 2019 unit sales is higher compared to the six months ended June 30, 2018 due to the pre-buy activities in the fourth quarter of 2017 in advance of the 2018 on-board diagnostic compliant engines. Parts revenue increased from $21.3 million to $29.4 million and from $44.7 million to $59.7 million for the three and six months ended June 30, 2019, respectively, due to the cumulative increase in the natural gas engine population in service.

Gross Margin for the three months ended June 30, 2019

Total consolidated gross margin for the three months ended June 30, 2019 decreased by $2.4 million or 11% from $21.7 million in 2018 to $19.3 million in 2019.

The following table presents gross margin by segment for the three months ended June 30, 2019 compared to the three months ended June 30, 2018:

(expressed in millions of U.S. dollars)

	Three months ended June 30, 2019	% of Revenue	Three months ended June 30, 2018	% of Revenue	Change $	Change %
Transportation	$ 19.3	23%	$ 21.7	27%	$ (2.4)	(11)%
CWI	25.2	30%	29.5	34%	(4.3)	(15)%

Transportation gross margin decreased by $2.4 million to $19.3 million, or 23% of revenue, for the three months ended June 30, 2019, compared to $21.7 million, or 27% of revenue for the three months ended June 30, 2018. The quarter ended June 30, 2018 benefited from $1.3 million in favourable warranty adjustments. The decrease in gross margin for the current quarter was also impacted by product mix. The Transportation gross margin percentage achieved during the second quarter of 2019 was consistent with the first quarter of 2019 and the average 2018 gross margin percentage.

CWI gross margin decreased by $4.3 million to $25.2 million, or 30% of revenue from $29.5 million or 34% of revenue in the prior year quarter. The decrease in gross margin and gross margin percentage is driven by lower revenues, and a lower positive warranty adjustment of $0.6 million for the three months ended June 30, 2019 compared to a $3.7 million positive warranty adjustment for the three months ended June 30, 2018.

Gross Margin for the six months ended June 30, 2019

Total consolidated gross margin for the six months ended June 30, 2019 increased by $0.1 million or 0.3% from $36.4 million in 2018 to $36.5 million for the comparative period in 2019.

The following table presents gross margin by segment for the six months ended June 30, 2019 compared to the six months ended June 30, 2018:

(expressed in millions of U.S. dollars)

	Six months ended June 30, 2019	% of Revenue	Six months ended June 30, 2018	% of Revenue	Change $	Change %
Transportation	$ 36.5	23%	$ 36.4	25%	$ 0.1	0.3 %
CWI	53.1	30%	42.7	31%	10.4	24 %

Transportation gross margin increased by $0.1 million to $36.5 million, or 23% of revenue, for the six months ended June 30, 2019 compared to $36.4 million, or 25% of revenue for the six months ended June 30, 2018. The increase in gross margin is due to higher revenue, and the decrease in gross margin percentage is due to favourable prior year warranty adjustments and product mix as previously noted.

CWI gross margin increased by $10.4 million to $53.1 million, or 30% of revenue from $42.7 million or 31% of revenue in the prior year period. The increase in gross margin is due to higher revenues from higher unit sales from both product and parts sales, as previously noted.

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, 2019 compared to the three and six months ended June 30, 2018:

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2019	2018	$	%	2019	2018	$	%
Transportation	$ 6.8	$ 7.2	$ (0.4)	(6)%	$ 13.4	$ 15.6	$ (2.2)	(14)%
Corporate	0.1	0.2	(0.1)	(50)%	0.3	0.4	(0.1)	(25)%
Total research and development	$ 6.9	$ 7.4	$ (0.5)	(7)%	$ 13.7	$ 16.0	$ (2.3)	(14)%

Transportation R&D expenses for the three and six months ended June 30, 2019 were $6.8 million and $13.4 million, respectively, compared with $7.2 million and $15.6 million for the three and six months ended June 30, 2018, respectively. The decrease of $0.4 million and $2.2 million during the three and six months ended June 30, 2019 was due to completion of various R&D programs, reduction in headcount as the Company launched its HPDI 2.0 product and the lower Canadian and Euro average exchange rates as compared to the US dollar in the three and six months ended June 30, 2019, versus the three and six months ended June 30, 2018.

Corporate R&D expenses for the three and six months ended June 30, 2019 were $0.1 million and $0.3 million, respectively, compared to $0.2 million and $0.4 million for the three and six months ended June 30, 2018, respectively. The Corporate R&D expenses relate to costs associated with protecting the Company's intellectual property; in particular, the costs associated with patenting our innovations and registering our trademarks, and maintaining our patent and trademark portfolios.

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, 2019 compared to the three and six months ended June 30, 2018:

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2019	2018	$	%	2019	2018	$	%
Transportation	$ 10.1	$ 10.0	$ 0.1	1 %	$ 18.8	$ 18.8	$ —	—%
Corporate	6.9	8.3	(1.4)	(17)%	14.0	13.6	0.4	3%
Total selling, general and administrative	$ 17.0	$ 18.3	$ (1.3)	(7)%	$ 32.8	$ 32.4	$ 0.4	1%

Transportation SG&A expenses for three and six months ended June 30, 2019 were $10.1 million and $18.8 million, respectively, compared with $10.0 million and $18.8 million for the three and six months ended June 30, 2018, respectively. SG&A expenses remain consistent year over year, however, the current year period did benefit from the lower Euro and Canadian dollars.

Corporate SG&A expenses for the three and six months ended June 30, 2019 were $6.9 million and $14.0 million compared with $8.3 million and $13.6 million for the three and six months ended June 30, 2018, respectively. The decrease of $1.4 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 was mainly due to a reduction in professional fees and share-based compensation, which was partially offset by an increase of $2.0 million in SEC costs, net of insurance recoveries. The decrease of $0.4 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 is mainly due to reduction in professional fees and share-based compensation, which is offset by a $2.9 million increase in SEC investigation related costs. The three and six months ended June 30, 2019 include a provision of $4.5 million, net of insurance recovery, which reflects the Company's estimate of costs to complete and resolve the SEC investigation.

Restructuring costs recognized for the three and six months ended June 30, 2019 were $nil and $0.8 million, respectively, compared with $0.2 million and $0.8 million for the three and six months ended June 30, 2018, respectively. Restructuring expenses of $0.8 million for the six months ended June 30, 2019 related to management changes. Restructuring expenses of $0.2 million and $0.8 million for the three and six months ended June 30, 2018 related to reductions in workforce in Italy.

Foreign exchange gains and losses reflect net realized gains and losses on foreign currency transactions and net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly comprised 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, 2019, we recognized foreign exchange gains of $0.7 million and gains of $0.6 million, respectively, compared to a foreign exchange loss of $5.2 million for both the three and six months ended June 30, 2018, 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, 2019 was $4.0 million and $8.3 million, consistent with $4.1 million and $8.3 million for the three and six months ended June 30, 2018, respectively. The amount included in cost of product revenue for the three and six months ended June 30, 2019 was $2.0 million and $3.8 million compared with $1.9 million and $3.7 million for the three and six months ended June 30, 2018.

