



Financial Report to Shareholders

3Q 2020

For the three and nine months
ended Sept 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 nine months ended September 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 nine months ended September 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 November 9, 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. ("WWT")), the timing for the launch and certification of WWT's HPDI engine, the impact of COVID-19 on future earnings and demand for our products, 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 manufacturer ("OEM") 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 2.0™ 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. The joint venture term is scheduled to end on December 31, 2021. Refer to the "Operating Segments" section of this MD&A for more detail.

Our HPDI business is still in the early stages of commercialization 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. Our sales volumes with 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. During the quarter, WWI's HPDI engine was certified to meet China VI emissions standards of the Ministry of Ecology and Environment ("MEE") of the People's Republic of China, which is an important step in the commercialization of the HPDI technology in the Chinese market. WWI has committed to purchase Westport HPDI 2.0™ components required to produce a minimum of 18,000 engines between the launch date and the end of 2023. The next significant milestone in commercializing the HPDI technology into the Chinese market is vehicle certification in a WWI HPDI engine.

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 COVID-19 pandemic continues to have an adverse impact on our business. The extent, duration and impact of COVID-19 is uncertain but during the third quarter we saw a recovery in our business compared to the second quarter. The majority of our production is from three facilities located in Northern Italy and one in the Netherlands. Sales from these facilities are primarily to Western and Eastern Europe which are areas that have been significantly impacted by the virus and continue to be challenged to contain the virus and keep the economy operating. 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 have seen a return to pre-COVID-19 sales volume levels for the HPDI product in the third quarter and we expect stronger sales in the fourth quarter.

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 the COVID-19 pandemic, but we saw increased revenue in the third quarter. While we are optimistic about the fourth quarter, the recent rise in COVID-19 cases in Europe may reduce customer demand for our products.

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.

In response to COVID-19, we 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 worked with our key lenders to strengthen our liquidity and have made significant progress to improve our liquidity and reduce our cost of capital, including through the following measures and/or new financing:

- On March 25, 2020, we secured \$6.0 million in principal deferrals on our term loan from Export Development Canada ("EDC");
- On May 20, 2020, we secured 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, we secured a €15.0 million government backed term loan from UniCredit to our MTM S.r.l. ("MTM") subsidiary;
- On July 23, 2020, we secured 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 note funds affiliated with Cartesian Capital Group ("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;
- On August 11, 2020, we secured a €7.0 million government backed term loan from Deutsche Bank to our Emer subsidiary;
- On November 4, 2020, we amended the terms of our revolving financing facility with HSBC Bank Canada ("HSBC") to increase the maximum draw amount to \$20.0 million;
- On November 9, 2020, we announced an at-the-market equity offering program (the "ATM Program") that allows us to issue up to \$50.0 million in common shares from treasury to the public from time to time, at our discretion and subject to regulatory requirements. We intend to use the net proceeds from the ATM Program, if any, to fund the development and commercialization of our HPDI technology, for research and development, and for general corporate purposes.

Refer to notes 13(a), 13(b), 14(a), 14(c) and 22 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 \$1.2 million in the third quarter of 2020 and \$5.3 million year-to-date.

Liquidity to fund ongoing operations and growth opportunities is further discussed in the "Liquidity and Going Concern" section in the MD&A below.

Q3 2020 RESULTS

Revenues for the three months ended September 30, 2020 decreased 13% to \$65.4 million from \$75.4 million in the three months ended September 30, 2019, resulting from the continuing impact of COVID-19, especially in our light-duty OEM and DOEM businesses, which directly reflects the reduced demand for light-duty vehicles in markets we serve.

We reported net income of \$0.8 million for the three months ended September 30, 2020 compared to net income of \$5.0 million for the same quarter last year. The \$4.2 million reduction to earnings was primarily the result of lower sales and gross margin in the current period and a \$3.3 million gain recorded on government funding in the prior year quarter, partially offset by lower operating expenses.

Westport Fuel Systems recorded \$4.0 million Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA", see "Non-GAAP Measures" section in this MD&A) during the third quarter as compared to \$9.4 million Adjusted EBITDA for the same period in 2019. The decrease is primarily due to the lower gross margin achieved during the quarter and the one-time \$3.3 million gain previously mentioned, partially offset by lower operating expenses.

LIQUIDITY AND GOING CONCERN

In connection with preparing financial statements for each annual and interim reporting period, we are 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 September 30, 2020, our net working capital was \$58.5 million including cash and cash equivalents of \$46.3 million. We have another \$2.8 million in restricted cash pledged to the repayment of the debt we hold in our Italian subsidiaries recorded in other long-term assets. Our short-term and long-term debt, including the royalty payable, was \$83.6 million, of which \$16.6 million of this debt matures by September 30, 2021 and \$7.3 million of the royalty payable is due by September 30, 2021. We generated income of \$0.8 million and incurred negative cash flows from operating activities of \$4.3 million for the three months ended September 30, 2020 and incurred a loss of \$11.5 million and negative cash flows of \$23.2 million for the nine months ended September 30, 2020.

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 September 30, 2020 we have three significant debt and royalty obligations combining to approximately \$17.8 million coming due in the next twelve months, as follows:
 - (i) Royalty payable payment of \$7.3 million to Cartesian in April 2021;
 - (ii) Principal payments on the EDC term loan totaling \$6.0 million to be made over the three quarters in March, June and September 2021; and
 - (iii) One-year non-revolving term loan from EDC entered in July 2020. Through November 9, 2020 we have drawn \$4.5 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 results. Our net loss for the nine months ended September 30, 2020 was \$11.5 million, which included \$5.3 million of government wage subsidies. We expect improved revenue and earnings levels in the fourth quarter of 2020 and into 2021, but this will depend on the strength of the economic recovery and the continuing impact of COVID-19.

