



Financial Report to Shareholders

2Q 2020

For the three and six months
ended June 30, 2020



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, 2020 provides an update to our annual MD&A dated March 17, 2020 for the fiscal year ended December 31, 2019. 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, 2019 and our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020. Our condensed consolidated interim 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 6, 2020.

Additional information relating to Westport Fuel Systems, 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, respectively. 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 forward-looking statements include but are not limited to statements regarding the orders or demand for our products (including from our High Pressure Direct Injection ("Westport HPDI 2.0TM" or "HPDI") supply agreement with Weichai Westport Inc. ("WWI")), the timing for the launch and certification of WWI's HPDI engine, the impact of COVID-19 on future earnings, the continuation of margin pressure through 2020, consumer confidence levels, conversion of existing convertible debt, the recovery of our revenues and the timing thereof, our investments, cash and capital requirements, the intentions of our partners and potential customers, monetization of joint venture intellectual property, 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 forward-looking 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, regulatory investigations, climate change legislation or 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. In addition, the effects and the impact of the COVID-19 outbreak, as well as the decrease in oil prices and the impact of oil supply cuts, are unknown at this time and could cause actual results to differ materially from the forward-looking statements contained in this MD&A. 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, product development delays in contractual commitments, the ability to attract and retain business partners, competition from other technologies, price differential between compressed natural gas, liquefied natural gas, and liquefied petroleum gas relative to petroleum-based fuels, 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 focused on engineering, manufacturing, and supplying alternative fuel systems and components for transportation vehicles. Our diverse product offering sold under a wide range of established brands enables the deployment of a range of alternative fuels offering both environmental and economic advantages, including liquefied petroleum gas ("LPG"), compressed natural gas ("CNG"), liquefied natural gas ("LNG"), renewable natural gas ("RNG"), and hydrogen (together known as "gaseous fuels"). We supply our products and services through a network of distributors and 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.

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

- **Independent aftermarket ("IAM"):** We sell systems and components across a wide range of brands primarily through a global network of distributors that consumers can purchase and have installed onto their vehicles 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 systems and components, including HPDI products, to engine OEMs and commercial vehicle OEMs. Our fully integrated Westport HPDI 2.0TM system, powered primarily by liquefied natural gas, matches the power, torque, and fuel economy benefits found in traditional compression ignition engines using only diesel fuel, resulting in reduced greenhouse gas emissions and the capability to cost-effectively run on renewable fuels.
- **Electronics:** We design, industrialize and assemble electronic control modules.
- **Hydrogen:** We design, develop, produce and sell hydrogen components for transportation and industrial applications. Also, we are adapting our HPDI system to use hydrogen or hydrogen/natural gas blends.

Westport Fuel Systems also generates income from Cummins Westport Inc. ("CWI"), our 50:50 joint venture with Cummins, Inc. ("Cummins"), by selling spark-ignited natural gas engines. Refer to the "Operating Segments" section of this MD&A for more detail.

Our HPDI business is in the early stages of commercialization (sales to our European OEM launch partner began in 2018), and, as a result, is currently generating losses. Meaningful increases in sales volumes are required for the HPDI business to benefit from economies of scale to become profitable. Our sales volumes to our initial launch partner continue to grow, and we anticipate additional growth from our supply arrangement with WWI, and additional OEMs entering into supply agreements for our HPDI technology. WWI's HPDI engine is currently being certified to meet China VI emissions standards and is expected to be launched within 2020. WWI has committed to purchase Westport HPDI 2.0TM components required to produce a minimum of 18,000 engines between the launch date and the end of 2023.

Gross margin and gross margin percentage from our HPDI product will vary based on production and sales volumes, levels of development work, successful implementation of material cost reduction initiatives, and foreign exchange. Margin pressure is expected to continue through much of 2020 and 2021 as launch costs and price discounts are only partially offset by material cost reductions.

IMPACT OF COVID-19 ON OUR BUSINESS

The outbreak of COVID-19 has had and continues to have an adverse impact on our business, including the disruption of production and end customer demand. The extent, duration and impact of COVID-19 and governmental and societal responses is uncertain. A significant portion of our production is from three facilities located in Northern Italy, and sales from these facilities are primarily to Western and Eastern Europe. Our Brescia facility was closed from March 16, 2020 through May 4, 2020. This facility produces components in the light-duty OEM business and assembles LNG tank systems for the heavy-duty OEM business. Our Cherasco and Albinea facilities were closed from March 22, 2020 through May 4, 2020. These facilities produce components and kits in the IAM, DOEM, electronics and OEM businesses.

In addition to our production facilities, our European HPDI launch partner temporarily closed its facilities in mid-March in response to safety concerns and government restrictions arising from the spread of COVID-19. Our launch partner reopened its production facilities in late April and we expect a return to pre-COVID-19 sales volume levels for the HPDI product in the second half of 2020.

At this time, customer demand for our light-duty and aftermarket products for the full year 2020 is difficult to estimate and will be highly dependent on the duration and severity of the COVID-19 pandemic and post-pandemic market weakness. Our consolidated sales in the first half of 2020 declined as a result of COVID-19 and we expect that the pandemic will impact our results of operations during the remainder of 2020, with the most significant impact to revenue realized in the second quarter of 2020.

Our light-duty OEM and DOEM businesses are dependent on new vehicle sales with gaseous fuel systems. Sales revenue in these businesses declined significantly during the second quarter of 2020 due to the impact of COVID-19 pandemic, but we anticipate a progressive recovery in the third and fourth quarters of 2020 from the first half of the year. With low emissions and low fuel costs, the LPG and CNG-fueled vehicles are available and sustainable alternative gaseous fuel systems which are supported by a capillary refueling infrastructure.

We believe that our heavy-duty business will be less impacted than the IAM and light-duty OEM businesses due to on-going need for freight transportation and the growing demand for climate-friendly products. Demand for essential goods remains and consumer delivery of these goods has increased, resulting in more stable demand for medium and heavy-duty trucks.

While the certification of the WWI HPDI engine through a multi-step, multi-party activity was delayed in the first quarter of 2020 given the impact of COVID-19 in China, we expect the certification and start of production and sales within this year.

In response to COVID-19, we have implemented several austerity measures, including actions to reduce costs, such as salary and other compensation deferrals and reductions, and delaying non-critical projects and capital expenditures. We have been working with our key lenders to strengthen our liquidity and have made significant progress to improve our liquidity and reduce our cost of capital:

- On March 25, 2020, \$6.0 million in principal deferrals on our term loan from Export Development Canada ("EDC");
- On May 28, 2020, a €5.0 million government backed term loan from UniCredit S.p.A. ("UniCredit") to our Emer S.p.A. ("Emer") subsidiary;
- On July 17, 2020, a €15.0 million government backed term loan from UniCredit to our MTM S.r.l. ("MTM") subsidiary;
- On July 23, 2020, a \$10.0 million bridge loan secured from EDC at a 6.25% interest rate;
- On July 24, 2020, we announced the refinancing of our convertible notes with Cartesian Capital Group and its affiliates ("Cartesian"). Under the terms of the agreement, we agreed to pay down the principal amount of the existing convertible notes from \$17.5 million to \$10.0 million. Concurrent with such repayment, the maturity of the remaining amended notes was extended to three years from the date of the amendments, the coupon rate was reduced from 9.0% annually to 6.5% annually, and the conversion price was revised from \$2.17 per share to \$1.42 per share.

Refer to note 13(a), 13(c) and 21 in our condensed consolidated interim financial statements for more details. We are also participating in government wage-subsidy and other support programs in the countries where we operate and the benefit of these programs was \$3.8 million in the second quarter of 2020.

Our liquidity is discussed below in the "Liquidity and Going Concern" section in this MD&A.

Q2 2020 RESULTS

Revenues for the three months ended June 30, 2020 decreased 56.4% to \$36.0 million from \$82.4 million in the three months ended June 30, 2019, resulting from the impact of COVID-19 and the various shutdowns noted above in certain of our business segments.

Westport Fuel Systems reported net income of \$3.0 million for the three months ended June 30, 2020 compared to a net loss from continuing operations of \$2.3 million for the same quarter last year. The \$5.3 million improvement in net income from continuing operations was a result of a \$7.7 million insurance recovery recorded in the current quarter related to the \$10.0 million field service campaign expense recorded in the first quarter of 2020, lower operating expenses and a higher foreign exchange gain compared to the second quarter of 2019, partially offset by lower overall gross margin, lower CWI income and higher income tax expense.

Westport Fuel Systems recorded \$6.2 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, 2020 as compared to \$8.1 million Adjusted EBITDA for the three months ended June 30, 2019. The decrease is primarily due to lower gross margin and CWI income achieved during the quarter, partially offset by the insurance recovery and lower operating expenses.

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 aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued. Substantial doubt exists when conditions and events, considered in aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the date that the consolidated financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management's plans and actions 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 its 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 company'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.

The condensed consolidated interim financial statements have been prepared on the basis that we will continue as a going concern. At June 30, 2020, our net working capital was \$37.5 million including cash and cash equivalents of \$28.9 million. We have another \$2.7 million in restricted cash pledged to the repayment of the debt we hold in our Italian subsidiaries recorded in other long-term assets. Our long-term debt, including the royalty payable, was \$69.0 million, of which \$22.3 million of the long-term debt matures by June 30, 2021 and \$7.3 million of the royalty payable is due by June 30, 2021. We generated income of \$3.0 million and incurred negative cash flows from operating activities of \$9.1 million for the three months ended June 30, 2020, a loss of \$12.3 million and negative cash flows of \$18.9 million for the six months ended June 30, 2020 and we have accumulated a deficit of \$1,010.6 million since inception.

Principal conditions or events that require management's consideration

The factors which raise substantial doubt as to our ability to continue as a going concern are as follows:

- (a) At June 30, 2020 we have three significant debt and royalty obligations combining to approximately \$18.8 million coming due in the next twelve months, as follows:
 - (i) Cartesian refinancing payment of \$7.5 million, plus accrued interest, which was made on July 31, 2020;
 - (ii) Royalty payable payment of \$7.3 million to Cartesian in April 2021; and
 - (iii) EDC principal payments totaling \$4.0 million to EDC in March 2021 and June 2021.

We are also required to repay the EDC bridge loan entered into in July 2020. Through August 5, 2020 we have drawn \$2.5 million on this facility.