Income from investments primarily relates to our 50% interest in CWI, accounted for by the equity method.

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
CWI - 50% interest	$ 5.9	$ 7.8	$ 14.5	$ 9.3

The decrease in CWI income for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018 is largely due to lower sales in the current quarter and favourable warranty adjustments in the prior year quarter.

For the six months comparison, the increase is largely due to the weaker Q1 2018 CWI quarter as previously described above.

Interest on long-term debt and amortization of discount

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Interest expense on long-term debt	$ 0.8	$ 1.1	$ 1.9	$ 2.1
Royalty payable accretion expense and finance charge from prepayment	1.0	1.1	1.8	2.0
Total interest on long-term debt and accretion on royalty payable	$ 1.8	$ 2.2	$ 3.7	$ 4.1

Interest expense on long-term debt decreased during the quarter due to the Company's lower average cost of debt. In March 2019, the interest rate on our loan from Export Development Canada was reduced from 9% plus monitoring fees to 6%, resulting in approximately $0.2 million in quarterly interest savings. The combined interest on long-term debt and accretion on royalty payable for the three and six months ended June 30, 2019 was $1.8 million and $3.7 million, respectively, compared to $2.2 million and $4.1 million for the three and six months ended June 30, 2018.

Income tax expense of $0.9 million and $2.0 million for the three and six months ended June 30, 2019 compared to income tax expense of $0.1 million and $1.0 million for the three and six months ended June 30, 2018.

Discontinued operations as discussed in note 5 in the condensed consolidated interim financial statements, the CNG Compressor business was reclassified as an asset held for sale and discontinued operations in Q2 2018 and sold in Q3 2018. The balances also include amounts related to the residual Industrial business segment.

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 cash and cash position decreased by $0.6 million during the second quarter of 2019 to $45.4 million from $46.0 million at March 31, 2019 and decreased by $15.7 million during the first six months of 2019 from $61.1 million at December 31, 2018. The decrease from the beginning of the year is primarily the result of increased working capital resulting from strong first half sales and debt and royalty repayments, offset by dividends from CWI and insurance recovery related to SEC investigation legal cost. Cash and cash equivalents consist of guaranteed investment certificates, term deposits and bankers acceptances with maturities of 90 days or less when acquired.

The Company continues to work towards its goals of increasing profitability and achieved improved results from operations and operating cash flows in 2018, and this improvement has continued in 2019. See the "Liquidity and Going Concern" section in the MD&A for further discussion.

Cash Flow from Operating Activities

We prepare our statement of cash flows using the indirect method. Under this method, we reconcile net loss to cash flows from operating activities by adjusting net loss for those items that impact net loss but may not result in actual cash receipts or payments during the period. These reconciling items include but are not limited to depreciation and amortization, stock-based compensation expense, unrealized foreign exchange gain, income from investments accounted for by the equity method, provisions for inventory reserves and doubtful accounts, and changes in the consolidated balance sheet for working capital from the beginning to the end of the period.

For the three months ended June 30, 2019, our net cash flows from operating activities of continuing operations was $2.5 million, an increase of $4.5 million from the net cash flows of $2.0 million used in operating activities in the three months ended June 30, 2018. The increase in cash from operating activities is primarily due to reduced G&A expenses and lower SEC investigation related payments, net of insurance recovery.

Cash Flow from Investing Activities

Our net cash from investing activities consisted primarily of cash acquired through dividends received from joint ventures and the sale of assets and investments, offset by purchases of property, plant and equipment (“PP&E”).

For the three months ended June 30, 2019, our net cash flows from investing activities from continuing operations was $5.8 million compared to cash received of $5.6 million for the three months ended June 30, 2018. We received dividends of $7.4 million in the three months ended June 30, 2019 compared to $7.3 million in the second quarter of 2018. Capital expenditures decreased to $1.6 million in the three months ended June 30, 2019 from $1.7 million in the three months ended June 30, 2018.

Cash Flow from Financing Activities

For the three months ended June 30, 2019, our net cash flows used in financing activities from continuing operations was $7.8 million compared to $2.0 million for the three months ended June 30, 2018. In the second quarter of 2019, the Company made a $6.0 million repayment to Cartesian for the royalty payable, which included their rights to 15% of the proceeds from prior year asset sales.

Cash Flow from Discontinued Operations

For the three months ended June 30, 2019, our net cash flows from discontinued operations used was $0.2 million compared to $2.3 million for the three months ended June 30, 2018.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	$ 104.4	$ 104.4	$ 104.4	$ —	$ —	$ —
Long-term debt, principal, (1)	50.9	50.9	8.2	38.4	4.3	—
Long-term debt, interest (1)	—	8.3	1.7	6.3	0.3	—
Long-term royalty payable (2)	16.6	26.2	5.9	12.4	2.8	5.1
Operating lease obligations (3)	19.4	22.7	2.2	8.2	6.4	5.9
	$ 191.3	$ 212.5	$ 122.4	$ 65.3	$ 13.8	$ 11.0

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

(2) For additional information on the long term royalty, see note 14 of the condensed consolidated interim financial statements.

(3) The Company adopted Topic 842 under U.S. GAAP as at January 1, 2019 and have adjusted the operating lease obligations accordingly. Refer to note 4 and note 12 of the condensed consolidated interim financial statements for more details.

SHARES OUTSTANDING

For the three months ended June 30, 2019 and June 30, 2018, the weighted average number of shares used in calculating the loss per share was 133,600,880 and 131,946,818, respectively. The Common Shares and Share Units outstanding and exercisable as at the following dates are shown below:

	June 30, 2019	**August 7, 2019**
	Number	**Number**
Common Shares outstanding	133,663,774	133,689,227
Share Units		
Outstanding	2,667,377	2,641,924
Exercisable	2,219,207	2,193,754

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, 2018 annual consolidated financial statements. There have been no significant changes in accounting policies applied to the June 30, 2019 interim condensed consolidated financial statements except for the adoption of new leasing accounting standards in the first quarter of 2019 as discussed in note 4 to our condensed consolidated interim financial statements. On adoption of the leasing standard, the Company recognized total right of use assets of $19.7 million, with corresponding liabilities of $19.7 million in the condensed consolidated interim financial statements. The adoption did not impact the Company's opening retained earnings, or our prior year statements of income and statements of cash flows.

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, plant and equipment, long-term royalty payable, 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, 2018 annual consolidated financial statements and our 2018 annual Management and Discussion Analysis, issued on March 19, 2019.

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 six months ended June 30, 2019, 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

As disclosed in the Company’s previous management discussion and analysis filings, on June 15, 2017, the Enforcement Division of the SEC issued a subpoena to Westport Fuel Systems for information concerning its investment in Weichai Westport Inc. and compliance with the FCPA and securities laws related to disclosure in SEC filings in connection with the Westport Fuel Systems operations in China. The SEC Enforcement Division issued follow up subpoenas on February 14, 2018, June 25, 2018, and August 2, 2018. The Company has completed its response to those subpoenas. No new subpoenas have been received since August 2, 2018.