Management's plans

As discussed in the note above, we took numerous steps to restructure our existing debt and secure government sponsored lower cost of financing to alleviate the short-term impacts of COVID-19, and also to provide liquidity for our longer-term growth. We plan to raise equity capital through secondary offerings and other instruments, including the ATM Program, to fund the growth in commercialization of our HPDI technology and development of its future applications. We will also continue to work with lenders to extend and increase existing and new credit facilities to secure funds to optimize our cost of capital. We believe that these measures, combined with improving operating results, will provide sufficient liquidity to us over the next twelve months.

Beyond 2021, we continue to evaluate the 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 \$13.8 million of dividends through the first nine months of 2020 (nine months ended September 30, 2019 - \$17.8 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 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 September 30, 2020, coupled with additional sources of capital mentioned above, provides the cash flow necessary to fund operations over the next year to November 30, 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. Due to the application of the accounting principles generally accepted in the United States ("U.S. GAAP"), future equity financings have 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 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 interim 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 2.0™ 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 nine months ended September 30, 2020 and September 30, 2019.

Selected Consolidated Statements of Operations Data

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<i>(expressed in millions of US dollars, except for per share amounts and shares outstanding)</i>				
Revenue	\$ 65.4	\$ 75.4	\$ 168.6	\$ 231.0
Gross margin	\$ 10.0	\$ 17.9	\$ 26.5	\$ 54.4
Gross margin %	15.3 %	23.7 %	15.7 %	23.5 %
Net income (loss)	\$ 0.8	\$ 5.0	\$ (11.5)	\$ (0.6)
Net income (loss) per share - basic and diluted	\$ 0.01	\$ 0.04	\$ (0.08)	\$ (0.00)
Weighted average basic shares outstanding (millions)	136.9	133.7	136.6	133.6
Weighted average diluted shares outstanding (millions)	145.5	144.0	136.6	133.6

Selected Balance Sheet Data

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

	September 30, 2020	December 31, 2019
<i>(expressed in millions of United States dollars)</i>		
Cash and short-term investments	\$ 46.3	\$ 46.0
Net working capital (1)	42.9	27.1
Total assets	306.4	279.9
Short-term debt	11.3	3.6
Long-term debt, including current portion	64.7	45.3
Royalty payable, including current portion	14.4	18.3
Total liabilities	225.6	190.6
Shareholders' equity	80.8	89.4

(1) Excluding cash and short-term investments, short-term debt, the current portion of long-term debt and the current portion of the royalty payable

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 nine months ended September 30, 2020 were \$65.4 million and \$168.6 million, respectively, compared to \$75.4 million and \$231.0 million for the three and nine months ended September 30, 2019, respectively. The current quarter revenues improved significantly from the second quarter, as we saw a steady recovery in our IAM and Light-Duty businesses and growth in HD OEM sales volumes, but continued to be impacted by COVID-19.

OEM revenue for the three and nine months ended September 30, 2020 was \$37.4 million and \$90.8 million, respectively, compared with \$36.2 million and \$120.0 million for the three and nine months ended September 30, 2019. Revenue for the OEM business segment increased by \$1.2 million and decreased by \$29.2 million, respectively. The increase during the current quarter was mainly due to increase in sales volumes in the HD OEM business, partially offset by the price reduction of our HPDI product and lower service revenue during the current quarter of \$0.3 million compared to \$3.2 million in prior year quarter. The impact of COVID-19 on the current quarter was less significant than in the first half of the year, which was impacted by plant shutdowns combined with lower light-duty OEM sales to German and Russian OEMs. We expect to see continued growth in the heavy-duty business and improvements in the light-duty OEM business in the fourth quarter.

IAM revenue for the three and nine months ended September 30, 2020 was \$28.0 million and \$77.8 million, respectively, compared with \$39.2 million and \$111.0 million for the three and nine months ended September 30, 2019. Revenue for the IAM business segment decreased by \$11.2 million and \$33.2 million, respectively, mainly due to the continuing impact of COVID-19 during the current quarter and the related shutdowns in the second quarter of 2020. Revenues improved significantly as compared to the second quarter of 2020 after the re-opening of our factories and a recovery in demand. We expect to see continued improvement in the aftermarket revenues in the fourth quarter, but temper expectations due to the resurgence of COVID-19 infections and the impact of government restrictions on social mobility.

(expressed in millions of U.S. dollars)

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
OEM	\$ 37.4	\$ 36.2	\$ 1.2	3 %	\$ 90.8	\$ 120.0	\$ (29.2)	(24)%
IAM	28.0	39.2	(11.2)	(29)%	77.8	111.0	(33.2)	(30)%
Total Revenue	<u>\$ 65.4</u>	<u>\$ 75.4</u>	<u>\$ (10.0)</u>	<u>(13)%</u>	<u>\$ 168.6</u>	<u>\$ 231.0</u>	<u>\$ (62.4)</u>	<u>(27)%</u>

Gross Margin for the three months ended September 30, 2020

Total consolidated gross margin for the three months ended September 30, 2020 decreased by \$7.9 million or 44% from \$17.9 million in 2019 to \$10.0 million for the same period in 2020.

OEM gross margin decreased by \$5.3 million to \$2.6 million, or 7% of revenue, for the three months ended September 30, 2020 compared to \$7.9 million, or 22% of revenue for the three months ended September 30, 2019. The decrease in gross margin and gross margin percentage was due to the higher percentage of lower margin HPDI products sold during the quarter and contractual HPDI price reductions, as well as lower service revenue from development work with OEMs, which has higher margin. An additional \$0.8 million warranty expense was recorded during the three months ended September 30, 2020 which also contributed to the decrease in gross margin.