(b) Forecast operating results

We recorded positive net income in 2019 and had expected to improve upon this achievement in 2020. However, as previously described, the impact of COVID-19 has had a significant impact on our 2020 outlook. While we achieved net income during the second quarter of 2020, our net loss for the six months ended June 30, 2020 was \$12.3 million. The second quarter benefited from a \$7.7 million insurance recovery and \$3.8 million of government wage subsidies, which will only partially continue into the third quarter of 2020. We expect improved revenue and earnings levels in the second half of 2020 and into 2021, however, this will depend on the strength of the economic recovery and the return of customer demand.

Management's plans

We plan to alleviate or mitigate the substantial doubt of operating as a going concern through the following actions:

(a) Debt financing

As noted above, we have entered into new debt facilities in Italy and North America totaling \$32.9 million, of which \$27.4 million was entered into subsequent to June 30, 2020. We entered into an agreement with EDC to defer \$6.0 million in principal payments due in 2020 and extend the loan to 2022, and subsequent to June 30, 2020, we repaid \$7.5 million of our convertible notes and extended the maturity on the remaining \$10.0 million until 2023. These financing initiatives will improve our liquidity in 2020 and 2021.

(b) Operating results and government wage subsidies

As discussed, our operating results for 2020 will be significantly impacted by COVID-19. In response to COVID-19, we have implemented several austerity measures, including actions to reduce costs, such as salary and other compensation deferrals and reductions, and delaying non-critical projects and capital expenditures. We are also participating in government wage subsidy and other support programs in the countries where we operate and the benefit of these programs were \$3.8 million in the second quarter of 2020. These programs will partially continue into the third quarter of 2020 but at a lower level.

We are also evaluating future cash flows from CWI with the termination of the joint venture scheduled to end on December 31, 2021. The joint venture pays significant dividends to the joint venture partners, with Westport Fuel Systems receiving \$25.0 million of dividends in 2019 (2018 - \$23.2 million). As per the joint venture agreement, both Cummins and Westport Fuel Systems have equal rights to CWI's intellectual property, and we are evaluating our strategic alternatives to monetize the value of the intellectual property. However, there is no certainty that we will be able to monetize the intellectual property to the level of the current dividends received from the joint venture. See note 8(a) in our condensed consolidated interim financial statements for additional details related to the CWI joint venture.

Management's conclusion and assessment

We believe that the cash on hand at June 30, 2020, coupled with the recently closed financings, provides the cash flow necessary to fund operations over the next year to August 31, 2021. However, in the face of the uncertainty caused by the COVID-19 pandemic and the negative economic and market impact of a potential extended recovery period, we may require additional financing to fund our operations. In addition to the plans outlined above, we are pursuing a number of financing initiatives and alternatives that may include equity financing. Due to the application of the accounting principles generally accepted in the United States ("U.S. GAAP") potential future financing has not been included in the analysis of our ability to continue as a going concern. As such there remains substantial doubt about our ability to continue as a going concern within one year after the date that these condensed consolidated interim financial statements are issued. Although we remain confident in our ability to raise the necessary financing to fund our operations, we caution readers of our condensed consolidated interim financial statements and this MD&A that there is no absolute assurance that we will be able to raise the financing necessary, or mitigate the impact of COVID-19, under satisfactory terms and conditions, to continue as a going concern. If, as a result of future events, we were to determine that we are no longer able to continue as a going concern, significant adjustments would be required to the carrying value of assets and liabilities in the accompanying consolidated financial statements and the adjustments could be material.

Operating Segments

Effective January 2020, we modified the reporting of business segments to allow for increased transparency into our customer channels and the respective products we sold to those customers. Accordingly, from that date, all product information and other technology related activities previously reported under the Transportation segment have been disaggregated into two segments, OEM and IAM. All comparative figures presented have been revised to reflect this change.

Under the organization structure in effect from January 2020, we manage and report the results of our business through four segments: OEM, IAM, the CWI Joint Venture, and Corporate. This change 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 business segments evaluated by the CODM includes the results of CWI as if they were consolidated, which is consistent with the way we manage our business segments.

OEM Business Segment

Our OEM segment designs, manufactures, and sells alternative fuel systems, components and electronics, including the Westport HDPI 2.0TM product and related engineering services, to OEMs. 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. The OEM business segment's products and services are available for passenger cars, light-, medium- and heavy-duty trucks, cryogenics, and hydrogen applications.

The OEM group includes the light-duty and heavy-duty OEM product lines and the DOEM and electronic businesses, as previously described.

IAM Business Segment

Our IAM segment designs, manufactures, and sells alternative fuel systems and components that consumers can purchase and have installed onto their vehicles to use LPG or CNG fuels in addition to gasoline. Distribution of such products is realized through a consolidated distribution network (in more than 70 countries) selling our products to the workshops that are responsible for conversion, maintenance and service.

CWI Joint Venture

CWI serves the medium and heavy-duty engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. 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. 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.

Corporate Business Segment

The Corporate business segment is responsible for public company activities, corporate oversight, financing, capital allocation and general administrative duties, such as securing our intellectual property.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the three and six months ended June 30, 2020 and June 30, 2019.

Selected Consolidated Statements of Operations Data

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<i>(expressed in millions of US dollars, except for per share amounts and shares outstanding)</i>				
Revenue	\$ 36.0	\$ 82.4	\$ 103.2	\$ 155.6
Gross margin	\$ 12.2	\$ 19.3	\$ 16.5	\$ 36.5
Gross margin %	33.9%	23.4%	16.0%	23.5%
Net income (loss) from continuing operations	\$ 3.0	\$ (2.3)	\$ (12.3)	\$ (5.4)
Net loss from discontinued operations	\$ —	\$ (0.2)	\$ —	\$ (0.2)
Net income (loss)	\$ 3.0	\$ (2.6)	\$ (12.3)	\$ (5.6)
Net income (loss) per share - basic and diluted	\$ 0.02	\$ (0.02)	\$ (0.09)	\$ (0.04)
Weighted average basic shares outstanding	136,564,290	133,600,880	136,496,757	133,525,464
Weighted average diluted shares outstanding	146,323,733	133,600,880	136,496,757	133,525,464

Selected Balance Sheet Data

The following table sets forth a summary of our financial position as at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
<i>(expressed in millions of United States dollars)</i>		
Cash and short-term investments	\$ 28.9	\$ 46.0
Total assets	262.7	279.9
Long-term debt, including current portion	55.3	48.9
Royalty payable, including current portion	13.7	18.2
Total liabilities	185.0	190.6
Shareholders' equity	77.8	89.4

RESULTS FROM OPERATIONS

The 2019 comparative figures have been revised to reflect the change in business segments previously discussed in the "Operating Segments" section in this MD&A.

Revenue

Total consolidated revenues from operations for the three and six months ended June 30, 2020 were \$36.0 million and \$103.2 million, respectively, compared to \$82.4 million and \$155.6 million for the three and six months ended June 30, 2019, respectively. The current quarter revenues were significantly impacted by plant closures and reduced end customer demand resulting from the COVID-19 pandemic.

OEM revenue for the three and six months ended June 30, 2020 was \$19.1 million and \$53.4 million, respectively, compared with \$44.8 million and \$83.9 million for the three and six months ended June 30, 2019. Revenue for the OEM business segment decreased by \$25.7 million and \$30.5 million, respectively, mainly due to the COVID-19 related shutdowns combined with lower light-duty OEM sales to German and Russian OEMs. We expect to see recovery in the OEM revenues in the third and fourth quarter, especially in the heavy-duty business.

IAM revenue for the three and six months ended June 30, 2020 was \$16.9 million and \$49.8 million, respectively, compared with \$37.6 million and \$71.7 million for the three and six months ended June 30, 2019. Revenue for the IAM business segment decreased by \$20.7 million and \$21.9 million, respectively, mainly due to the COVID-19 related shutdowns in the second quarter of 2020. We expect to see a recovery in the aftermarket revenues in the third and fourth quarter.

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
OEM	\$ 19.1	\$ 44.8	\$ (25.7)	(57)%	\$ 53.4	\$ 83.9	\$ (30.5)	(36)%
IAM	16.9	37.6	(20.7)	(55)%	49.8	71.7	(21.9)	(31)%
Total Revenue	<u>\$ 36.0</u>	<u>\$ 82.4</u>	<u>\$ (46.4)</u>	<u>(56)%</u>	<u>\$ 103.2</u>	<u>\$ 155.6</u>	<u>\$ (52.4)</u>	<u>(34)%</u>

Gross Margin for the three months ended June 30, 2020

Total consolidated gross margin for the three months ended June 30, 2020 decreased by \$7.1 million or 37% from \$19.3 million in 2019 to \$12.2 million for the same period in 2020.

OEM gross margin increased by \$0.3 million to \$9.2 million, or 48% of revenue, for the three months ended June 30, 2020 compared to \$8.9 million, or 20% of revenue for the three months ended June 30, 2019. The gross margin recorded in the current quarter included a \$7.7 million insurance recovery related to the \$10.0 million field service campaign for the replacement of pressure release devices ("PRD") we manufacture and sell to OEM customers. Excluding this one-time recovery, gross margin for the three months ended June 30, 2020 decreased by \$7.4 million to \$1.5 million, or 8% of revenue, compared to \$8.9 million, or 20% of revenue, for the prior year quarter. This decrease in gross margin and gross margin percentage was due to lower sales as discussed previously and contractual HPDI price reductions.

IAM gross margin decreased by \$7.4 million to \$3.0 million, or 18% of revenue, for the three months ended June 30, 2020 compared to \$10.4 million, or 28% of revenue, for the three months ended June 30, 2019. This decrease in gross margin and gross margin percentage was due to lower sales as discussed previously.

(expressed in millions of U.S. dollars)

	Three months ended June 30, 2020		% of	Three months ended June 30, 2019		% of	Change	
		2020	Revenue		2019	Revenue	\$	%
OEM	\$	9.2	48%	\$	8.9	20%	\$ 0.3	3 %
IAM		3.0	18%		10.4	28%	(7.4)	(71)%
Total gross margin	\$	12.2	34%	\$	19.3	23%	\$ (7.1)	(37)%

Gross Margin for the six months ended June 30, 2020

Total consolidated gross margin for the six months ended June 30, 2020 decreased by \$20.0 million or 55% from \$36.5 million in 2019 to \$16.5 million for the same period in 2020.