Westport Fuel Systems is cooperating with these requests but is not in a position to predict the duration, scope or outcome of the SEC's investigation. To date our management has devoted significant time and attention to these matters, and we may be required to devote even more time, attention and financial resources to these matters in the future. The SEC’s investigation and our requirements in response thereto could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. We have expended significant amounts investigating and responding to the subpoenas in respect of this investigation, including funding the expense of independent legal representation.

As of June 30, 2019 we have recorded cumulative net expenses of $18.1 million in connection with these matters, including a provision of $4.5 million, net of insurance recovery, recorded in the second quarter of this year to reflect the Company’s estimate of costs to complete and resolve the SEC investigation. However, because the timing and possible outcomes of the investigation cannot be predicted with certainty, the actual costs arising from its final resolution could differ materially from the Company’s current estimate.

Although we maintain insurance that has covered some of these expenses, a substantial portion of the overall expenses and costs relating to such SEC investigation will not be covered by such policies. In the event of future proceedings arising out of the SEC investigation, to the extent covered, our ultimate liability may possibly exceed the available insurance.

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 income (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 Company has modified information from all prior quarters to exclude the financial results of the CNG Compressor business which has been recorded as discontinued operations with effect from the second quarter of 2018. The following table provides summary unaudited consolidated financial data for our last eight quarters:

Selected Consolidated Quarterly Operations Data

Three months ended	**30-Sep-17**	**31-Dec-17**	**31-Mar-18**	**30-Jun-18**	**30-Sep-18**	**31-Dec-18**	**31-Mar-19**	**30-Jun-19**
(expressed in millions of United States dollars except for per share amounts)		(1)			(2)			
Total revenue	$ 56.4	$ 57.5	$ 63.8	$ 80.5	$ 65.5	$ 60.5	$ 73.2	$ 82.4
Cost of product and parts revenue	$ 42.7	$ 43.5	$ 49.2	$ 58.8	$ 49.9	$ 48.2	$ 56.0	$ 63.1
Gross margin	$ 13.7	$ 14.0	$ 14.6	$ 21.7	$ 15.6	$ 12.3	$ 17.2	$ 19.3
Gross margin percentage	*24.3%*	*24.3%*	*22.9%*	*27.0%*	*23.8%*	*20.3%*	*23.5%*	*23.4%*
Net loss from continuing operations	$ (16.2)	$ (20.8)	$ (12.6)	$ (5.7)	$ (12.1)	$ (10.4)	$ (3.0)	$ (2.3)
Net loss	$ (15.6)	$ (14.2)	$ (14.2)	$ (4.9)	$ (3.2)	$ (9.2)	$ (3.0)	$ (2.6)
EBITDA (3)	$ (11.1)	$ (14.3)	$ (5.4)	$ 0.2	$ (3.0)	$ (5.3)	$ 4.2	$ 4.0
Adjusted EBITDA (4)	$ (5.6)	$ (4.9)	$ (3.4)	$ 8.5	$ 4.3	$ 0.2	$ 7.3	$ 8.1
Euro to U.S. dollar average exchange rate	1.18	1.18	1.23	1.20	1.16	1.14	1.14	1.12
Earnings (loss) per share								
Basic and diluted from continuing operations	$ (0.15)	$ (0.14)	$ (0.10)	$ (0.04)	$ (0.09)	$ (0.08)	$ (0.02)	$ (0.02)
Basic and diluted	$ (0.14)	$ (0.14)	$ (0.11)	$ (0.04)	$ (0.02)	$ (0.07)	$ (0.02)	$ (0.02)
CWI net income attributable to the Company (1)	$ 5.8	$ (0.4)	$ 1.5	$ 7.8	$ 7.7	$ 5.7	$ 8.6	$ 5.9

(1) During the fourth quarter of 2017, CWI recorded a tax charge of $13.4 million due to the US tax reform. This reduced the Company's income from investments by $6.7 million. Excluding this tax charge, the net loss from continuing operations would have been $12.5 million and the net loss for the period would have been $7.5 million.

(2) During the third quarter of 2018, the Company completed the sale of the CNG Compressor business and recognized a gain on sale of assets in discontinued operations of $9.9 million.

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

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

Non-GAAP Measures:

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

EBITDA

The term EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. The Company defines EBITDA as 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-17**	**31-Dec-17**	**31-Mar-18**	**30-Jun-18**	**30-Sep-18**	**31-Dec-18**	**31-Mar-19**	**30-Jun-19**
Loss before income taxes from continuing operations	$ (15.8)	$ (20.7)	$ (11.7)	$ (5.6)	$ (9.5)	$ (11.9)	$ (1.9)	$ (1.4)
Interest expense, net (1)	0.9	2.5	2.1	1.7	2.3	2.6	1.8	1.4
Depreciation and amortization	3.8	3.9	4.2	4.1	4.2	4.0	4.3	4.0
EBITDA	$ (11.1)	$ (14.3)	$ (5.4)	$ 0.2	$ (3.0)	$ (5.3)	$ 4.2	$ 4.0

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

EBITDA decreased by $0.2 million to $4.0 million for the three months ended June 30, 2019 compared to $4.2 million for the three months ended March 31, 2019. During the three months ended June 30, 2019, the Company recorded higher revenue and resulting gross margin, and favorable foreign exchange compared to the prior quarter, which were offset by lower CWI earnings and an increase in SEC costs.

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.

The Company 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-17	31-Dec-17	31-Mar-18	30-Jun-18	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19
EBITDA	$ (11.1)	$ (14.3)	$ (5.4)	$ 0.2	$ (3.0)	$ (5.3)	$ 4.2	$ 4.0
Stock based compensation	2.1	0.7	0.3	1.3	0.6	0.7	0.4	0.3
Unrealized foreign exchange (gain) loss	2.5	(1.3)	—	5.2	2.2	1.6	0.1	(0.7)
Asset impairment	—	0.6	—	—	—	0.6	—	—
Restructuring, termination and other exit costs	(0.1)	1.8	0.6	0.2	—	—	0.8	—
CWI US tax adjustment	—	6.7	—	—	—	—	—	—
Costs associated with SEC investigation	0.9	0.9	0.9	2.5	3.5	3.1	1.8	4.5
Other	0.1	—	0.2	(0.9)	1.0	(0.5)	—	—
Adjusted EBITDA	$ (5.6)	$ (4.9)	$ (3.4)	$ 8.5	$ 4.3	$ 0.2	$ 7.3	$ 8.1

Adjusted EBITDA increased by $0.8 million from $7.3 million for the three months ended March 31, 2019 to $8.1 million for the three months ended June 30, 2019 primarily due to higher revenues and resulting gross margin, partially offset by lower earnings from CWI.