IAM gross margin decreased by \$2.6 million to \$7.4 million, or 26% of revenue, for the three months ended September 30, 2020 compared to \$10.0 million, or 26% of revenue, for the three months ended September 30, 2019. This decrease in gross margin was due to lower year-over-year sales caused by the impact of COVID-19 on customer demand.

(expressed in millions of U.S. dollars)

	Three months ended September 30, 2020	% of Revenue	Three months ended September 30, 2019	% of Revenue	Change	
					\$	%
OEM	\$ 2.6	7 %	\$ 7.9	22 %	\$ (5.3)	(67)%
IAM	7.4	26 %	10.0	26 %	(2.6)	(26)%
Total gross margin	<u>\$ 10.0</u>	<u>15 %</u>	<u>\$ 17.9</u>	<u>24 %</u>	<u>\$ (7.9)</u>	<u>(44)%</u>

Gross Margin for the nine months ended September 30, 2020

Total consolidated gross margin for the nine months ended September 30, 2020 decreased by \$27.9 million or 51% from \$54.4 million in 2019 to \$26.5 million for the same period in 2020.

OEM gross margin decreased by \$18.7 million to \$5.7 million, or 6% of revenue, for the nine months ended September 30, 2020 compared to \$24.4 million, or 20% of revenue for the nine months ended September 30, 2019. The gross margin recorded in the year-to-date period was impacted by lower sales during the nine month period, the net warranty charge of \$2.3 million related to the field service campaign of the Pressure Relief Device for LD OEM vehicles, a higher percentage of HPDI products sold, contractual HPDI price reductions and lower service revenue.

IAM gross margin decreased by \$9.2 million to \$20.8 million, or 27% of revenue, for the nine months ended September 30, 2020 compared to \$30.0 million, or 27% of revenue, for the nine months ended September 30, 2019. The decrease in gross margin is mainly due to the 30% decrease in sales caused by the factory shutdowns and resulting lower sales volumes due to the impact of COVID-19 during the nine-month period.

(expressed in millions of U.S. dollars)

	Nine months ended September 30, 2020	% of Revenue	Nine months ended September 30, 2019	% of Revenue	Change	
					\$	%
OEM	\$ 5.7	6 %	\$ 24.4	20 %	\$ (18.7)	(77)%
IAM	20.8	27 %	30.0	27 %	(9.2)	(31)%
Total gross margin	<u>\$ 26.5</u>	<u>16 %</u>	<u>\$ 54.4</u>	<u>24 %</u>	<u>\$ (27.9)</u>	<u>(51)%</u>

Research and Development Expenses

OEM R&D expenses for the three and nine months ended September 30, 2020 were \$3.9 million and \$11.5 million, respectively, compared to \$4.8 million and \$13.9 million for the three and nine months ended September 30, 2019. The decrease in R&D expense from the nine-month comparative periods is primarily due to certain HPDI projects which were paused due to factory shutdowns, lower compensation expense in response to the COVID-19 pandemic and government wage subsidies received during 2020.

IAM R&D expenses for the three and nine months ended September 30, 2020 were \$0.6 million and \$2.8 million, respectively, compared to \$0.6 million and \$4.9 million for the three and nine months ended September 30, 2019. The decrease in R&D expense in year-to-date period is primarily due to lower compensation expense from austerity measures in response to the COVID-19 pandemic in Italy, government wage subsidies received and completion of certain R&D projects in 2019.

Corporate R&D expenses for the three and nine months ended September 30, 2020 were \$0.2 million and \$0.3 million, respectively, compared to \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2019, respectively.

(expressed in millions of U.S. dollars)

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
OEM	\$ 3.9	\$ 4.8	\$ (0.9)	(19)%	\$ 11.5	\$ 13.9	\$ (2.4)	(17)%
IAM	0.6	0.6	—	— %	2.8	4.9	(2.1)	(43)%
Corporate	0.2	0.2	—	— %	0.3	0.5	(0.2)	(40)%
Total R&D expenses	<u>\$ 4.7</u>	<u>\$ 5.6</u>	<u>\$ (0.9)</u>	<u>(16)%</u>	<u>\$ 14.6</u>	<u>\$ 19.3</u>	<u>\$ (4.7)</u>	<u>(24)%</u>

Selling, General and Administrative Expenses

OEM SG&A expenses for the three and nine months ended September 30, 2020 were \$2.9 million and \$9.8 million, respectively, compared with \$3.0 million and \$13.2 million for the three and nine months ended September 30, 2019, respectively. The decrease in SG&A expenses for the year-to-date period is mainly related to lower compensation expense in response to the COVID-19 pandemic and government wage subsidies received.

IAM SG&A expenses for the three and nine months ended September 30, 2020 were \$4.0 million and \$10.6 million, respectively, compared with \$4.7 million and \$13.3 million for the three and nine months ended September 30, 2019, respectively. The decrease in SG&A expenses is mainly related to lower compensation expense in response to the COVID-19 pandemic and government wage subsidies received during 2020.

Corporate SG&A expenses for the three and nine months ended September 30, 2020 were \$1.8 million and \$6.8 million, respectively, compared with \$3.4 million and \$17.3 million for the three and nine months ended September 30, 2019. The decrease in the current quarter and the year-to-date period is reflective of our continuous efforts to optimize our cost structure and austerity measures on compensation and other reductions, and accessing government COVID-19 relief wage subsidies. In addition, the year-to-date period reflects a \$6.3 million reduction in legal fees related to the SEC investigation that settled in the third quarter of 2019 and a \$1.0 million gain related to a reversal of a reserve for a legal matter which settled in May 2020.