OEM gross margin decreased by \$13.3 million to \$3.1 million, or 6% of revenue, for the six months ended June 30, 2020 compared to \$16.4 million, or 20% of revenue for the six months ended June 30, 2019. The gross margin recorded in the current period was impacted by the 36% decrease in sales during the six month period, the net warranty charge of \$2.3 million related to the field service campaign and contractual HPDI price reductions combined with lower light-duty OEM sales to German and Russian OEMs.

IAM gross margin decreased by \$6.7 million to \$13.4 million, or 27% of revenue, for the six months ended June 30, 2020 compared to \$20.1 million, or 28% of revenue, for the six months ended June 30, 2019. The decrease in gross margin and gross margin percentage is mainly due to the 31% decrease in sales during the six-month period.

(expressed in millions of U.S. dollars)

	Six months ended June 30, 2020		% of	Six months ended June 30, 2019		% of	Change	
		June 30, 2020	Revenue		June 30, 2019	Revenue	\$	%
OEM	\$	3.1	6%	\$	16.4	20%	\$ (13.3)	(81)%
IAM		13.4	27%		20.1	28%	(6.7)	(33)%
Total gross margin	\$	16.5	16%	\$	36.5	23%	\$ (20.0)	(55)%

Research and Development Expenses

OEM R&D expenses for the three and six months ended June 30, 2020 were \$3.2 million and \$7.6 million, respectively, compared to \$4.8 million and \$9.1 million for the three and six months ended June 30, 2019, respectively. The decrease in R&D expense in both comparative periods is primarily due to certain HPDI projects which have been paused due to factory shutdowns, combined with lower compensation expense, including salary and bonus, in response to the COVID-19 pandemic and government wage subsidies received in the periods in 2020.

IAM R&D expenses for the three and six months ended June 30, 2020 were \$0.9 million and \$2.2 million, respectively, compared to \$2.0 million and \$4.3 million for the three and six months ended June 30, 2019, respectively. The decrease in R&D expense in both comparative periods is primarily due to lower compensation expense, including salary and bonus, in response to the COVID-19 pandemic, government wage subsidies received and completion of certain R&D projects in 2019.

Corporate R&D expenses for the three and six months ended June 30, 2020 were \$nil and \$0.1 million, respectively, compared to \$0.1 million and \$0.3 million for the three and six months ended June 30, 2019, respectively.

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
OEM	\$ 3.2	\$ 4.8	\$ (1.6)	(33)%	\$ 7.6	\$ 9.1	\$ (1.5)	(16)%
IAM	0.9	2.0	(1.1)	(55)%	2.2	4.3	(2.1)	(49)%
Corporate	—	0.1	(0.1)	(100)%	0.1	0.3	(0.2)	(67)%
Total R&D expenses	<u>\$ 4.1</u>	<u>\$ 6.9</u>	<u>\$ (2.8)</u>	<u>(41)%</u>	<u>\$ 9.9</u>	<u>\$ 13.7</u>	<u>\$ (3.8)</u>	<u>(28)%</u>

Selling, General and Administrative Expenses

OEM SG&A expenses for the three and six months ended June 30, 2020 were \$3.6 million and \$6.9 million, respectively, compared with \$5.7 million and \$10.2 million for the three and six months ended June 30, 2019, respectively. The decrease in SG&A expenses in both comparative periods is mainly related to lower compensation expense, including salary and bonus, in response to the COVID-19 pandemic and government wage subsidies received in the periods in 2020.

IAM SG&A expenses for the three and six months ended June 30, 2020 were \$3.0 million and \$6.5 million, respectively, compared with \$4.4 million and \$8.6 million for the three and six months ended June 30, 2019, respectively. The decrease in SG&A expenses in both comparative periods is mainly related to lower compensation expense, including salary and bonus, in response to the COVID-19 pandemic and government wage subsidies received in the periods in 2020.

Corporate SG&A expenses for the three and six months ended June 30, 2020 were \$1.9 million and \$5.0 million, respectively, compared with \$6.9 million and \$14.0 million for the three and six months ended June 30, 2019. The decrease in both comparative periods is reflective of austerity measures implemented by us, including salary and other compensation deferrals and reductions. In addition, the decrease in SG&A expense for the six months ended June 30, 2020 from the six months ended June 30, 2019 reflects a \$1.8 million reduction in legal fees related to the SEC investigation that settled in the third quarter of 2019 and a \$1.0 million reversal of an accrual related to a separate legal matter which settled in May 2020.

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
OEM	\$ 3.6	\$ 5.7	\$ (2.1)	(37)%	\$ 6.9	\$ 10.2	\$ (3.3)	(32)%
IAM	3.0	4.4	(1.4)	(32)%	6.5	8.6	(2.1)	(24)%
Corporate	1.9	6.9	(5.0)	(72)%	5.0	14.0	(9.0)	(64)%
Total SG&A expenses	\$ 8.5	\$ 17.0	\$ (8.5)	(50)%	\$ 18.4	\$ 32.8	\$ (14.4)	(44)%

Selected CWI Statements of Operations Data

We account for CWI using the equity method of accounting. However, due to its significance to our operating results, we disclose CWI's assets, liabilities and income statement in notes 8(a) and 19 of our condensed consolidated interim financial statements and discuss revenue and gross margins in this MD&A.

The following table sets forth a summary of the financial results of CWI for the three and six months ended June 30, 2020 and June 30, 2019:

(expressed in millions of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Total revenue	\$ 66.4	\$ 84.0	\$ 143.1	\$ 176.3
Gross margin	\$ 18.2	\$ 25.2	\$ 39.8	\$ 53.1
Gross margin %	27.4%	30.0%	27.8%	30.1%
Net income before income taxes	\$ 11.0	\$ 16.0	\$ 24.9	\$ 36.5
Net income attributable to the Company	\$ 4.2	\$ 5.9	\$ 9.5	\$ 14.5

CWI Revenue

CWI revenue for the three and six months ended June 30, 2020 was \$66.4 million and \$143.1 million, respectively, compared to \$84.0 million and \$176.3 million for the three and six months ended June 30, 2019, respectively. Unit sales for the three and six months ended June 30, 2020 were 1,352 and 2,865 compared to 1,745 and 3,736 for the three and six months ended June 30, 2019. The decrease in unit sales in both the three and six months ended June 30, 2020 is primarily due to OEM factory shutdowns in April and May in response to the COVID-19 pandemic combined with tempered customer demand. Parts revenue decreased to \$24.9 million and \$54.0 million in the three and six months ended June 30, 2020, respectively, from \$29.4 million and \$59.7 million in the three and six months ended June 30, 2019, respectively.

CWI Gross Margin for the three months ended June 30, 2020

CWI gross margin decreased by \$7.0 million to \$18.2 million, or 27% of revenue from \$25.2 million, or 30% of revenue in the prior year period. The decrease in gross margin and gross margin percentage is driven largely by lower revenues combined with the impact of a \$0.8 million negative warranty adjustment for the three months ended June 30, 2020 compared to a \$0.6 million positive warranty adjustment for the three months ended June 30, 2019.

CWI Gross Margin for the six months ended June 30, 2020

CWI gross margin decreased by \$13.3 million to \$39.8 million, or 28% of revenue in the three months ended June 30, 2020 from \$53.1 million, or 30% of revenue in the three months ended June 30, 2019. The decrease in gross margin and gross margin percentage is primarily related to decreased revenue and, to a lesser extent, a lower proportion of high-margin part sales.

Other significant expense and income items for the three and six months ended June 30, 2020

Restructuring costs of \$0.8 million for the six months ended June 30, 2019 related to management changes. There were no restructuring charges recorded in the current year quarters.

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, we have 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, 2020, we recognized a foreign exchange gain of \$3.6 million and a loss of \$3.3 million, respectively, compared to foreign exchange gains of \$0.7 million and \$0.6 million for the three and six months ended June 30, 2019. The gain recognized in the current quarter primarily relates to the unrealized foreign exchange gains that resulted from the translation of U.S. dollar denominated debt in our Canadian legal entities. The Canadian dollar increased by 4% against the U.S. dollar in the second quarter of 2020 compared to the first quarter of 2020.

Depreciation and amortization for the three and six months ended June 30, 2020 was \$3.4 million and \$6.8 million, compared to \$4.0 million and \$8.3 million for the three and six months ended June 30, 2019, respectively. The amount included in cost of revenue for the three and six months ended June 30, 2020 was \$1.9 million and \$3.8 million compared with \$2.0 million and \$3.8 million for the three and six months ended June 30, 2019.

Income from investments primarily relates to our 50% interest in CWI earnings, accounted for by the equity method. See the "Selected CWI Statements of Operations Data" section in this MD&A for more detail.

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,	
	2020	2019	2020	2019
Interest expense on long-term debt	\$ 0.8	\$ 0.8	\$ 1.6	\$ 1.9
Royalty payable accretion expense	0.7	1.0	1.4	1.8
Total interest on long-term debt and accretion on royalty payable	<u>\$ 1.5</u>	<u>\$ 1.8</u>	<u>\$ 3.0</u>	<u>\$ 3.7</u>

Comparable debt levels and cost of borrowing across the three and six month periods resulted in comparable interest expense. The royalty payable accretion expense decreased in both periods as we continued to make repayments as scheduled.

Income tax expense of \$1.6 million and \$0.9 million for the three and six months ended June 30, 2020 compared to income tax expense of \$0.9 million and \$2.0 million for the three and six months ended June 30, 2019. The decrease of income tax expense during the six months ended June 30, 2020 compared to the six months ended June 30, 2019 is primarily due to lower income attributable to our operations in Italy and the Netherlands and lower taxes related to a one-time field service campaign, net of insurance recoveries.

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 discuss 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 \$10.2 million during the second quarter of 2020 to \$28.9 million from \$39.1 million at March 31, 2020 and decreased by \$17.1 million during the first six months of 2020 from \$46.0 million at December 31, 2019. The decrease from the beginning of the year is primarily the result of decreased working capital during the first half of 2020 and \$5.9 million royalty repayments in the second quarter of 2020.

We have been materially impacted by the COVID-19 pandemic as previously described and we have made significant strides to strengthen our balance sheet through financing efforts to lower our cost of borrowing and extend the maturity of our debt to ensure sufficient liquidity is available to meet our obligations. See the "Liquidity and Going Concern" section in this MD&A for further discussion.