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, 2019 and 2018

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Balance Sheets (unaudited)

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

June 30, 2019 and December 31, 2018

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 45,390	$ 61,119
Accounts receivable (note 6)	77,943	57,118
Inventories (note 7)	47,655	46,011
Prepaid expenses	7,382	4,835
Total current assets	178,370	169,083
Long-term investments (note 8)	10,024	8,818
Property, plant and equipment (note 9)	61,164	63,431
Operating lease right-of-use assets (note 12)	19,425	—
Intangible assets (note 10)	15,218	16,829
Deferred income tax assets	501	1,664
Goodwill	3,151	3,170
Other long-term assets	6,713	6,933
Total assets	$ 294,566	$ 269,928
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	$ 104,437	$ 85,429
Current portion of operating lease liabilities (note 12)	2,228	—
Current portion of long-term debt (note 13)	11,439	10,327
Current portion of long-term royalty payable (note 14)	5,936	6,091
Current portion of warranty liability (note 15)	2,162	2,800
Total current liabilities	126,202	104,647
Long-term operating lease liabilities (note 12)	17,197	—
Long-term debt (note 13)	39,468	44,983
Long-term royalty payable (note 14)	10,635	14,844
Warranty liability (note 15)	2,741	2,141
Deferred income tax liabilities	5,029	5,521
Other long-term liabilities	6,736	7,116
Total liabilities	208,008	179,252
Shareholders' equity:		
Share capital (note 16):		
Unlimited common and preferred shares, no par value		
133,663,774 (2018 - 133,380,899) common shares	1,087,776	1,087,068
Other equity instruments	12,966	12,948
Additional paid in capital	10,079	10,079
Accumulated deficit	(1,003,958)	(998,361)
Accumulated other comprehensive loss	(20,305)	(21,058)
Total shareholders' equity	86,558	90,676
Total liabilities and shareholders' equity	$ 294,566	$ 269,928
Commitments and contingencies (note 18)		

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 Loss (unaudited)

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

Three and six months ended June 30, 2019 and 2018

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	$ 82,419	$ 80,489	$ 155,610	$ 144,321
Cost of revenue and expenses:				
Cost of revenue	63,091	58,758	119,127	107,941
Research and development	6,910	7,433	13,708	16,024
General and administrative	12,718	14,365	24,683	24,537
Sales and marketing	4,284	3,951	8,101	7,909
Restructuring costs	—	193	825	808
Foreign exchange (gain) loss	(705)	5,233	(646)	5,199
Depreciation and amortization	2,000	2,246	4,454	4,574
Loss on sale of investment and assets	—	3	—	59
	88,298	92,182	170,252	167,051
Loss from operations	(5,879)	(11,693)	(14,642)	(22,730)
Income from investments accounted for by the equity method	5,885	7,795	14,540	9,264
Interest on long-term debt and accretion on royalty payable	(1,785)	(2,217)	(3,702)	(4,121)
Interest and other income, net of bank charges	348	543	469	302
Loss before income taxes	(1,431)	(5,572)	(3,335)	(17,285)
Income tax expense	887	99	2,022	1,003
Net loss from continuing operations	(2,318)	(5,671)	(5,357)	(18,288)
Net income (loss) from discontinued operations (note 5)	(240)	761	(240)	(871)
Net loss for the period	(2,558)	(4,910)	(5,597)	(19,159)
Other comprehensive loss:				
Cumulative translation adjustment	1,279	(2,731)	753	(2,876)
Comprehensive loss	$ (1,279)	$ (7,641)	$ (4,844)	$ (22,035)
Loss per share:				
From continuing operations - basic and diluted	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.14)
From discontinued operations - basic and diluted	(0.00)	0.01	(0.00)	(0.01)
Net loss per share - basic and diluted	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.15)
Weighted average common shares outstanding:				
Basic and diluted	133,600,880	131,946,818	133,525,464	131,836,351

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)

Three and six months ended June 30, 2019 and 2018

	Common Shares Outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Three Months Ended June 30, 2018						
April 1, 2018	131,724,272	$ 1,079,954	$ 17,369	$ 10,079	$ (981,118)	$ (19,850)	$ 106,434
Issue of common shares on exercise of share units	745,846	3,661	(3,661)	—	—	—	—
Stock-based compensation	—	—	1,309	—	—	—	1,309
Net loss for the period	—	—	—	—	(4,910)	—	(4,910)
Other comprehensive loss	—	—	—	—	—	(2,731)	(2,731)
June 30, 2018	132,470,118	$ 1,083,615	$ 15,017	$ 10,079	$ (986,028)	$ (22,581)	$ 100,102
	Six Months Ended June 30, 2018						
January 1, 2018	131,279,709	$ 1,078,280	$ 16,247	$ 10,079	$ (966,869)	$ (19,705)	$ 118,032
Issue of common shares on exercise of share units	1,190,409	5,335	(5,335)	—	—	—	—
Stock-based compensation	—	—	4,105	—	—	—	4,105
Net loss for the period	—	—	—	—	(19,159)	—	(19,159)
Other comprehensive loss	—	—	—	—	—	(2,876)	(2,876)
June 30, 2018	132,470,118	$ 1,083,615	$ 15,017	$ 10,079	$ (986,028)	$ (22,581)	$ 100,102
	Three Months Ended June 30, 2019						
April 1, 2019	133,517,924	$ 1,087,420	$ 12,992	$ 10,079	$ (1,001,400)	$ (21,584)	$ 87,507
Issue of common shares on exercise of share units	145,850	356	(356)	—	—	—	—
Stock-based compensation	—	—	330	—	—	—	330
Net loss for the period	—	—	—	—	(2,558)	—	(2,558)
Other comprehensive income	—	—	—	—	—	1,279	1,279
June 30, 2019	133,663,774	$ 1,087,776	$ 12,966	$ 10,079	$ (1,003,958)	$ (20,305)	$ 86,558
	Six Months Ended June 30, 2019						
January 1, 2019	133,380,899	$ 1,087,068	$ 12,948	$ 10,079	$ (998,361)	$ (21,058)	$ 90,676
Issue of common shares on exercise of share units	282,875	708	(708)	—	—	—	—
Stock-based compensation	—	—	726	—	—	—	726
Net loss for the period	—	—	—	—	(5,597)	—	(5,597)
Other comprehensive income	—	—	—	—	—	753	753
June 30, 2019	133,663,774	$ 1,087,776	$ 12,966	$ 10,079	$ (1,003,958)	$ (20,305)	$ 86,558