(expressed in millions of U.S. dollars)

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
OEM	\$ 2.9	\$ 3.0	\$ (0.1)	(3)%	\$ 9.8	\$ 13.2	\$ (3.4)	(26)%
IAM	4.0	4.7	(0.7)	(15)%	10.6	13.3	(2.7)	(20)%
Corporate	1.8	3.4	(1.6)	(47)%	6.8	17.3	(10.5)	(61)%
Total SG&A expenses	\$ 8.7	\$ 11.1	\$ (2.4)	(22)%	\$ 27.2	\$ 43.8	\$ (16.6)	(38)%

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 20 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 nine months ended September 30, 2020 and September 30, 2019:

(expressed in millions of U.S. dollars)

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
Unit sales	1,912	1,740	172	10 %	4,777	5,476	(699)	(13)%
Total revenue	\$ 84.4	\$ 83.1	\$ 1.3	2 %	\$ 227.5	\$ 259.3	\$ (31.8)	(12)%
Gross margin	\$ 19.0	\$ 22.7	\$ (3.7)	(16)%	\$ 58.8	\$ 75.8	\$ (17.0)	(22)%
Gross margin %	22.5 %	27.3 %			25.8 %	29.2 %		
Net income before income taxes	\$ 12.7	\$ 13.8	\$ (1.1)	(8)%	\$ 37.5	\$ 50.2	\$ (12.7)	(25)%
Net income attributable to the Company	\$ 4.9	\$ 5.4	\$ (0.5)	(9)%	\$ 14.4	\$ 19.8	\$ (5.4)	(27)%

CWI Revenue

CWI revenue for the three and nine months ended September 30, 2020 was \$84.4 million and \$227.5 million, respectively, compared to \$83.1 million and \$259.3 million for the three and nine months ended September 30, 2019, respectively. Unit sales for the three and nine months ended September 30, 2020 were 1,912 and 4,777 compared to 1,740 and 5,476 for the three and nine months ended September 30, 2019. The increase in unit sales in the three months ended September 30, 2020 is a result of a return to normal operating conditions following disruptions due to the COVID-19 pandemic in the second quarter of 2020. The nine months ended September 30, 2020 unit sales were lower compared to the nine months ended September 30, 2019 reflecting the impact of OEM factory shutdowns in April and May in response to the COVID-19 pandemic. Parts revenue decreased to \$25.1 million and \$79.2 million in the three and nine months ended September 30, 2020, respectively, from \$27.7 million and \$87.4 million in the three and nine months ended September 30, 2019, respectively.

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

CWI gross margin decreased by \$3.7 million to \$19.0 million, or 23% of revenue from \$22.7 million, or 27% of revenue in the prior year period. The decrease in gross margin and gross margin percentage is driven largely by product mix, which is partially offset by a lower negative warranty adjustment for the three months ended September 30, 2020 compared to the prior period.

CWI Gross Margin for the nine months ended September 30, 2020

CWI gross margin decreased by \$17.0 million to \$58.8 million, or 26% of revenue in the nine months ended September 30, 2020 from \$75.8 million, or 29% of revenue in the nine months ended September 30, 2019. The decrease in gross margin and gross margin percentage is primarily related to decreased revenue and, to a lesser extent, product mix combined with a lower proportion of high-margin part sales.

Other significant expense and income items for the three and nine months ended September 30, 2020

Restructuring costs of \$0.8 million for the nine months ended September 30, 2019 related to management changes in the first quarter of 2019. 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 nine months ended September 30, 2020, we recognized a foreign exchange gain of \$2.3 million and a loss of \$1.0 million, respectively, compared to foreign exchange losses of \$0.8 million and \$0.1 million for the three and nine months ended September 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 2% against the U.S. dollar in the third quarter of 2020 compared to the second quarter of 2020.

Depreciation and amortization for the three and nine months ended September 30, 2020 was \$3.4 million and \$10.2 million, compared to \$4.2 million and \$12.5 million for the three and nine months ended September 30, 2019, respectively. The amount included in cost of revenue for the three and nine months ended September 30, 2020 was \$1.9 million and \$5.7 million compared with \$2.5 million and \$6.3 million for the three and nine months ended September 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest expense on long-term debt	\$ 1.0	\$ 0.9	\$ 2.6	\$ 2.8
Royalty payable accretion expense	0.7	0.8	2.1	2.6
Total interest on long-term debt and accretion on royalty payable	<u>\$ 1.7</u>	<u>\$ 1.7</u>	<u>\$ 4.7</u>	<u>\$ 5.4</u>

Higher debt levels were more than offset by the lower cost of borrowing across the three and nine month periods resulting in lower interest expense. The royalty payable accretion expense decreased in both periods as we continued to make repayments as scheduled.

Income tax recovery of \$0.6 million and expense of \$0.3 million for the three and nine months ended September 30, 2020 compared to income tax expense of \$0.8 million and \$2.8 million for the three and nine months ended September 30, 2019. The decrease of income tax expense during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 is primarily due to lower income attributable to our operations in Italy and the Netherlands, lower taxes related to a one-time field service campaign, net of insurance recoveries, and recoveries of prior periods' income tax expense as a result of favorable tax rulings and government COVID-19 relief programs.

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 equivalent position increased by \$17.4 million during the third quarter of 2020 to \$46.3 million from \$28.9 million at June 30, 2020 and increased by \$0.3 million during the first nine months of 2020 from \$46.0 million at December 31, 2019. The increase during the three months ended September 30, 2020 is primarily the result of our effort in strengthening our liquidity as discussed in the "Business Overview" section of this MD&A, partially offset by the repayment of the convertible debt and other debt services during the quarter.