Cash Flow from Operating Activities

For the three months ended June 30, 2020, our net cash flows used in operating activities of continuing operations was \$9.1 million, a decrease of \$11.6 million from net cash flows of \$2.5 million generated from operating activities in the three months ended June 30, 2019. The increase in cash used in operating activities is primarily due to a decrease in operating working capital resulting from the impact of COVID-19 pandemic.

Cash Flow from Investing Activities

Our net cash from investing activities consisted primarily of cash acquired through dividends received from joint ventures, offset by purchases of property, plant and equipment.

For the three months ended June 30, 2020, our net cash flows from investing activities from continuing operations was \$1.9 million compared to net cash flow of \$5.8 million for the three months ended June 30, 2019. We received dividends of \$3.4 million in the three months ended June 30, 2020 compared to \$7.4 million in the second quarter of 2019 as a result of lower quarterly earnings in our CWI joint venture. Capital expenditures remained at the same level at \$1.6 million in the three months ended June 30, 2020 compared to the three months ended June 30, 2019.

Cash Flow from Financing Activities

For the three months ended June 30, 2020, our net cash flows used in financing activities from continuing operations was \$2.1 million compared to \$7.8 million for the three months ended June 30, 2019. In the second quarter of 2020, we received \$5.5 million from the term loan facility with UniCredit as discussed in note 13(a) of the condensed consolidated interim financial statements, which was offset by a \$5.9 million royalty payment to Cartesian.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	\$ 71.2	\$ 71.2	\$ 71.2	\$ —	\$ —	\$ —
Long-term debt, principal, (1)	55.3	55.3	20.9	29.8	4.4	0.2
Long-term debt, interest (1)	—	5.2	2.6	2.6	—	—
Long-term royalty payable (2)	13.7	20.3	7.3	6.3	3.9	2.8
Operating lease obligations (3)	15.4	17.6	2.0	7.3	4.5	3.8
	<u>\$ 155.6</u>	<u>\$ 169.6</u>	<u>\$ 104.0</u>	<u>\$ 46.0</u>	<u>\$ 12.8</u>	<u>\$ 6.8</u>

(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 payable, see note 14 of the condensed consolidated interim financial statements.

(3) For additional information on operating lease obligations, see note 12 of the condensed consolidated interim financial statements.

SHARES OUTSTANDING

For the three months ended June 30, 2020 and June 30, 2019, the weighted average number of shares used in calculating the basic income (loss) per share was 136,564,290 and 133,600,880, respectively. For the three months ended June 30, 2020, the weighted average number of shares used in calculating the diluted income per share was 146,323,733. The Common Shares and Share Units (comprising of performance share units and restricted share units) outstanding and exercisable as at the following dates are shown below:

	June 30, 2020 Number	August 6, 2020 Number
Common Shares outstanding	136,757,404	136,857,012
Share Units		
Outstanding	1,694,927	1,595,319
Exercisable	99,608	—

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. Our accounting policies are described in note 3 in our year ended December 31, 2019 annual consolidated financial statements. There have been no significant changes in accounting policies applied to the June 30, 2020 condensed consolidated interim financial statements.

We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as variable interest entity, warranty liability, revenue recognition, inventories, property, 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, 2019 annual consolidated financial statements and our 2019 Annual MD&A, for the year ended December 31, 2019, filed on March 17, 2020.

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 our condensed consolidated interim financial statements for the three and six months ended June 30, 2020.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three and six months ended June 30, 2020, 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.

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

Selected Consolidated Quarterly Operations Data

Three months ended	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20
<i>(expressed in millions of United States dollars except for per share amounts)</i>	(1)						(2)	(3)
Total revenue	\$ 65.5	\$ 60.5	\$ 73.2	\$ 82.4	\$ 75.4	\$ 74.3	\$ 67.2	\$ 36.0
Cost of product and parts revenue	\$ 49.9	\$ 48.2	\$ 56.0	\$ 63.1	\$ 57.5	\$ 60.5	\$ 62.9	\$ 23.8
Gross margin	\$ 15.6	\$ 12.3	\$ 17.2	\$ 19.3	\$ 17.9	\$ 13.8	\$ 4.3	\$ 12.2
Gross margin percentage	23.8%	20.3%	23.5%	23.4%	23.7%	18.6%	6.4%	33.9%
Net income (loss) from continuing operations	\$ (12.1)	\$ (10.4)	\$ (3.0)	\$ (2.3)	\$ 4.9	\$ 0.6	\$ (15.3)	\$ 3.0
Net income (loss)	\$ (3.2)	\$ (9.2)	\$ (3.0)	\$ (2.6)	\$ 4.9	\$ 0.7	\$ (15.3)	\$ 3.0
EBITDA (4)	\$ (3.0)	\$ (5.3)	\$ 4.2	\$ 4.0	\$ 11.7	\$ 5.0	\$ (11.1)	\$ 9.2
Adjusted EBITDA (5)	\$ 4.3	\$ 0.2	\$ 7.3	\$ 8.1	\$ 9.4	\$ 3.6	\$ (3.6)	\$ 6.2
Euro to U.S. dollar average exchange rate	1.16	1.14	1.14	1.12	1.11	1.11	1.10	1.10
Canadian dollar to U.S. dollar average exchange rate	0.77	0.76	0.75	0.75	0.76	0.76	0.74	0.72
Earnings (loss) per share								
Basic and diluted from continuing operations	\$ (0.09)	\$ (0.08)	\$ (0.02)	\$ (0.02)	\$ 0.04	\$ 0.00	\$ (0.11)	\$ 0.02
Basic and diluted	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.02)	\$ 0.04	\$ 0.00	\$ (0.11)	\$ 0.02
CWI net income attributable to the Company	\$ 7.7	\$ 5.7	\$ 8.6	\$ 5.9	\$ 5.4	\$ 6.7	\$ 5.3	\$ 4.2

(1) 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.

(2) During the first quarter of 2020, we recorded a \$10.0 million expense related to a field service campaign as discussed in the "Gross Margin" section of this MD&A.

(3) During the second quarter of 2020, we recorded a \$7.7 million insurance recovery related to the field service campaign as discussed in the "Gross Margin" section of this MD&A.

(4) 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.

(5) 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 have included certain non-GAAP performance measures throughout this MD&A. These performance measures are employed by us internally to measure operating and economic performance and to assist in business decision-making, as well as providing key performance information to senior management. We believe that, in addition to conventional measures prepared in accordance with U.S. GAAP, certain investors and other stakeholders also use this information to evaluate our operating and financial performance; however, these non-GAAP performance measures do not have any standardized meaning. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP.

Non-GAAP Measures - EBITDA and Adjusted EBITDA

We believe that, in addition to conventional measures prepared in accordance with U.S. GAAP, Westport Fuel Systems and certain investors use EBITDA and Adjusted EBITDA as an indicator of our ability to generate liquidity by producing operating cash flows to fund working capital needs, service debt obligations and fund capital expenditures. EBITDA is also frequently used by investors and analysts for valuation purposes where EBITDA is multiplied by a factor, or "EBITDA multiple", that is based on an observed or inferred relationship between EBITDA and market values to determine the approximate total enterprise value of a company. EBITDA and Adjusted EBITDA are intended to provide additional information to investors and analysts and do not have any standardized definition under U.S. GAAP, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. EBITDA and adjusted EBITDA exclude the impact of cash costs of financing activities and taxes, the effects of changes in operating working capital balances, and therefore are not necessarily indicative of operating profit or cash flow from operations as determined under U.S. GAAP. Other companies may calculate EBITDA and Adjusted EBITDA differently.

EBITDA

Westport Fuel Systems defines EBITDA as net income or loss from continuing operations before income taxes adjusted for net interest expense and depreciation and amortization

Three months ended	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20
Income (loss) before income taxes from continuing operations	\$ (9.5)	\$ (11.9)	\$ (1.9)	\$ (1.4)	\$ 5.7	\$ (0.3)	\$ (16.0)	\$ 4.6
Interest expense, net (1)	2.3	2.6	1.8	1.4	1.8	1.5	1.5	1.2
Depreciation and amortization	4.2	4.0	4.3	4.0	4.2	3.8	3.4	3.4
EBITDA	<u>\$ (3.0)</u>	<u>\$ (5.3)</u>	<u>\$ 4.2</u>	<u>\$ 4.0</u>	<u>\$ 11.7</u>	<u>\$ 5.0</u>	<u>\$ (11.1)</u>	<u>\$ 9.2</u>

(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 increased by \$20.3 million to positive \$9.2 million for the three months ended June 30, 2020 compared to negative \$11.1 million for the three months ended March 31, 2020. The increase is primarily due to a \$7.7 million insurance recovery related to the field service campaign as discussed in the "Gross Margin" section of this MD&A, lower operating expenses and unrealized foreign exchange gain of \$3.6 million in the current quarter compared to a \$6.9 million unrealized foreign exchange loss in the previous quarter.

Non-GAAP Measures (continued):

Adjusted EBITDA

Westport Fuel Systems defines Adjusted EBITDA as EBITDA from continuing operations adjusted for stock-based compensation, unrealized foreign exchange gains or losses, and non-cash and other adjustments.

Three months ended	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20
EBITDA	\$ (3.0)	\$ (5.3)	\$ 4.2	\$ 4.0	\$ 11.7	\$ 5.0	\$ (11.1)	\$ 9.2
Stock based compensation	0.6	0.7	0.4	0.3	0.3	0.5	0.6	0.6
Unrealized foreign exchange (gain) loss	2.2	1.6	0.1	(0.7)	0.7	(2.6)	6.9	(3.6)
Intangible impairment	—	—	—	—	—	0.7	—	—
Asset impairment	—	0.6	—	—	—	—	—	—
Restructuring, termination and other exit costs	—	—	0.8	—	—	—	—	—
Legal costs associated with SEC investigation	3.5	3.1	1.8	4.5	—	—	—	—
Other	1.0	(0.5)	—	—	(3.3)	—	—	—
Adjusted EBITDA	<u>\$ 4.3</u>	<u>\$ 0.2</u>	<u>\$ 7.3</u>	<u>\$ 8.1</u>	<u>\$ 9.4</u>	<u>\$ 3.6</u>	<u>\$ (3.6)</u>	<u>\$ 6.2</u>

Adjusted EBITDA increased by \$9.8 million from negative \$3.6 million for the three months ended March 31, 2020 to \$6.2 million for the three months ended June 30, 2020 primarily due to lower operating expenses and the \$7.7 million insurance recovery recorded during the second quarter of 2020 as discussed in the "Gross Margin" section in this MD&A .