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, 2019 and 2018

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from (used in) operating activities:				
Net loss for the period from continuing operations	$ (2,318)	$ (5,671)	$ (5,357)	$ (18,288)
Items not involving cash:				
Depreciation and amortization	3,963	4,010	8,293	8,261
Stock-based compensation expense	330	1,309	726	1,658
Unrealized foreign exchange loss (gain)	(705)	5,233	(646)	5,199
Deferred income tax	671	805	671	(99)
Income from investments accounted for by the equity method	(5,885)	(7,795)	(14,540)	(9,264)
Accretion of long-term debt	1,785	2,217	3,702	4,121
Change in inventory write-downs to net realizable value	(166)	—	(18)	162
Change in bad debt expense	192	226	579	685
Loss on sale of investments and assets	—	71	—	126
Restructuring obligations	—	(671)	224	(3,587)
Changes in non-cash operating working capital:				
Accounts receivable	(11,219)	(3,644)	(23,228)	(8,050)
Inventories	1,038	3,680	(1,144)	27
Prepaid and other assets	(382)	(842)	(1,877)	(1,410)
Accounts payable and accrued liabilities	15,324	(396)	18,061	5,194
Deferred revenue	24	(234)	2,359	76
Warranty liability	(188)	(308)	(588)	265
Net cash from (used in) operating activities of continuing operations	2,464	(2,010)	(12,783)	(14,924)
Net cash used in operating activities of discontinued operations	(240)	(2,285)	(240)	(2,874)
Cash flows from (used in) investing activities:				
Purchase of property, plant and equipment and other assets	(1,578)	(1,710)	(3,591)	(5,333)
Dividends received from joint ventures	7,381	7,271	13,371	7,271
Proceeds received from holdback	—	—	—	3,600
Net cash from investing activities of continuing operations	5,803	5,561	9,780	5,538
Cash flows from (used in) financing activities:				
Repayment of operating lines of credit and long term facilities	(8,170)	(3,412)	(13,778)	(8,189)
Drawings on operating lines of credit	6,363	1,447	8,402	4,352
Payment of royalty payable	(6,034)	—	(6,034)	—
Net cash used in financing activities	(7,841)	(1,965)	(11,410)	(3,837)
Effect of foreign exchange on cash and cash equivalents	(758)	(3,360)	(1,076)	(4,558)
Decrease in cash and cash equivalents	(572)	(4,059)	(15,729)	(20,655)
Cash and cash equivalents, beginning of period	45,962	55,246	61,119	71,842
Cash and cash equivalents, end of period	$ 45,390	$ 51,187	$ 45,390	$ 51,187

(Expressed in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Supplementary information:				
Interest paid	$ 608	$ 191	$ 2,864	$ 2,473
Taxes paid, net of refunds	280	27	286	27

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. The Company engineers, manufactures and supplies alternative fuel systems and components for use in transportation 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.

2. Liquidity and going concern

In connection with preparing financial statements for each annual and interim reporting period, management is required to 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 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 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 financial statements are issued.

At this time, management's evaluation has concluded that there are no known or currently foreseeable conditions or events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date these condensed consolidated interim financial statements were issued. The Company's condensed consolidated interim financial statements have therefore been prepared on the basis that the Company will continue as a going concern.

At June 30, 2019, the Company's net working capital was $52,168 including cash and cash equivalents of $45,390, and its long-term debt, including the royalty payable, was $67,478, of which $17,375 matures or is payable in the next twelve months. The Company generated net loss from continuing operations of $2,318 and cash flows from continuing operations of $2,464 for the three months ended June 30, 2019 and a loss from continuing operations of $5,357 and negative cash flows of $12,783 for the six months ended June 30, 2019. The 2018 fiscal year loss from continuing operations was $40,770 and negative cash flows from continuing operations were $27,437.

The Company continues to work towards its goals of increasing profitability and achieved improved results from operations and operating cash flows in 2018, and this improvement has continued in 2019. In particular, the commercial launch of Westport HPDI 2.0™ in 2018 has allowed the Company to significantly reduce engineering and development spend and the associated capital expenditures on this product and this reduction has improved current and forecasted future cash flows. The legal fees related to the Securities Exchange and Commission ("SEC") investigation that began in 2017 (see note 18(b)) in the interim financial statements) were significant in 2018 and during the second quarter of 2019, the Company accrued $4,500, net of insurance recovery, to reflect the Company's estimate of costs to complete and resolve the SEC investigation. However, since the possible outcomes of this proceeding remain uncertain at this time, it is also necessary to acknowledge that any final determination that the Company's operations or activities are not, or were not, in compliance with the Foreign Corrupt Practices Act ("FCPA") and/or other U.S. securities laws could result in significant civil and criminal financial penalties and other sanctions, which could have a material adverse impact on our financial condition. Lastly, the Company continues to examine non-core assets to determine whether it is in the best interest of the Company to monetize assets or to continue to hold and invest in these assets.

Management believes that the cash on hand at June 30, 2019 and the improvements to the operations expected for 2019 will provide the cash flow necessary to fund operations over the next year to August 31, 2020. The ability of the Company to continue as a going concern beyond one year will be dependent on the Company's ability to generate positive results from operations and cash flows or on its ability to raise additional financings to fund future operations. If, as a result of future events, the Company was to determine it was no longer able to continue as a going concern, significant adjustments would be required to the carrying value of its assets and liabilities in the accompanying 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, 2018, filed with the appropriate securities regulatory authorities. The Company followed the same policies and procedures as in the annual audited consolidated financial statements for the year ended December 31, 2018, except for the adoption of the new lease standard.

In the opinion of management, all adjustments, which include reclassifications and normal recurring adjustments necessary to present fairly the condensed consolidated balance sheets, condensed consolidated results of operations and comprehensive loss, condensed consolidated statements of shareholders' equity and condensed consolidated cash flows as at June 30, 2019 and for all periods presented, have been recorded. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results for the Company's full year.

The Company has reclassified certain immaterial amounts previously classified as assets and liabilities held for sale into accounts receivable, accounts payable and accrued liabilities, and deferred income tax liabilities to conform to the current period's presentation.

(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 Dollars, Canadian ("CDN") Dollars, Euro, Argentina Peso, Chinese Renminbi (“RMB”), Swedish Krona 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 currencies of the Company’s or its subsidiaries' operations are translated at the rates 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 rates 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, 2019	December 31, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Canadian Dollar	0.76	0.73	0.75	0.78	0.75	0.79
Euro	1.14	1.14	1.12	1.20	1.13	1.22
Argentina Peso	0.02	0.03	0.02	0.05	0.02	0.05
RMB	0.15	0.15	0.15	0.16	0.15	0.16
Swedish Krona	0.11	0.11	0.11	0.12	0.11	0.12
Indian Rupee	0.0145	0.0143	0.0144	0.0150	0.0143	0.0153

3. Basis of preparation (continued):

(c) Cartesian:

Cartesian Capital Group is a global private equity firm based in New York that has investments in the Company. Various Cartesian entities are associated with these investments including Pangaea Two Management, LP; Pangaea Two Acquisition Holdings XIV, LLC; Pangaea Two Acquisition Holdings Parallel XIV, LLC. Collectively, these entities will be referred to as “Cartesian”. In addition, Peter Yu, the founder and managing partner of Cartesian, was elected as a Director of the Company in January 2016. See notes 8(b), 13 and 14 for additional details of Cartesian’s investments in the Company.

4. Accounting changes:

New accounting pronouncements adopted in 2019:

Leases (Topic 842):

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which increases transparency and comparability among organizations by recognizing right-of-use ("ROU") assets and corresponding liabilities on the balance sheet and disclosing key information about leasing arrangements. On January 1, 2019, the Company adopted Topic 842 using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company's historical reporting under Topic 840.

On adoption, the Company recognized total ROU assets of $19,747, with corresponding liabilities of $19,747 in the condensed consolidated interim financial statements. The adoption did not impact the Company's beginning retained earnings, or the prior year statements of income and statements of cash flows.