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 September 30, 2020, our net cash flows used in operating activities was \$4.3 million, an increase of \$1.1 million from net cash used of \$3.2 million used in operating activities of continuing operations in the three months ended September 30, 2019. The increase in cash used in operating activities is primarily due to lower earnings in the current year period, partially offset by a decrease in operating working capital resulting from the impact of the 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 and other assets.

For the three months ended September 30, 2020, our net cash flows from investing activities was \$3.3 million compared to net cash flows of \$2.6 million for the three months ended September 30, 2019. We received dividends of \$4.6 million in the three months ended September 30, 2020 compared to \$4.4 million in the third quarter of 2019. Capital expenditures decreased by \$0.5 million to \$1.3 million in the three months ended September 30, 2020 compared to \$1.8 million in the three months ended September 30, 2019, mainly due to delay in activities as a result of the COVID-19 pandemic.

Cash Flow from Financing Activities

For the three months ended September 30, 2020, our net cash flows from financing activities was \$19.5 million compared to net cash used of \$6.6 million for the three months ended September 30, 2019. In the third quarter of 2020, we received a total of \$25.5 million from government backed loans in our Italian subsidiaries, withdrew \$4.5 million from the term credit facility with EDC, and paid down the principal amount of our existing convertible notes with Cartesian from \$17.5 million to \$10.0 million as discussed in notes 13(b) and 14(c) of the condensed consolidated interim financial statements, respectively.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	\$ 79.1	\$ 79.1	\$ 79.1	\$ —	\$ —	\$ —
Short-term debt (1)	11.3	11.3	11.3	—	—	—
Long-term debt, principal, (2)	64.7	64.7	11.5	34.8	13.7	4.7
Long-term debt, interest (2)	—	6.5	2.5	3.7	0.1	0.2
Long-term royalty payable (3)	14.4	20.3	7.3	6.3	3.9	2.8
Operating lease obligations (4)	27.6	32.3	4.4	7.5	4.6	15.8
	<u>\$ 197.1</u>	<u>\$ 214.2</u>	<u>\$ 116.1</u>	<u>\$ 52.3</u>	<u>\$ 22.3</u>	<u>\$ 23.5</u>

Notes

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

(2) For details of our long-term debt, principal and interest, see note 14 in the condensed consolidated interim financial statements.

(3) For additional information on the long-term royalty payable, see note 15 of the condensed consolidated interim financial statements.

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

SHARES OUTSTANDING

For the three months ended September 30, 2020 and September 30, 2019, the weighted average number of shares used in calculating the basic income (loss) per share was 136,879,478 and 133,743,506, respectively. For the three months ended September 30, 2020 and September 30, 2019, the weighted average number of shares used in calculating the diluted income per share was 145,549,940 and 144,033,051, respectively. 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:

	September 30, 2020	November 9, 2020
	Number	Number
Common Shares outstanding	137,040,478	137,188,367
Share Units		
Outstanding	1,628,208	1,476,419
Exercisable	66,222	—

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 September 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 nine months ended September 30, 2020.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three and nine months ended September 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	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20
<i>(expressed in millions of United States dollars except for per share amounts)</i>						(1)	(2)	
Total revenue	\$ 60.5	\$ 73.2	\$ 82.4	\$ 75.4	\$ 74.3	\$ 67.2	\$ 36.0	\$ 65.4
Cost of product and parts revenue	\$ 48.2	\$ 56.0	\$ 63.1	\$ 57.5	\$ 60.5	\$ 62.9	\$ 23.8	\$ 55.4
Gross margin	\$ 12.3	\$ 17.2	\$ 19.3	\$ 17.9	\$ 13.8	\$ 4.3	\$ 12.2	\$ 10.0
Gross margin percentage	20.3 %	23.5 %	23.4 %	23.7 %	18.6 %	6.4 %	33.9 %	15.3 %
Net income (loss) from continuing operations	\$(10.4)	\$ (3.0)	\$ (2.3)	\$ 4.9	\$ 0.6	\$(15.3)	\$ 3.0	\$ 0.8
Net income (loss)	\$ (9.2)	\$ (3.0)	\$ (2.6)	\$ 5.0	\$ 0.7	\$(15.3)	\$ 3.0	\$ 0.8
EBITDA (3)	\$ (5.3)	\$ 4.2	\$ 4.0	\$ 11.7	\$ 5.0	\$(11.1)	\$ 9.2	\$ 4.9
Adjusted EBITDA (4)	\$ 0.2	\$ 7.3	\$ 8.1	\$ 9.4	\$ 3.6	\$ (3.6)	\$ 6.2	\$ 4.0
Euro to U.S. dollar average exchange rate	1.14	1.14	1.12	1.11	1.11	1.10	1.10	1.17
Canadian dollar to U.S. dollar average exchange rate	0.76	0.75	0.75	0.76	0.76	0.74	0.72	0.75
Earnings (loss) per share								
Basic and diluted from continuing operations	\$(0.08)	\$(0.02)	\$(0.02)	\$ 0.04	\$ 0.00	\$(0.11)	\$ 0.02	\$ 0.01
Basic and diluted	\$(0.07)	\$(0.02)	\$(0.02)	\$ 0.04	\$ 0.00	\$(0.11)	\$ 0.02	\$ 0.01
CWI net income attributable to the Company	\$ 5.7	\$ 8.6	\$ 5.9	\$ 5.4	\$ 6.7	\$ 5.3	\$ 4.2	\$ 4.9

Notes

(1) 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.

(2) 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.