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, 2020 and 2019

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Balance Sheets (unaudited)

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

June 30, 2020 and December 31, 2019

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents (including restricted cash, note 3(d))	\$ 28,928	\$ 46,012
Accounts receivable (note 6)	61,925	66,950
Inventories (note 7)	56,105	47,806
Prepaid expenses	9,056	7,417
Total current assets	156,014	168,185
Long-term investments (note 8)	10,807	10,587
Property, plant and equipment (note 9)	55,832	58,856
Operating lease right-of-use assets (note 12)	15,392	17,524
Intangible assets (note 10)	12,001	13,075
Deferred income tax assets	2,581	1,929
Goodwill	3,111	3,110
Other long-term assets	7,002	6,660
Total assets	\$ 262,740	\$ 279,926
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 71,195	\$ 86,180
Current portion of operating lease liabilities (note 12)	3,864	4,406
Current portion of long-term debt (note 13 and 21)	22,270	13,567
Current portion of long-term royalty payable (note 14)	7,268	5,936
Current portion of warranty liability (note 15)	13,885	4,505
Total current liabilities	118,482	114,594
Long-term operating lease liabilities (note 12)	11,528	13,118
Long-term debt (note 13 and 21)	33,067	35,312
Long-term royalty payable (note 14)	6,439	12,322
Warranty liability (note 15)	5,159	4,396
Deferred income tax liabilities	4,349	4,445
Other long-term liabilities	5,940	6,380
Total liabilities	184,964	190,567
Shareholders' equity:		
Share capital (note 16):		
Unlimited common and preferred shares, no par value		
136,757,404 (2019 - 136,416,981) common shares	1,095,147	1,094,633
Other equity instruments	7,523	6,857
Additional paid in capital	10,079	10,079
Accumulated deficit	(1,010,619)	(998,320)
Accumulated other comprehensive loss	(24,354)	(23,890)
Total shareholders' equity	77,776	89,359
Total liabilities and shareholders' equity	\$ 262,740	\$ 279,926
Commitments and contingencies (note 18)		
Subsequent events (note 21)		

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

Daniel M. Hancock Director

Brenda J. Eprile

Director

WESTPORT FUEL SYSTEMS INC.

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

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

Three and six months ended June 30, 2020 and 2019

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue	\$ 35,964	\$ 82,419	\$ 103,187	\$ 155,610
Cost of revenue and expenses:				
Cost of revenue	23,775	63,091	86,723	119,127
Research and development	4,090	6,910	9,890	13,708
General and administrative	6,109	12,718	12,741	24,683
Sales and marketing	2,378	4,284	5,703	8,101
Restructuring costs	—	—	—	825
Foreign exchange (gain) loss	(3,626)	(705)	3,269	(646)
Depreciation and amortization	1,511	2,000	3,007	4,454
	<u>34,237</u>	<u>88,298</u>	<u>121,333</u>	<u>170,252</u>
Income (loss) from operations	1,727	(5,879)	(18,146)	(14,642)
Income from investments accounted for by the equity method	4,121	5,885	9,488	14,540
Interest on long-term debt and accretion on royalty payable	(1,467)	(1,785)	(3,019)	(3,702)
Interest and other income, net of bank charges	174	348	259	469
Income (loss) before income taxes	4,555	(1,431)	(11,418)	(3,335)
Income tax expense	1,565	887	881	2,022
Net income (loss) from continuing operations	2,990	(2,318)	(12,299)	(5,357)
Net loss from discontinued operations (note 5)	—	(240)	—	(240)
Net income (loss) for the period	<u>2,990</u>	<u>(2,558)</u>	<u>(12,299)</u>	<u>(5,597)</u>
Other comprehensive income (loss):				
Cumulative translation adjustment	(633)	1,279	(464)	753
Comprehensive income (loss)	<u>\$ 2,357</u>	<u>\$ (1,279)</u>	<u>\$ (12,763)</u>	<u>\$ (4,844)</u>
Income (loss) per share:				
From continuing operations - basic and diluted	\$ 0.02	\$ (0.02)	\$ (0.09)	\$ (0.04)
From discontinued operations - basic and diluted	\$ —	\$ (0.00)	\$ —	\$ (0.00)
Net income (loss) per share - basic and diluted	<u>\$ 0.02</u>	<u>\$ (0.02)</u>	<u>\$ (0.09)</u>	<u>\$ (0.04)</u>
Weighted average common shares outstanding:				
Basic	136,564,290	133,600,880	136,496,757	133,525,464
Diluted	<u>146,323,733</u>	<u>133,600,880</u>	<u>136,496,757</u>	<u>133,525,464</u>

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, 2020 and 2019

	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, 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	<u>133,663,774</u>	<u>\$ 1,087,776</u>	<u>\$ 12,966</u>	<u>\$ 10,079</u>	<u>\$ (1,003,958)</u>	<u>\$ (20,305)</u>	<u>\$ 86,558</u>
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	<u>133,663,774</u>	<u>\$ 1,087,776</u>	<u>\$ 12,966</u>	<u>\$ 10,079</u>	<u>\$ (1,003,958)</u>	<u>\$ (20,305)</u>	<u>\$ 86,558</u>
Three Months Ended June 30, 2020							
April 1, 2020	136,465,872	\$ 1,094,720	\$ 7,361	\$ 10,079	\$ (1,013,609)	\$ (23,721)	\$ 74,830
Issue of common shares on exercise of share units	291,532	427	(427)	—	—	—	—
Stock-based compensation	—	—	589	—	—	—	589
Net income for the period	—	—	—	—	2,990	—	2,990
Other comprehensive loss	—	—	—	—	—	(633)	(633)
June 30, 2020	<u>136,757,404</u>	<u>\$ 1,095,147</u>	<u>\$ 7,523</u>	<u>\$ 10,079</u>	<u>\$ (1,010,619)</u>	<u>\$ (24,354)</u>	<u>\$ 77,776</u>
Six Months Ended June 30, 2020							
January 1, 2020	136,416,981	\$ 1,094,633	\$ 6,857	\$ 10,079	\$ (998,320)	\$ (23,890)	\$ 89,359
Issue of common shares on exercise of share units	340,423	514	(514)	—	—	—	—
Stock-based compensation	—	—	1,180	—	—	—	1,180
Net loss for the period	—	—	—	—	(12,299)	—	(12,299)
Other comprehensive loss	—	—	—	—	—	(464)	(464)
June 30, 2020	<u>136,757,404</u>	<u>\$ 1,095,147</u>	<u>\$ 7,523</u>	<u>\$ 10,079</u>	<u>\$ (1,010,619)</u>	<u>\$ (24,354)</u>	<u>\$ 77,776</u>

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, 2020 and 2019

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash flows from (used in) operating activities:				
Net income (loss) for the period from continuing operations	\$ 2,990	\$ (2,318)	\$ (12,299)	\$ (5,357)
Items not involving cash:				
Depreciation and amortization	3,402	3,963	6,771	8,293
Stock-based compensation expense	617	330	1,241	726
Unrealized foreign exchange loss (gain)	(3,626)	(705)	3,269	(646)
Deferred income tax	1,458	671	(683)	671
Income from investments accounted for by the equity method	(4,121)	(5,885)	(9,488)	(14,540)
Interest on long-term debt and accretion of royalty payable	1,467	1,785	3,019	3,702
Change in inventory write-downs to net realizable value	381	(166)	64	(18)
Change in bad debt expense	214	192	252	579
Restructuring obligations	—	—	—	224
Net cash from (used) before working capital changes	2,782	(2,133)	(7,854)	(6,366)
Changes in non-cash operating working capital:				
Accounts receivable	4,042	(11,219)	4,618	(23,228)
Inventories	(4,329)	1,038	(8,056)	(1,144)
Prepaid and other assets	(919)	(382)	(1,559)	(1,877)
Accounts payable and accrued liabilities	(9,623)	15,324	(16,820)	18,061
Deferred revenue	(471)	24	1,030	2,359
Warranty liability	(534)	(188)	9,781	(588)
Net cash from (used in) operating activities of continuing operations	(9,052)	2,464	(18,860)	(12,783)
Net cash used in operating activities of discontinued operations	—	(240)	—	(240)
Cash flows from (used in) investing activities:				
Purchase of property, plant and equipment and other assets	(1,562)	(1,578)	(3,186)	(3,591)
Dividends received from joint ventures	3,420	7,381	9,243	13,371
Net cash from investing activities of continuing operations	1,858	5,803	6,057	9,780
Cash flows from (used in) financing activities:				
Repayment of operating lines of credit and long-term facilities	(7,176)	(8,170)	(18,893)	(13,778)
Drawings on operating lines of credit and long-term facilities	10,996	6,363	22,066	8,402
Payment of royalty payable	(5,948)	(6,034)	(5,948)	(6,034)
Net cash used in financing activities	(2,128)	(7,841)	(2,775)	(11,410)
Effect of foreign exchange on cash and cash equivalents	(842)	(758)	(1,506)	(1,076)
Decrease in cash and cash equivalents	(10,164)	(572)	(17,084)	(15,729)
Cash and cash equivalents, beginning of period (including restricted cash)	39,092	45,962	46,012	61,119
Cash and cash equivalents, end of period (including restricted cash)	\$ 28,928	\$ 45,390	\$ 28,928	\$ 45,390

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of United States dollars)

Three and six months ended June 30, 2020 and 2019

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Supplementary information:				
Interest paid	\$ 465	\$ 608	\$ 2,390	\$ 2,864
Taxes paid, net of refunds	167	280	(20)	286

See accompanying notes to condensed consolidated interim financial statements.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

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. COVID-19 impact and going concern:

(a) Impact of COVID-19

The outbreak of COVID-19 has had and continues to have an adverse impact on the Company's business, including the disruption of production and end customer demand. The extent, duration and impact of COVID-19 and governmental and societal responses is uncertain. A significant portion of the Company's production is from three facilities located in Northern Italy, and sales from these facilities are primarily to Western and Eastern Europe. The Company's Brescia facility was closed from March 16, 2020 through May 4, 2020. This facility produces components in the light-duty Original Equipment Manufacturer ("OEM") business and assembles liquefied natural gas tank systems for the heavy-duty OEM business. The Company's Cherasco and Albinea facilities were closed from March 22, 2020 through May 4, 2020. These facilities produce components and kits in the Independent Aftermarket ("IAM"), Delayed OEM ("DOEM"), electronics, and OEM businesses.