Under Topic 842, the Company determines if an arrangement is a lease at inception. ROU assets and liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate. The Company's lease terms may include options to extend the lease and such extensions are included in the lease liabilities when it is reasonably certain that we will exercise such options. Operating leases are included in operating lease right-of-use assets, and current and non-current operating lease liabilities on the Company's condensed consolidated interim balance sheets.

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

5. Sale of assets:

The Company completed the sale of its compressed natural gas ("CNG") Compressor business on July 25, 2018 for gross proceeds of $14,729 and recorded a net gain of $9,910.

The following table presents financial results of the CNG Compressor business and residual Industrial business segment entities which are included in net loss from discontinued operations for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	$ —	$ 3,848	$ —	$ 7,611
Cost of revenue	—	3,144	—	6,240
Research and development	—	254	—	526
General and administrative	—	284	—	813
Sales and marketing	240	205	240	435
	240	3,887	240	8,014
Operating loss from discontinued operations	(240)	(39)	(240)	(403)
Restructuring cost	—	—	—	1,268
Net gain on sale of assets	—	(800)	—	(800)
Net income (loss) from discontinued operations	$ (240)	$ 761	$ (240)	$ (871)

On January 1, 2018, the Company exited the portion of the facility related to the discontinued Industrial business segment and recorded a $1,268 lease-exit restructuring obligation. The lease ends in August of 2019.

During the three months ended June 30, 2019, the Company recorded $240 allowance on accounts receivable related to the CNG Compressor business that were not included in the sale of the business.

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

6. Accounts receivable:

	June 30, 2019	December 31, 2018
Customer trade receivables	$ 75,887	$ 52,188
Other receivables	6,590	8,853
Income tax receivable	533	717
Due from related parties (note 8(a))	297	122
Allowance for doubtful accounts	(5,364)	(4,762)
	$ 77,943	$ 57,118

7. Inventories:

	June 30, 2019	December 31, 2018
Purchased parts	$ 33,455	$ 31,735
Work-in-process	2,418	2,297
Finished goods	11,334	11,367
Inventory on consignment	448	612
	$ 47,655	$ 46,011

During the three and six months ended June 30, 2019, the net change in inventory provision to net realizable value is a recovery of $166 and $18, respectively (three and six months ended June 30, 2018 - inventory write-downs to net realizable value of $nil and $162, respectively).

8. Long-term investments:

	June 30, 2019	December 31, 2018
Cummins Westport Inc. (a)	$ 7,409	$ 6,309
Weichai Westport Inc. (b)	1,824	1,824
Other equity-accounted investees	791	685
	$ 10,024	$ 8,818

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

8. Long-term investments (continued):

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

The Company and Cummins Inc. ("Cummins") each own 50% of the common shares of CWI. The joint venture term is scheduled to end on December 31, 2021 and, as per the joint venture agreement, effective from July 1, 2019, either Cummins or the Company can buy out the other's interest based on contractually defined terms and conditions.

For the three and six months ended June 30, 2019, the Company recognized its share of CWI's income of $5,869 and $14,471, respectively (three and six months ended June 30, 2018 - $7,758 and $9,273, respectively) in income from investments accounted for by the equity method.

As of June 30, 2019, the Company has a related party accounts receivable balance of $297 from CWI.

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

	June 30, 2019	December 31, 2018
Current assets:		
Cash and short-term investments	$ 86,883	$ 85,812
Accounts receivable	2,581	2,336
Other current assets	—	120
Long-term assets:		
Property, plant and equipment	975	934
Deferred income tax assets	23,612	22,851
Total assets	$ 114,051	$ 112,053
Current liabilities:		
Current portion of warranty liability	$ 19,280	$ 19,829
Current portion of deferred revenue	19,299	21,299
Accounts payable and accrued liabilities	7,229	4,348
	45,808	45,476
Long-term liabilities:		
Warranty liability	23,737	22,995
Deferred revenue	26,141	27,009
Other long-term liabilities	3,536	3,943
	53,414	53,947
Total liabilities	$ 99,222	$ 99,423

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

8. Long-term investments (continued):

(a) Cummins Westport Inc. ("CWI") (continued):

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Product revenue	$ 54,626	$ 65,611	$ 116,575	$ 94,458
Parts revenue	29,394	21,298	59,703	44,663
	84,020	86,909	176,278	139,121
Cost of revenue and expenses:				
Cost of product and parts revenue	58,813	57,381	123,227	96,394
Research and development	3,908	4,403	7,579	10,481
General and administrative	122	496	694	1,058
Sales and marketing	5,675	4,357	9,572	7,941
Foreign exchange (gain) loss	(1)	12	2	12
	68,517	66,649	141,074	115,886
Income from operations	15,503	20,260	35,204	23,235
Interest and investment income	499	427	1,267	775
Income before income taxes	16,002	20,687	36,471	24,010
Income tax expense	4,263	5,172	7,528	5,464
Net income	$ 11,739	$ 15,515	$ 28,943	$ 18,546

(b) Weichai Westport Inc. ("WWI"):

The Company, indirectly through its wholly-owned subsidiary, Westport Innovations (Hong Kong) Limited (“Westport HK”), is currently the registered holder of a 23.33% equity interest in WWI. In April 2016, the Company sold to Cartesian entities a derivative economic interest granting it the right to receive an amount of future income received by Westport HK from WWI equivalent to having an 18.78% equity interest in WWI and concurrently granted a Cartesian entity an option to acquire all of the equity securities of Westport HK for a nominal amount. The Company retained the right to transfer any equity interest held by Westport HK in WWI that was in excess of an 18.78% interest in the event that such option was exercised. As a result of such transactions, the Company’s residual 23.33% equity interest in WWI currently corresponds to an economic interest in WWI equivalent to just 4.55%.

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

9. Property, plant and equipment:

June 30, 2019	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 4,736	$ 1,517	$ 3,219
Computer equipment and software	7,541	6,502	1,039
Furniture and fixtures	4,390	3,769	621
Machinery and equipment	89,585	37,647	51,938
Leasehold improvements	11,634	7,287	4,347
	$ 117,886	$ 56,722	$ 61,164

December 31, 2018	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 4,765	$ 1,474	$ 3,291
Computer equipment and software	7,079	6,043	1,036
Furniture and fixtures	3,553	2,975	578
Machinery and equipment	87,151	33,476	53,675
Leasehold improvements	11,578	6,727	4,851
	$ 114,126	$ 50,695	$ 63,431

10. Intangible assets:

June 30, 2019	Cost	Accumulated amortization	Net book value
Brands, patents and trademarks	$ 21,377	$ 8,586	$ 12,791
Technology	5,119	4,590	529
Customer contracts	9,450	7,557	1,893
Other intangibles	332	327	5
Total	$ 36,278	$ 21,060	$ 15,218

December 31, 2018	Cost	Accumulated amortization	Net book value
Patents and trademarks	$ 21,142	$ 7,978	$ 13,164
Technology	5,150	4,369	781
Customer contracts	12,355	9,476	2,879
Other intangibles	334	329	5
Total	$ 38,981	$ 22,152	$ 16,829

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

11. Accounts payable and accrued liabilities:

	June 30, 2019	December 31, 2018
Trade accounts payable	$ 71,550	$ 60,027
Accrued payroll	16,623	13,723
Accrued interest	774	1,568
Taxes payable	3,576	4,298
Deferred revenue	3,354	996
Restructuring obligation	291	467
Other payables	8,269	4,350
	$ 104,437	$ 85,429

12. Operating leases right-of-use assets:

The Company has entered into various non-cancellable operating lease agreements primarily for its manufacturing facilities and offices. The Company's leases have lease terms expiring between 2019 and 2029. Many leases include one or more options to renew. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. The average remaining lease term is approximately five years and the weighted average discount rate is 5.0%.