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

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

Non-GAAP Measures:

We 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	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20
Income (loss) before income taxes from continuing operations	\$ (11.9)	\$ (1.9)	\$ (1.4)	\$ 5.7	\$ (0.3)	\$ (16.0)	\$ 4.6	\$ 0.2
Interest expense, net (1)	2.6	1.8	1.4	1.8	1.5	1.5	1.2	1.3
Depreciation and amortization	4.0	4.3	4.0	4.2	3.8	3.4	3.4	3.4
EBITDA	<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>	<u>\$ 4.9</u>

Notes

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

EBITDA decreased by \$4.3 million to \$4.9 million for the three months ended September 30, 2020 compared to \$9.2 million for the three months ended June 30, 2020. The decrease is primarily due to a \$7.7 million insurance recovery related to the field service campaign recorded in the second quarter of 2020. Excluding the amount, EBITDA increased by \$3.4 million due to improved gross margin, partially offset by lower unrealized foreign exchange gain in the current 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	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19	31-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20
EBITDA	\$ (5.3)	\$ 4.2	\$ 4.0	\$ 11.7	\$ 5.0	\$ (11.1)	\$ 9.2	\$ 4.9
Stock based compensation	0.7	0.4	0.3	0.3	0.5	0.6	0.6	0.9
Unrealized foreign exchange (gain) loss	1.6	0.1	(0.7)	0.7	(2.6)	6.9	(3.6)	(2.3)
Intangible impairment	—	—	—	—	0.7	—	—	—
Asset impairment	0.6	—	—	—	—	—	—	0.5
Restructuring, termination and other exit costs	—	0.8	—	—	—	—	—	—
Legal costs associated with SEC investigation	3.1	1.8	4.5	—	—	—	—	—
Other	(0.5)	—	—	(3.3)	—	—	—	—
Adjusted EBITDA	<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>	<u>\$ 4.0</u>

Adjusted EBITDA decreased by \$2.2 million to \$4.0 million for the three months ended September 30, 2020 from \$6.2 million for the three months ended June 30, 2020 primarily due to the \$7.7 million insurance recovery recorded during the second quarter of 2020. Excluding the insurance recovery, adjusted EBITDA increased by \$5.5 million mainly due to the recovery in sales in IAM and the growth in our HPDI sales volumes in the current quarter.

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

WESTPORT FUEL SYSTEMS INC.

For the three and nine months ended September 30, 2020 and 2019

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Balance Sheets (unaudited)

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

September 30, 2020 and December 31, 2019

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents (including restricted cash, note 3(d))	\$ 46,322	\$ 46,012
Accounts receivable (note 6)	72,996	66,950
Inventories (note 7)	55,667	47,806
Prepaid expenses	11,233	7,417
Total current assets	186,218	168,185
Long-term investments (note 8)	11,291	10,587
Property, plant and equipment (note 9)	55,344	58,856
Operating lease right-of-use assets (note 12)	27,637	17,524
Intangible assets (note 10)	11,887	13,075
Deferred income tax assets	3,452	1,929
Goodwill	3,245	3,110
Other long-term assets	7,337	6,660
Total assets	\$ 306,411	\$ 279,926
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 79,060	\$ 86,180
Current portion of operating lease liabilities (note 12)	4,373	4,406
Short-term debt (note 13)	11,339	3,625
Current portion of long-term debt (note 14)	12,103	9,942
Current portion of long-term royalty payable (note 15)	7,268	5,936
Current portion of warranty liability (note 16)	13,589	4,505
Total current liabilities	127,732	114,594
Long-term operating lease liabilities (note 12)	23,264	13,118
Long-term debt (note 14)	52,554	35,312
Long-term royalty payable (note 15)	7,136	12,322
Warranty liability (note 16)	4,549	4,396
Deferred income tax liabilities	4,380	4,445
Other long-term liabilities	6,004	6,380
Total liabilities	225,619	190,567
Shareholders' equity:		
Share capital (note 17):		
Unlimited common and preferred shares, no par value		
137,040,478 (2019 - 136,416,981) common shares issued and outstanding	1,095,586	1,094,633
Other equity instruments	7,904	6,857
Additional paid in capital	11,381	10,079
Accumulated deficit	(1,009,797)	(998,320)
Accumulated other comprehensive loss	(24,282)	(23,890)
Total shareholders' equity	80,792	89,359
Total liabilities and shareholders' equity	\$ 306,411	\$ 279,926
Commitments and contingencies (note 19)		
Subsequent events (note 13(a) and 22)		

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 nine months ended September 30, 2020 and 2019