In addition to the Company's production facilities, its European High Pressure Direct Injection ("Westport HPDI 2.0™" or "HPDI") launch partner temporarily closed its facilities in mid-March in response to safety concerns and government restrictions arising from the spread COVID-19. The Company's launch partner reopened its production facilities in late April and the Company expects a return to pre-COVID-19 sales volume levels for the HPDI product in the second half of 2020.

At this time, customer demand for the Company's light-duty and aftermarket products for the full year 2020 is difficult to estimate and will be highly dependent on the duration and severity of the COVID-19 pandemic and post-pandemic market weakness. The Company's consolidated sales in the first half of 2020 declined as a result of COVID-19 and the Company expects that the pandemic will impact its results of operations during the remainder of 2020, with the most significant impact to revenue realized in the second quarter of 2020.

The Company's light-duty OEM and DOEM businesses are dependent on new vehicle sales with gaseous fuel systems. Sales revenue in these businesses declined significantly during the second quarter of 2020 due to the impact of COVID-19 pandemic, but the Company anticipates a progressive recovery in the third and fourth quarters of 2020 from the first half of the year. With low emissions and low fuel costs, the LPG and CNG-fueled vehicles are available and sustainable alternative gaseous fuel systems which are supported by a capillary refueling infrastructure.

The Company believes that its heavy-duty business will be less impacted than the IAM and light-duty OEM businesses due to the growing demand for climate-friendly, affordable trucks. Demand for essential goods remains and consumer delivery of these goods has increased, resulting in more stable demand for medium and heavy-duty trucks.

The certification of the Weichai Westport Inc. ("WWI") HPDI engine through a multi-step, multi-party activity was delayed in the first quarter of 2020 given the early impact of COVID-19 in China. The Company anticipates certification within 2020.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

2. COVID-19 impact and going concern (continued):

In response to COVID-19, the Company has implemented several austerity measures, including actions to reduce costs, such as salary and other compensation deferrals and reductions, and delaying non-critical projects and capital expenditures. The Company has been working with its key lenders to strengthen its liquidity and has made significant progress to improve its liquidity and reduce its cost of capital:

- On March 25, 2020, \$6,000 in principal deferrals on the Company's term loan with Export Development Canada ("EDC");
- On May 28, 2020, a Euro 5,000 government backed term loan from UniCredit S.p.A. ("UniCredit") to the Company's Emer S.p.A. ("Emer") subsidiary;
- On July 17, 2020, a Euro 15,000 government backed term loan from UniCredit to the Company's MTM S.r.l. ("MTM") subsidiary;
- On July 23, 2020, a \$10,000 bridge loan secured through EDC at a 6.25% interest rate;
- On July 24, 2020, the Company announced the refinancing of the convertible notes with Cartesian Capital Group and its affiliates ("Cartesian"). Under the terms of the agreement, the Company agreed to pay down the principal amount of the existing convertible notes from \$17,500 to \$10,000. Concurrent with such repayment, the maturity of the remaining amended notes was extended to three years from the date of the amendments, the coupon rate was reduced from 9.0% annually to 6.5% annually, and the conversion price was revised from \$2.17 per share to \$1.42 per share.

Refer to note 13(a), 13(c), and 21 of these condensed consolidated interim financial statements ("interim financial statements") for more details. The Company is also participating in government wage-subsidy and other support programs in the countries where it operates. The benefit of these programs was \$3,785 and \$4,188 for the three and six months ended June 30, 2020, respectively. The amounts were recognized as recoveries to cost of revenue and operating expenses in the Company's condensed consolidated interim statements of operations and comprehensive income (loss).

The Company's liquidity and going concern assessment is discussed below.

(b) 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 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. Substantial doubt exists when conditions and events, considered in aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the date that the consolidated financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management's plans and actions 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 company'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.

The interim financial statements have been prepared on the basis that the Company will continue as a going concern. At June 30, 2020, the Company's net working capital was \$37,532 including cash and cash equivalents of \$28,928. The Company has another \$2,682 in restricted cash pledged to the repayment of the debt it holds in its Italian subsidiaries recorded in other long-term assets. The Company's long-term debt, including the royalty payable, was \$69,044, of which \$22,270 of the long term debt matures by June 30, 2021 and \$7,268 of the royalty payable is due by June 30, 2021. The Company generated income of \$2,990 and incurred negative cash flows from continuing operations of \$9,052 for the three months ended June 30, 2020, a loss of \$12,299 and negative cash flows of \$18,860 for the six months ended June 30, 2020, and has an accumulated deficit of \$1,010,619.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

2. COVID-19 impact and going concern (continued):

Principal conditions or events that require management's consideration

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

- (a) The Company has three significant debt and royalty obligations combining to approximately \$18,768 coming due in the next twelve months, as follows:
 - (i) Cartesian refinancing payment of \$7,500, plus accrued interest, which was made on July 30, 2020;
 - (ii) Royalty payable payment of \$7,268 to Cartesian in April 2021;
 - (iii) EDC principal payments totaling \$4,000 to EDC in March 2021 and June 2021.

The Company is also required to repay the EDC bridge loan entered into in July, 2020. Through August 5, 2020 the Company has drawn \$2,500 million on this facility.

- (b) Forecast operating results

The Company recorded positive net income in 2019 and had expected to improve upon this achievement in 2020. However, as previously described, the impact of COVID-19 has had a significant impact on the Company's 2020 outlook. While the Company achieved net income during the second quarter of 2020, its net loss for six months ended June 30, 2020 was \$12,299. The second quarter benefited from a \$7,727 insurance recovery and \$3,785 of government wage subsidies, which will only partially continue into the third quarter of 2020. The Company expects improved revenue and earnings levels in the second half of 2020 and into 2021, however, this will depend on the strength of the economic recovery and the return of customer demand.

Management's plans

The Company plans to alleviate or mitigate the substantial doubt of operating as a going concern through the following actions:

- (a) Debt financing

As noted above, the Company has entered into new debt facilities in Italy and North America totaling \$32,934, of which \$27,380 was entered into subsequent to June 30, 2020. The Company entered into an agreement with EDC to defer \$6,000 in principal payments due in 2020 and extend the loan to 2022, and subsequent to June 30, 2020, repaid \$7,500 of its convertible notes and extended the maturity on the remaining \$10,000 until 2023. These financing initiatives will improve the liquidity of the Company in 2020 and 2021.

- (b) Operating results and government wage subsidies

As discussed, the Company's operating results for 2020 will be significantly impacted by COVID-19. In response to COVID-19, the Company has implemented several austerity measures, including actions to reduce costs, such as salary and other compensation deferrals and reductions, and delaying non-critical projects and capital expenditures. The Company is also participating in government wage subsidy and other support programs in the countries where it operates and the benefit of these programs were \$3,785 in the second quarter of 2020. These programs will partially continue into the third quarter of 2020 but at a lower level.

The Company is also evaluating future cash flows from CWI with the termination of the joint venture scheduled to end on December 31, 2021. The joint venture pays significant dividends to the joint venture partners, with the Company receiving \$25,045 of dividends in 2019 (2018 - \$23,191). As per the joint venture agreement, both Cummins and Westport Fuel Systems have equal rights to CWI's intellectual property, and the Company is evaluating its strategic alternatives to monetize the value of the intellectual property. However, there is no certainty that the Company will be able to monetize the intellectual property to the level of the current dividends received from the joint venture. See note 8(a) in our interim financial statements for additional details related to the CWI joint venture.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

2. COVID-19 impact and going concern (continued):

Management's conclusion and assessment

The Company believes that the cash on hand at June 30, 2020, coupled with the recently closed financings, provides the cash flow necessary to fund operations over the next year to August 31, 2021. However, in the face of the uncertainty caused by the COVID-19 pandemic and the negative economic and market impact of a potential extended recovery period, the Company may require additional financing to fund its operations. In addition to the plans outlined above, the Company is pursuing a number of financing initiatives and alternatives that may include equity financing. Due to the application of the accounting principles generally accepted in the United States ("U.S. GAAP") potential future financing has not been included in the analysis of the Company's ability to continue as a going concern. As such there remains substantial doubt about the Company's ability to continue as a going concern within one year after the date that these condensed consolidated interim financial statements are issued. Although the Company remains confident in its ability to raise the necessary financing to fund its operations, the Company cautions readers of its financial statements and its Management's Discussion and Analysis ("MD&A") that there is no absolute assurance that the Company will be able to raise the financing necessary, or mitigate the impact of COVID-19, under satisfactory terms and conditions, to continue as a going concern. If, as a result of future events, the Company was to determine that it was no longer able to continue as a going concern, significant adjustments would be required to the carrying value of assets and liabilities in the accompanying interim financial statements and the adjustments could be material.

3. Basis of preparation:

(a) Basis of presentation:

These interim financial statements have been prepared in accordance with 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, 2019, 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, 2019 except as disclosed in the "Accounting Changes" section of these interim financial statements.

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, 2020 and for all periods presented, have been recorded. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results for the Company's full year.

(b) Foreign currency translation:

The Company's functional currency is the Canadian dollar and its reporting currency for its consolidated financial statement presentation is the United States Dollar ("U.S. Dollar"). The functional currencies for the Company's subsidiaries include the following: U.S. Dollars, Canadian dollar, 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.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

3. Basis of preparation (continued):

Except as otherwise noted, all amounts in these interim financial statements are presented in thousands of 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, 2020	December 31, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Canadian Dollar	0.73	0.77	0.72	0.75	0.73	0.75
Euro	1.12	1.12	1.10	1.12	1.10	1.13
Argentina Peso	0.01	0.02	0.01	0.02	0.02	0.02
RMB	0.14	0.14	0.14	0.15	0.14	0.15
Swedish Krona	0.11	0.11	0.10	0.11	0.10	0.11
Indian Rupee	0.0132	0.0140	0.0132	0.0144	0.0135	0.0143

(c) Cartesian:

Cartesian 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 and resigned as a Director of the Company in July 2020. See notes 8(b), 13(c), 14 and 21 for additional details of Cartesian's investments in the Company.