The components of lease cost are as follows:

	Three months ended June 30, 2019	Six months ended June 30, 2019
Operating lease cost:		
Amortization of right-of-use assets	$ 944	$ 1,829
Interest	261	506
Total lease cost	$ 1,205	$ 2,335

The maturities of lease liabilities as of June 30, 2019 are as follows:

The remainder of 2019	$ 2,228
2020	4,436
2021	3,787
2022	3,714
2023	2,705
Thereafter	5,832
Total undiscounted cash flows	22,702
Less: imputed interest	(3,277)
Present value of operating lease liabilities	19,425
Less: current portion	(2,228)
Long term operating lease	$ 17,197

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

13. Long-term debt:

	June 30, 2019	December 31, 2018
Term loan facilities, net of debt issuance costs (a)	$ 21,383	$ 24,023
Senior financing (b)	7,660	8,645
Convertible debt (c)	17,407	17,382
Other bank financing (d)	3,126	3,744
Capital lease obligations (e)	1,331	1,516
Balance, end of period	50,907	55,310
Current portion	(11,439)	(10,327)
Long-term portion	$ 39,468	$ 44,983

(a) On December 20, 2017, the Company entered into a loan agreement with Export Development Canada ("EDC") for a $20,000 non-revolving term facility. The loan bears interest at 6% (prior to March 1, 2019, at 9% plus monitoring fees), payable quarterly, as well as quarterly principal repayments. The Company incurred debt issuance costs of $1,013 related to this loan which are being amortized over the loan term using the effective interest rate method. As at June 30, 2019, the amount outstanding for this loan was $15,036, net of issuance costs. The loan is secured by share pledges over Westport Power, Inc., Fuel Systems Solutions, Inc., and MTM S.r.L. and by certain of the Company's property, plant and equipment.

On October 9, 2018, the Company entered into a Euro denominated loan agreement with UniCredit S.p.A. ("UniCredit"). The loan bears interest at the 3-month Euribor plus 2.3% and interest is paid quarterly. As at June 30, 2019, the amount outstanding for this loan was $6,347 compared to $7,163 as at December 31, 2018, and was secured by a pledge of $2,116, with these restricted funds being recorded in other long-term assets.

(b) The 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. On July 24, 2019, the Company made a principal prepayment of $4,735 to accelerate the repayment of this senior financing facility.

(c) On January 11, 2016, the Company entered into a financing agreement ("Tranche 2 Financing") with Cartesian. 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 2.0 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 3.8% and have various maturities out to 2022. Security includes a building owned by the Company in the Netherlands and certain accounts receivable.

(e) The Company has capital lease obligations with terms of three to five years at interest rates ranging from 3.1% to 12.0%.

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

13. Long-term debt (continued):

The principal repayment schedule of long term debt is as follows as at June 30, 2019:

	Term loan facilities	Senior financing	Convertible Debt	Other bank financing	Capital lease obligations	Total
Remainder of 2019	$ 2,579	$ 1,932	$ —	$ 2,103	$ 287	$ 6,901
2020	7,157	2,118	—	341	481	10,097
2021	8,825	2,363	17,407	341	406	29,342
2022	1,411	1,247	—	341	133	3,132
2023 and thereafter	1,411	—	—	—	24	1,435
	$ 21,383	$ 7,660	$ 17,407	$ 3,126	$ 1,331	$ 50,907

14. Long-term royalty payable:

In January 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 "Tranche 1 Financing"). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments based on the greater of (i) a percentage of amounts received by the Company on select HPDI systems and CWI joint venture income through 2025 and (ii) stated fixed amounts per annum (subject to adjustment for asset sales). The carrying value is being accreted to the expected redemption value using the effective interest method, which is approximately 23% per annum. Cartesian's debt 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 Company received holdback payments in 2018, related to the divestiture of the industrial business segment in 2017, which resulted in a $1,045 prepayment to Cartesian and an additional finance charge of $778 in 2018.

As of June 30, 2019, the total royalty prepayments paid to Cartesian as a result of the Consent Agreement was $12,137.

	June 30, 2019	December 31, 2018
Balance, beginning of period	$ 20,935	$ 19,031
Accretion expense	1,670	4,135
Repayment	(6,034)	(3,009)
Additional finance charge from prepayment	—	778
Balance, end of period	16,571	20,935
Current portion	(5,936)	(6,091)
Long-term portion	$ 10,635	$ 14,844

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

14. Long-term royalty payable (continued):

The minimum repayments including interest are as follows, for the twelve months ended June 30:

2020	$	5,936
2021		7,267
2022		5,103
2023		1,161
2024		1,637
2025 and thereafter		5,122
	$	26,226

15. Warranty liability:

	June 30, 2019		December 31, 2018	
Balance, beginning of period	$	4,941	$	6,301
Warranty claims		(937)		(2,787)
Warranty accruals		1,831		2,112
Change in estimate		(455)		(1,443)
Impact of foreign exchange		(477)		758
Balance, end of period		4,903		4,941
Less: current portion		(2,162)		(2,800)
Long-term portion	$	2,741	$	2,141

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

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

During the three and six months ended June 30, 2019, the Company issued 145,850 and 282,875 common shares, respectively, net of cancellations, upon exercises of share units (three and six months ended June 30, 2018 – 745,846 and 1,190,409 common shares, respectively). The Company issues shares from treasury to satisfy share unit exercises.

(a) Share Units ("Units"):

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

During the three and six months ended June 30, 2019, the Company recognized $330 and $726, respectively (three and six months ended June 30, 2018 - $1,309 and $1,658, respectively) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of June 30, 2019 and June 30, 2018 are as follows:

	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Number of units		Weighted average grant date fair value (CDN $)	Number of units		Weighted average grant date fair value (CDN $)
Outstanding, beginning of period	2,667,403	$	6.00	4,509,990	$	6.00
Granted	309,236		2.53	431,872		3.55
Exercised	(282,875)		3.11	(1,190,409)		5.79
Forfeited/expired	(26,387)		3.79	(767,500)		3.72
Outstanding, end of period	2,667,377	$	4.35	2,983,953	$	5.43
Units outstanding and exercisable, end of period	2,219,207	$	4.60	2,511,951	$	5.07

During the six months to June 30, 2019, 309,236 (2018 - 431,872) restricted share units ("RSUs") were granted to certain employees and directors. Values of RSU awards are generally determined based on the fair market value of the underlying common share on the date of grant.