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 65,407	\$ 75,403	\$ 168,594	\$ 231,013
Cost of revenue and expenses:				
Cost of revenue	55,368	57,494	142,091	176,621
Research and development	4,721	5,633	14,611	19,341
General and administrative	5,619	7,191	18,360	31,874
Sales and marketing	3,087	3,862	8,790	11,963
Restructuring costs	—	—	—	825
Foreign exchange (gain) loss	(2,291)	787	978	141
Depreciation and amortization	1,540	1,707	4,547	6,161
Impairment of long-lived assets	479	—	479	—
	<u>68,523</u>	<u>76,674</u>	<u>189,856</u>	<u>246,926</u>
Loss from operations	(3,116)	(1,271)	(21,262)	(15,913)
Income from investments accounted for by the equity method	4,625	5,400	14,113	19,940
Interest on long-term debt and accretion on royalty payable	(1,679)	(1,765)	(4,698)	(5,467)
Interest and other income, net of bank charges	395	3,361	654	3,830
Income (loss) before income taxes	225	5,725	(11,193)	2,390
Income tax expense (recovery)	(597)	820	284	2,842
Net income (loss) from continuing operations	822	4,905	(11,477)	(452)
Net income (loss) from discontinued operations (note 5)	—	82	—	(158)
Net income (loss) for the period	<u>822</u>	<u>4,987</u>	<u>(11,477)</u>	<u>(610)</u>
Other comprehensive income (loss):				
Cumulative translation adjustment	72	(4,289)	(392)	(3,536)
Comprehensive income (loss)	<u>\$ 894</u>	<u>\$ 698</u>	<u>\$ (11,869)</u>	<u>\$ (4,146)</u>
Income (loss) per share:				
From continuing operations - basic and diluted	\$ 0.01	\$ 0.04	\$ (0.08)	\$ (0.00)
From discontinued operations - basic and diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.00)
Net income (loss) per share - basic and diluted	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ (0.08)</u>	<u>\$ (0.00)</u>
Weighted average common shares outstanding:				
Basic	136,879,478	133,743,506	136,625,262	133,598,944
Diluted	<u>145,549,940</u>	<u>144,033,051</u>	<u>136,625,262</u>	<u>133,598,944</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 nine months ended September 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 September 30, 2019							
July 1, 2019	133,663,774	\$ 1,087,776	\$ 12,966	\$ 10,079	\$ (1,003,958)	\$ (20,305)	\$ 86,558
Issue of common shares on exercise of share units	142,455	248	(248)	—	—	—	—
Stock-based compensation	—	—	261	—	—	—	261
Net income for the period	—	—	—	—	4,987	—	4,987
Other comprehensive loss	—	—	—	—	—	(4,289)	(4,289)
September 30, 2019	<u>133,806,229</u>	<u>\$ 1,088,024</u>	<u>\$ 12,979</u>	<u>\$ 10,079</u>	<u>\$ (998,971)</u>	<u>\$ (24,594)</u>	<u>\$ 87,517</u>
Nine months ended September 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	425,330	956	(956)	—	—	—	—
Stock-based compensation	—	—	987	—	—	—	987
Net loss for the period	—	—	—	—	(610)	—	(610)
Other comprehensive loss	—	—	—	—	—	(3,536)	(3,536)
September 30, 2019	<u>133,806,229</u>	<u>\$ 1,088,024</u>	<u>\$ 12,979</u>	<u>\$ 10,079</u>	<u>\$ (998,971)</u>	<u>\$ (24,594)</u>	<u>\$ 87,517</u>
Three months ended September 30, 2020							
July 1, 2020	136,757,404	\$ 1,095,147	\$ 7,523	\$ 10,079	\$ (1,010,619)	\$ (24,354)	\$ 77,776
Issue of common shares on exercise of share units	283,074	439	(439)	—	—	—	—
Change in fair value of the embedded conversion feature on convertible debt	—	—	—	1,302	—	—	1,302
Stock-based compensation	—	—	820	—	—	—	820
Net income for the period	—	—	—	—	822	—	822
Other comprehensive income	—	—	—	—	—	72	72
September 30, 2020	<u>137,040,478</u>	<u>\$ 1,095,586</u>	<u>\$ 7,904</u>	<u>\$ 11,381</u>	<u>\$ (1,009,797)</u>	<u>\$ (24,282)</u>	<u>\$ 80,792</u>
Nine months ended September 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	623,497	953	(953)	—	—	—	—
Change in fair value of the embedded conversion feature on convertible debt	—	—	—	1,302	—	—	1,302
Stock-based compensation	—	—	2,000	—	—	—	2,000
Net loss for the period	—	—	—	—	(11,477)	—	(11,477)
Other comprehensive loss	—	—	—	—	—	(392)	(392)
September 30, 2020	<u>137,040,478</u>	<u>\$ 1,095,586</u>	<u>\$ 7,904</u>	<u>\$ 11,381</u>	<u>\$ (1,009,797)</u>	<u>\$ (24,282)</u>	<u>\$ 80,792</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 nine months ended September 30, 2020 and 2019

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Cash flows from (used in) operating activities:				
Net income (loss) for the period from continuing operations	\$ 822	\$ 4,905	\$ (11,477)	\$ (452)
Items not involving cash:				
Depreciation and amortization	3,460	4,169	10,231	12,462
Stock-based compensation expense	852	261	2,093	987
Unrealized foreign exchange loss (gain)	(2,291)	787	978	141
Deferred income tax	(645)	—	(1,328)	671
Income from investments accounted for by the equity method	(4,625)	(5,400)	(14,113)	(19,940)
Interest on long-term debt and accretion of royalty payable	1,679	1,913	4,698	5,615
Change in inventory write-downs to net realizable value	414	78	478	60
Other income	—	(3,317)	—	(3,317)
Change in bad debt expense	143	110	395	689
Impairment of long-lived assets	479	—	479	—
Restructuring obligations	—	—	—	224
Net cash from (used) before working capital changes	288	3,506	(7,566)	(2,860)
Changes in non-cash operating working capital:				
Accounts receivable	(12,621)	10,556	(8,003)	(12,672)
Inventories	1,110	(2,248)	(6,946)	(3,392)
Prepaid and other assets	(2,145)	226	(3,704)	(1,651)
Accounts payable and accrued liabilities	3,262	(15,722)	(13,558)	2,339
Deferred revenue	5,046	(1,478)	6,076	881
Warranty liability	736	2,003	10,517	1,415
Net cash used in operating activities of continuing operations	(4,324)	(3,157)	(23,184)	(15,940)
Net cash from (used in) operating activities of discontinued operations	—	82	—	(158)
Cash flows from (used in) investing activities:				
Purchase of property, plant and equipment and other assets	(1,339)	(1,750)	(4,525)	(5,341)
Dividends received from joint ventures	4,592	4,379	13,835	17,750
Net cash from investing activities of continuing operations	3,253	2,629	9,310	12,409
Cash flows from (used in) financing activities:				
Repayment of operating lines of credit and long-term facilities	(14,661)	(18,662)	(33,554)	(32,440)
Drawings on operating lines of credit and long-term facilities	34,201	12,084	56,267	20,486
Payment of royalty payable	—	—	(5,948)	(6,034)
Net cash from (used in) financing activities	19,540	(6,578)	16,765	(17,988)
Effect of foreign exchange on cash and cash equivalents	(1,075)	(960)	(2,581)	(2,036)
Increase (decrease) in cash and cash equivalents	17,394	(7,984)	310	(23,713)
Cash and cash equivalents, beginning of period (including restricted cash)	28,928	45,390	46,012	61,119
Cash and cash equivalents, end of period (including restricted cash)	\$ 46,322	\$ 37,406	\$ 46,322	\$ 37,406