(d) Cash and cash equivalents (including restricted cash):

Cash and cash equivalents include cash on hand, term deposits, banker acceptances and guaranteed investment certificates with maturities of ninety days or less when acquired. Cash equivalents are considered as held for trading and recorded at fair value with changes in fair value recognized in the consolidated statements of operations. Cash and cash equivalents at June 30, 2020 include restricted cash of \$640 (December 31, 2019 - \$2,279). Restricted cash at June 30, 2020 and at December 31, 2019 is related to cash used to secure a letter of credit.

4. Accounting changes:

New accounting pronouncements adopted in 2020:

In June 2016, the FASB issued ASU No. 2016-13 "Financial Instruments - Credit Losses (Topic 326)" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaced the former incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2019. The adoption of this guidance in the first quarter of 2020 did not result in any material impact to the Company's consolidated financial statements.

5. Sale of assets:

The Company completed the sale of its compressed natural gas ("CNG") Compressor business on July 25, 2018.

During the three and six months ended June 30, 2019, the Company recorded a \$240 net loss from discontinued operations related to an allowance on accounts receivable of the CNG Compressor business that were not included in the sale of the business.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

6. Accounts receivable:

	June 30, 2020	December 31, 2019
Customer trade receivables	\$ 49,860	\$ 62,974
Other receivables	18,002	9,092
Income tax receivable	52	475
Due from related parties (note 8(a))	97	272
Allowance for doubtful accounts	(6,086)	(5,863)
	<u>\$ 61,925</u>	<u>\$ 66,950</u>

Included in other receivables is an insurance recovery of \$7,727 recorded during the second quarter of the 2020 relating to a field service campaign as discussed in note 15 of these interim financial statements.

7. Inventories:

	June 30, 2020	December 31, 2019
Purchased parts	\$ 36,948	\$ 32,814
Work-in-process	3,104	2,854
Finished goods	16,053	12,134
Inventory on consignment	—	4
	<u>\$ 56,105</u>	<u>\$ 47,806</u>

During the three and six months ended June 30, 2020, the net change in inventory provision to net realizable value is a write-down of \$381 and \$64, respectively (three and six months ended June 30, 2019 - recoveries of \$166 and \$18, respectively).

8. Long-term investments:

	June 30, 2020	December 31, 2019
Cummins Westport Inc. (a)	\$ 8,122	\$ 7,850
Weichai Westport Inc. (b)	1,824	1,824
Other equity-accounted investees	861	913
	<u>\$ 10,807</u>	<u>\$ 10,587</u>

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

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. For the three and six months ended June 30, 2020, the Company recognized its share of CWI's income of \$4,210 and \$9,514, respectively (three and six months ended June 30, 2019 - \$5,869 and \$14,471, respectively) in income from investments accounted for by the equity method.

As at June 30, 2020, the Company has a related party accounts receivable balance of \$97 due from CWI.

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

	June 30, 2020	December 31, 2019
Current assets:		
Cash and short-term investments	\$ 93,454	\$ 90,296
Accounts receivable	655	1,363
Long-term assets:		
Property, plant and equipment	722	844
Deferred income tax assets	20,327	21,322
Total assets	\$ 115,158	\$ 113,825
Current liabilities:		
Current portion of warranty liability	\$ 19,530	\$ 19,816
Current portion of deferred revenue	14,875	16,678
Accounts payable and accrued liabilities	8,144	3,858
	42,549	40,352
Long-term liabilities:		
Warranty liability	28,815	30,463
Deferred revenue	23,714	23,667
Other long-term liabilities	3,826	3,631
	56,355	57,761
Total liabilities	\$ 98,904	\$ 98,113

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and six months ended June 30, 2020 and 2019

8. Long-term investments (continued):

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Product revenue	\$ 41,499	\$ 54,626	\$ 89,045	\$ 116,575
Parts revenue	24,933	29,394	54,055	59,703
	66,432	84,020	143,100	176,278
Cost of revenue and expenses:				
Cost of product and parts revenue	48,234	58,813	103,261	123,227
Research and development	4,186	3,908	8,652	7,579
General and administrative	366	122	792	694
Sales and marketing	2,882	5,675	6,269	9,572
Foreign exchange (gain) loss	83	(1)	4	2
	55,751	68,517	118,978	141,074
Income from operations	10,681	15,503	24,122	35,204
Interest and investment income	231	499	729	1,267
Income before income taxes	10,912	16,002	24,851	36,471
Income tax expense	2,493	4,263	5,822	7,528
Net income	\$ 8,419	\$ 11,739	\$ 19,029	\$ 28,943

(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%.

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9. Property, plant and equipment:

June 30, 2020	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 4,944	\$ 1,629	\$ 3,315
Computer equipment and software	5,715	4,522	1,193
Furniture and fixtures	4,148	3,659	489
Machinery and equipment	93,618	46,399	47,219
Leasehold improvements	11,658	8,042	3,616
	<u>\$ 120,083</u>	<u>\$ 64,251</u>	<u>\$ 55,832</u>

December 31, 2019	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 4,764	\$ 1,565	\$ 3,199
Computer equipment and software	5,601	4,521	1,080
Furniture and fixtures	4,213	3,715	498
Machinery and equipment	91,926	41,775	50,151
Leasehold improvements	11,463	7,535	3,928
	<u>\$ 117,967</u>	<u>\$ 59,111</u>	<u>\$ 58,856</u>

10. Intangible assets:

June 30, 2020	Cost	Accumulated amortization	Net book value
Brands, patents and trademarks	\$ 20,376	\$ 9,903	\$ 10,473
Technology	5,443	4,956	487
Customer contracts	12,138	11,097	1,041
Other intangibles	328	328	—
Total	<u>\$ 38,285</u>	<u>\$ 26,284</u>	<u>\$ 12,001</u>

December 31, 2019	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 20,386	\$ 9,333	\$ 11,053
Technology	5,457	4,917	540
Customer contracts	12,150	10,668	1,482
Other intangibles	328	328	—
Total	<u>\$ 38,321</u>	<u>\$ 25,246</u>	<u>\$ 13,075</u>

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11. Accounts payable and accrued liabilities:

	June 30, 2020	December 31, 2019
Trade accounts payable	\$ 44,085	\$ 60,170
Accrued payroll	18,212	15,906
Taxes payable	4,286	3,497
Deferred revenue	1,934	2,717
Accrued interest	777	1,568
Due to related parties	384	794
Other payables	1,517	1,528
	<u>\$ 71,195</u>	<u>\$ 86,180</u>

12. Operating leases right-of-use assets and lease liabilities:

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 2020 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 present value of the outstanding operating lease liability was determined applying a weighted average discount rate of 5.0% based on incremental borrowing rates applicable in each location.

The components of lease cost are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Operating lease cost:				
Amortization of right-of-use assets	\$ 789	\$ 944	\$ 1,476	\$ 1,829
Interest	69	261	223	506
Total lease cost	<u>\$ 858</u>	<u>\$ 1,205</u>	<u>\$ 1,699</u>	<u>\$ 2,335</u>

The maturities of lease liabilities as at June 30, 2020 are as follows:

The remainder of 2020	\$ 2,041
2021	3,646
2022	3,570
2023	2,542
2024	1,978
Thereafter	3,816
Total undiscounted cash flows	17,593
Less: imputed interest	(2,201)
Present value of operating lease liabilities	15,392
Less: current portion	(3,864)
Long term operating lease	<u>\$ 11,528</u>

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13. Long-term debt:

	June 30, 2020	December 31, 2019
Term loan facilities, net of debt issuance costs (a)	\$ 26,722	\$ 22,207
Senior financing (b)	2,130	2,504
Convertible debt (c)	17,456	17,431
Other bank financing (d)	6,834	5,105
Capital lease obligations (e)	2,195	1,632
Balance, end of period	55,337	48,879
Current portion	(22,270)	(13,567)
Long-term portion	\$ 33,067	\$ 35,312

(a) The Company has three separate term loans: one with EDC and two with UniCredit S.p.A. ("UniCredit"). On December 20, 2017, the Company entered into a loan agreement with EDC for a \$20,000 non-revolving term facility. The Company incurred debt issuance costs of \$1,013 related to the loan which are being amortized over the loan term using the effective interest rate method. The loan bears interest at 6% (prior to March 1, 2019, at 9% plus monitoring fees), payable quarterly, as well as quarterly principal repayments. On March 23, 2020, the Company and EDC amended the terms of the secured term loan to defer \$6,000 in principal payments in 2020 to recommence payment of \$2,000 quarterly starting March 15, 2021 and to extend the term of the loan until September 30, 2022. As at June 30, 2020, the amount outstanding for this loan was \$13,407, net of issuance costs, compared to \$13,269, net of issuance costs, as at December 31, 2019. The loan is secured by share pledges over Westport Power, Inc., Fuel Systems Solutions, Inc., Westport Luxembourg S.a.r.l and MTM 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. This loan bears interest at an annual rate of 2.3% and interest is paid quarterly. This loan matures on December 31, 2023. As at June 30, 2020, the amount outstanding for this loan was \$4,841 compared to \$5,569 as at December 31, 2019, and is secured by a cash pledge of \$1,671, with these restricted funds being recorded in other long-term assets.

On November 28, 2019, the Company entered into a second Euro denominated loan agreement with UniCredit. This loan bears interest at an annual rate of 1.8% and interest is paid quarterly. This loan matures on September 30, 2023. As at June 30, 2020, the amount outstanding for this loan was \$2,920 compared to \$3,369 as at December 31, 2019, and is secured by a cash pledge of \$1,011, with these restricted funds also being recorded in other long-term assets.

On May 20, 2020, the Company entered into a third Euro denominated loan agreement with UniCredit. The effective interest rate of this loan is 1.82% with a maturity date of May 31, 2025. As at June 30, 2020, the amount outstanding for this loan was \$5,554. There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità.

(b) The senior financing facility was renewed on March 24, 2017. This Euro denominated loan bears interest at an annual rate equal to 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. This loan matures on December 31, 2022. The Company has pledged its interest in Emer as a general guarantee for its senior revolving financing.

(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. On July 24, 2020, Westport announced the refinancing of the Company's convertible notes with Cartesian. Refer to note 21 for further discussion.

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13. Long-term debt (continued):

(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%.