As at June 30, 2019, $2,063 of compensation cost related to Units awarded has yet to be recognized in results from operations and will be recognized ratably over the two years.

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units at June 30, 2019 as follows:

		June 30, 2019 (CDN $)
Share units:		
Outstanding	$	9,379
Exercisable		7,788

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

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

(c) Stock-based compensation:

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Research and development	$ 23	$ 220	$ 97	$ 242
General and administrative	231	1,002	523	1,149
Sales and marketing	76	87	106	267
	$ 330	$ 1,309	$ 726	$ 1,658

During the period ended June 30, 2018, the Performance Stock Units ("PSUs") that had been conditionally approved were finalized and granted. As a result, the stock-based compensation of $2,447 related to 730,000 PSUs was reclassified from a liability to shareholders' equity.

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

Refer to note 12 for details of the Company's operating lease commitments.

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.

(b) Contingencies

As disclosed in the Company's previously filed audited consolidated financial statements and management discussion and analysis, on June 15, 2017, the Enforcement Division of the SEC issued a subpoena to Westport Fuel Systems for information concerning its investment in Weichai Westport Inc. and compliance with the FCPA and securities laws related to disclosure in SEC filings in connection with the Westport Fuel Systems operations in China. The SEC Enforcement Division issued follow up subpoenas on February 14, 2018, June 25, 2018, and August 2, 2018. The Company has completed its response to those subpoenas. No new subpoenas have been received since August 2, 2018.

Westport Fuel Systems is cooperating with these requests but is not in a position to predict the duration, scope or outcome of the SEC's investigation. To date the Company's management has devoted significant time and attention to these matters, and may be required to devote even more time, attention and financial resources to these matters in the future. The SEC's investigation and the Company's requirements in response thereto could have a material adverse impact on its results of operations, financial condition, liquidity and cash flows. The Company has expended significant amounts investigating and responding to the subpoenas in respect of this investigation, including funding the expense of independent legal representation.

As of June 30, 2019, the Company has recorded cumulative net expenses of $18,110 in connection with these matters, including a provision of $4,500, net of insurance recovery, recorded in the second quarter of this year to reflect the Company's estimate of costs to complete and resolve the SEC investigation. However, because the timing and possible outcomes of the investigation cannot be predicted with certainty, the actual costs arising from its final resolution could differ materially from the Company's current estimate.

Although the Company maintains insurance that has covered some of these expenses, a substantial portion of the overall expenses and costs relating to such SEC investigation will not be covered by such policies. In the event of future proceedings arising out of the SEC investigation, to the extent covered, the Company's ultimate liability may possibly exceed the available insurance.

The Company is also engaged in certain legal actions and tax audits in the ordinary course of business and believes that, based on the information currently available, 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 Company manages and reports the results of its business through three segments: Transportation, the CWI Joint Venture, and Corporate. This reflects the manner in which operating decisions and the assessment of business performance is currently managed by the Chief Operating Decision Maker ("CODM").

The financial information for the Company's business segments evaluated by the 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.

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

19. Segment information (continued):

Financial information by business segment as follows:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenue:				
Transportation	$ 82,419	$ 80,489	$ 155,610	$ 144,321
CWI	84,020	86,909	176,278	139,121
Total segment revenues	166,439	167,398	$ 331,888	$ 283,442
Less: equity investees' revenue	(84,020)	(86,909)	(176,278)	(139,121)
Consolidated revenue from continuing operations	$ 82,419	$ 80,489	$ 155,610	$ 144,321
Consolidated revenue from discontinued operations	$ —	$ 3,848	$ —	$ 7,611

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Operating income (loss):				
Transportation	$ 480	$ 2,450	$ (31)	$ (2,382)
CWI	15,503	20,260	35,204	23,235
Corporate	(7,064)	(8,714)	(14,432)	(14,282)
Restructuring costs	—	(193)	(825)	(808)
Foreign exchange gain (loss)	705	(5,233)	646	(5,199)
Gain on sale of investment and assets	—	(3)	—	(59)
Total segment operating loss	9,624	8,567	20,562	505
Less: equity investees' operating income	(15,503)	(20,260)	(35,204)	(23,235)
Consolidated loss from continuing operations	$ (5,879)	$ (11,693)	$ (14,642)	$ (22,730)
Consolidated operating loss from discontinued operations	$ (240)	$ (39)	$ (240)	$ (403)

Revenues are attributable to geographical regions based on the location of the Company's customers and are presented as a percentage of the Company's revenues, as follows:

	% of revenue			
	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Europe	67%	62%	67%	63%
Americas	19%	17%	17%	16%
Asia	8%	10%	9%	10%
Others	6%	11%	7%	11%

As at June 30, 2019, total long-term investments of $9,368 (December 31, 2018 - $8,269) were allocated to the Corporate segment and $656 (December 31, 2018 - $549) were allocated to the Transportation segment.

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

19. Segment information (continued):

Total assets are allocated as follows:

	June 30, 2019	December 31, 2018
Transportation	$ 268,699	$ 238,016
Corporate	25,867	31,912
CWI	114,051	112,053
	408,617	381,981
Less: equity investees' total assets	(114,051)	(112,053)
Total consolidated assets	$ 294,566	$ 269,928

20. Financial instruments:

Financial management risk

The Company has exposure to liquidity risk, credit risk, foreign currency risk and interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company has a history of losses and negative cash flows from operations. At June 30, 2019, the Company had $45,390 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at June 30, 2019:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	$ 104,437	$ 104,437	$ 104,437	$ —	$ —	$ —
Term loan facilities (note 13 (a))	21,383	25,208	4,404	18,326	2,478	—
Senior financing (note 13 (b))	7,660	8,861	2,161	5,077	1,623	—
Convertible debt (note 13 (c))	17,407	20,521	794	19,727	—	—
Other bank financing (note 13 (d))	3,126	3,249	2,219	689	341	—
Long-term royalty payable (note 14)	16,571	26,226	5,936	12,370	2,798	5,122
Capital lease obligations (note 13 (e))	1,331	1,341	265	907	169	—
Operating lease obligations	19,425	22,702	2,228	8,223	6,419	5,832
	$ 191,340	$ 212,545	$ 122,444	$ 65,319	$ 13,828	$ 10,954

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 long-term investments represents the Company's interest in CWI, WWI and other investments. CWI is the most significant of the long-term investments and is accounted for using the equity method. WWI is accounted for at fair value.

The carrying values reported in the condensed consolidated balance sheet for obligations under capital and operating leases, which are based upon discounted cash flows, approximate their fair values.

The carrying value of the term loan facilities included in the long-term debt (note 13(a)) approximates its fair value as at June 30, 2019, as a portion of the loan from EDC was executed shortly before the 2017 year end, and the remaining balance was acquired from UniCredit in the fourth quarter of 2018. The carrying value reported in the condensed consolidated balance sheet for senior financing (note 13(b)) approximates its fair value as at June 30, 2019, as the interest rates on the debt are floating and therefore approximate the market rates of interest.

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).

As at June 30, 2019, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.