The principal repayment schedule of long-term debt is as follows as at June 30, 2020:

	Term loan facilities	Senior financing	Convertible Debt	Other bank financing	Capital lease obligations	Total
Remainder of 2020	\$ 3,352	\$ 766	\$ 7,500	\$ 5,151	\$ 482	\$ 17,251
2021	11,187	895	—	532	689	13,303
2022	8,984	469	—	532	426	10,411
2023	2,050	—	9,956	532	373	12,911
2024 and thereafter	1,149	—	—	87	225	1,461
	<u>\$ 26,722</u>	<u>\$ 2,130</u>	<u>\$ 17,456</u>	<u>\$ 6,834</u>	<u>\$ 2,195</u>	<u>\$ 55,337</u>

14. Long-term royalty payable:

On January 11, 2016, the Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided \$17,500 in cash (the "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.

As at June 30, 2020, the total royalty prepayments paid to Cartesian as a result of the Consent Agreement was \$12,137.

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14. Long-term royalty payable (continued):

A continuity schedule of the long-term royalty payable is as follows:

	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 18,258	\$ 20,935
Accretion expense	1,397	3,357
Repayment	(5,948)	(6,034)
Balance, end of period	13,707	18,258
Current portion	(7,268)	(5,936)
Long-term portion	<u>\$ 6,439</u>	<u>\$ 12,322</u>

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

2021	\$ 7,268
2022	5,103
2023	1,162
2024	1,637
2025	2,270
2026	2,851
	<u>\$ 20,291</u>

15. Warranty liability:

	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 8,901	\$ 4,941
Warranty claims	(1,192)	(1,863)
Warranty accruals	11,265	6,794
Change in estimate	(43)	(481)
Impact of foreign exchange	113	(490)
Balance, end of period	19,044	8,901
Less: current portion	(13,885)	(4,505)
Long-term portion	<u>\$ 5,159</u>	<u>\$ 4,396</u>

During the first quarter of 2020, the Company recorded \$9,962 warranty accrual related to a field service campaign for the replacement of the pressure release device the Company manufactures and sells to OEM customers. No safety events or field performance issues have been identified from this product. The Company recorded an insurance recovery of \$7,727 related to this issue as an other receivable (note 6) during the second quarter of 2020.

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

During the three and six months ended June 30, 2020, the Company issued 291,532 and 340,423 common shares, respectively, net of cancellations, upon exercises of share units (three and six months ended June 30, 2019 – 145,850 and 282,875 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, 2020, the Company recognized \$617 and \$726, respectively (three and six months ended June 30, 2019 - \$330 and \$726, 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 at June 30, 2020 and June 30, 2019 are as follows:

	Six months ended June 30, 2020		Six months ended June 30, 2019	
	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)
Outstanding, beginning of period	1,777,941	\$ 3.19	2,667,403	\$ 6.00
Granted	271,426	1.61	309,236	2.53
Exercised	(340,423)	2.09	(282,875)	3.11
Forfeited/expired	(14,017)	2.65	(26,387)	3.79
Outstanding, end of period	1,694,927	\$ 3.15	2,667,377	\$ 4.35
Units outstanding and exercisable, end of period	99,608	\$ 1.72	2,219,207	\$ 4.60

During the six months to June 30, 2020, 271,426 restricted share units ("RSUs") were granted to certain employees and directors (2019 - 309,236). This included 250,526 RSUs (2019 - 309,236) and 20,900 performance share units ("PSUs") (2019 - nil). Values of RSU awards are generally determined based on the fair market value of the underlying common shares on the date of grant. RSUs typically vest over a three-year period so the actual value received by the individual depends on the share price on the day such RSUs are settled for common shares, not the date of grant. PSU awards do not have a certain number of common shares that will issue over time, but are based on future performance and other conditions tied to the payout of the PSU.

As at June 30, 2020, \$1,868 of compensation cost related to Units awarded has yet to be recognized in results from operations and will be recognized ratably over two years.

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units at June 30, 2020 as follows:

	June 30, 2020 (CDN \$)
Share units:	
Outstanding	\$ 2,797
Exercisable	164

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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,	
	2020	2019	2020	2019
Cost of revenue	\$ 46	\$ —	\$ 58	\$ —
Research and development	58	23	106	97
General and administrative	473	231	980	523
Sales and marketing	40	76	97	106
	<u>\$ 617</u>	<u>\$ 330</u>	<u>\$ 1,241</u>	<u>\$ 726</u>

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. Effective July 24, 2020, Cartesian will no longer be considered a related party. Refer to note 8(a) for the related party transactions with CWI and notes 13(c), 14, and 21 for transactions with Cartesian.

18. Commitments and contingencies:

(a) Contractual 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

The Company is 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:

Effective January 2020, the Company modified the reporting of business segments to allow for increased transparency into the Company's customer channels and the respective products the Company sold to those customers. Accordingly, from that date, all product information and other technology related activities previously reported under the Transportation segment have been disaggregated into two segments, OEM and IAM. All comparative figures presented have been revised to reflect this change.

Under the new organization structure, the Company manages and report the results of its business through four segments: OEM, IAM, 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 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 matters.

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19. Segment information (continued):

Financial information by business segment as follows:

	Three months ended June 30, 2020			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income (loss)
OEM	\$ 19,079	\$ 1,106	\$ 2,147	\$ (89)
IAM	16,885	(1,185)	1,184	—
Corporate	—	1,806	71	4,210
CWI - 50%	33,216	5,341	30	—
Total segment	69,180	7,068	3,432	4,121
Less: CWI - 50%	(33,216)	(5,341)	(30)	—
Total consolidated	\$ 35,964	\$ 1,727	\$ 3,402	\$ 4,121

	Three months ended June 30, 2019			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	\$ 44,856	\$ (2,970)	\$ 2,591	\$ 16
IAM	37,563	3,450	1,326	—
Corporate	—	(6,359)	47	5,869
CWI - 50%	42,010	7,752	(96)	—
Total Segment	124,429	1,873	3,868	5,885
Less: CWI - 50%	(42,010)	(7,752)	96	—
Total Consolidated	\$ 82,419	\$ (5,879)	\$ 3,964	\$ 5,885
Discontinued Operations	\$ —	\$ (240)	\$ —	\$ —

	Six months ended June 30, 2020			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income (loss)
OEM	\$ 53,351	\$ (13,367)	\$ 3,994	\$ (26)
IAM	49,836	3,574	2,645	—
Corporate	—	(8,353)	132	9,514
CWI - 50%	71,550	12,061	61	—
Total Segment	174,737	(6,085)	6,832	9,488
Less: CWI - 50%	(71,550)	(12,061)	(61)	—
Total Consolidated	\$ 103,187	\$ (18,146)	\$ 6,771	\$ 9,488

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19. Segment information (continued):

	Six months ended June 30, 2019			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	\$ 83,867	\$ (5,722)	\$ 5,404	\$ 69
IAM	71,743	5,691	2,765	—
Corporate	—	(14,611)	125	14,471
CWI - 50%	88,139	17,602	(20)	—
Total Segment	243,749	2,960	8,274	14,540
Less: CWI - 50%	(88,139)	(17,602)	20	—
Total Consolidated	\$ 155,610	\$ (14,642)	\$ 8,294	\$ 14,540
Discontinued Operations	\$ —	\$ (240)	\$ —	\$ —

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,		Six months ended June 30,	
	2020	2019	2020	2019
Europe	66%	67%	66%	67%
Americas	15%	19%	17%	17%
Asia	9%	8%	8%	9%
Other	10%	6%	9%	7%

As at June 30, 2020, total long-term investments of \$10,094 (December 31, 2019 - \$9,850) were allocated to the Corporate segment and \$713 (December 31, 2019 - \$737) were allocated to the OEM segment.

Total assets are allocated as follows:

	June 30, 2020	December 31, 2019
OEM	\$ 124,511	\$ 132,179
IAM	113,558	119,769
Corporate	24,671	27,978
CWI - 50%	57,579	56,913
Total segment assets	320,319	336,839
Less: CWI - 50%	(57,579)	(56,913)
Total consolidated assets	\$ 262,740	\$ 279,926

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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, 2020, the Company had \$28,928 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at June 30, 2020:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	\$ 71,195	\$ 71,195	\$ 71,195	\$ —	\$ —	\$ —
Term loan facilities (note 13 (a))	26,722	29,963	9,236	17,491	3,236	—
Senior financing (note 13 (b))	2,130	2,208	830	1,378	—	—
Convertible debt (note 13 (c))	17,456	18,943	7,500	11,443	—	—
Other bank financing (note 13 (d))	6,834	6,846	5,156	1,069	532	89
Long-term royalty payable (note 14)	13,707	20,291	7,268	6,265	3,907	2,851
Capital lease obligations (note 13 (e))	2,195	2,568	765	1,130	599	74
Operating lease obligations	15,392	17,593	2,042	7,216	4,519	3,816
	<u>\$ 155,631</u>	<u>\$ 169,607</u>	<u>\$ 103,992</u>	<u>\$ 45,992</u>	<u>\$ 12,793</u>	<u>\$ 6,830</u>

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20. Financial Instruments (continued):

(b) Fair value of financial instruments:

The carrying amounts reported in the condensed consolidated interim 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 represent 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 interim 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)) does not materially differ from its fair value as at June 30, 2020. The carrying value reported in the condensed consolidated interim balance sheet for senior financing (note 13(b)) approximates its fair value as at June 30, 2020, 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, 2020, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

21. Subsequent Events:

On July 17, 2020, the Company entered into a Euro 15,000 government backed term loan from UniCredit. The six-year term loan was issued to the Company's Italian subsidiary, MTM under the Italian government's COVID-19 Decreto Liquidità.

On July 23, 2020, the Company entered into a \$10,000 term credit facility agreement with EDC. This credit facility's interest rate is 6.25% per annum on drawn amounts and has no prepayment penalty or standby charge. Through July 31, 2020 the Company has drawn \$2,500 on this facility.

On July 24, 2020, Westport announced the refinancing of the Company's convertible notes with Cartesian. Under the terms of the agreement, the Company agreed to pay down the principal amount of the existing convertible notes from \$17,500 to \$10,000. Concurrent with such repayment, the maturity of the remaining amended notes was extended to three years from the date of the amendments, the coupon rate was reduced from 9% annually to 6.5% annually, and the conversion price was revised from \$2.17 per share to \$1.42 per share. As of July 30, 2020, Peter Yu, founder and managing partner of Cartesian, resigned his seat on the Board of Directors of the Company.