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of United States dollars)

Three and nine months ended September 30, 2020 and 2019

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Supplementary information:				
Interest paid	\$ 1,435	\$ 549	\$ 3,825	\$ 3,413
Taxes paid, net of refunds	385	(22)	365	264

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 nine months ended September 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 COVID-19 pandemic continues to have an adverse impact on the Company's business. The extent, duration and impact of COVID-19 is uncertain but during the third quarter the Company saw a recovery in its business compared to the second quarter. The majority of the Company's production is from three facilities located in Northern Italy and one in the Netherlands. Sales from these facilities are primarily to Western and Eastern Europe which are areas that have been significantly impacted by the virus and continue to be challenged to contain the virus and keep the economy operating. 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 LNG 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 of COVID-19. The Company's launch partner reopened its production facilities in late April and it has seen a return to pre-COVID-19 sales volume levels for the HPDI product in the third quarter.

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 the COVID-19 pandemic, but the Company saw increased revenue in the third quarter. While the Company is optimistic about the fourth quarter, the recent rise in COVID-19 cases in Europe may reduce customer demand for its products.

The Company believes that its 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.

In response to COVID-19, the Company 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 worked with its key lenders to strengthen its liquidity and has made significant progress to improve its liquidity and reduce its cost of capital, summarized as follows:

- New loans and principal deferrals of \$16,000 with Export Development Canada ("EDC");
- New loans in the amount of €27,000 (\$31,590) with Unicredit S.p.A ("Unicredit") and Deutsche Bank;
- Restructuring of the convertible notes with Cartesian Capital Group and its affiliates ("Cartesian") to pay down the existing convertible notes from \$17,500 to \$10,000;
- Increasing the maximum draw amount on the revolving financing facility with HSBC Bank Canada ("HSBC") to \$20,000.

In addition, on November 9, 2020, the Company announced an at-the-market equity offering program (the "ATM Program") that allows the Company to issue up to \$50,000 in common shares from treasury to the public from time to time, at the Company's discretion and subject to regulatory requirements.

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 nine months ended September 30, 2020 and 2019

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

Refer to notes 13(b), 14(a), 14(c), and 22 of these condensed consolidated interim financial statements ("interim financial statements") for more details on new financing arrangements. The Company is also participating in government wage-subsidy and other support programs in the countries where the Company operates and the benefit of these programs was \$1,162 in the third quarter of 2020 and \$5,349 year-to-date.

(b) Liquidity and Going Concern

In connection with preparing financial statements for each annual and interim reporting period, the Company 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 September 30, 2020, the Company's net working capital was \$58,486 including cash and cash equivalents of \$46,322. The Company has another \$2,798 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 short-term and long-term debt, including the royalty payable, was \$83,573, of which \$16,615 of this debt matures by September 30, 2021 and \$7,268 of the royalty payable is due by September 30, 2021. The Company generated income of \$822 and incurred negative cash flows from continuing operations of \$4,324 for the three months ended September 30, 2020 and incurred a loss of \$11,477 and negative cash flows of \$23,184 for the nine months ended September 30, 2020.

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) At September 30, the Company has three significant debt and royalty obligations combining to approximately \$17,768 coming due in the next twelve months, as follows:
 - (i) Royalty payable payment of \$7,268 to Cartesian in April 2021;
 - (ii) Principal payments on the EDC term loan totaling \$6,000 to be made over the three quarters in March, June and September 2021; and
 - (iii) One-year non-revolving term loan from EDC entered into in July 2020. Through November 9, 2020 the Company has drawn \$4,500 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 results. The Company's net loss for the nine months ended September 30, 2020 was \$11,477, which included \$5,349 of government wage subsidies. The Company expects improved revenue and earnings levels in the fourth quarter of 2020 and into 2021, but this will depend on the strength of the economic recovery and the continuing impact of COVID-19.

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 nine months ended September 30, 2020 and 2019

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

Management's plans

As discussed in the note above on the impact of COVID-19 to our business, the Company took numerous steps to restructure its existing debt and secure government-sponsored lower cost of financing to alleviate the short-term impacts of COVID-19, and also to provide liquidity for the longer-term growth of the Company. The Company also plans to raise equity capital through secondary offerings and other instruments, including the ATM Program, to fund the growth in commercialization of the Company's HPDI technology and development of its future applications. The Company will also continue to work with lenders to extend and increase existing and new credit facilities to secure funds to optimize the Company's cost of capital. The Company believes that these measures, combined with improving operating results, will provide sufficient liquidity to the Company over the next twelve months.

Beyond 2021, the Company continues to evaluate the future cash flows from the Cummins Westport Inc. ("CWI") joint venture which is scheduled to end on December 31, 2021. The joint venture pays significant dividends to the joint venture partners, with the Company receiving \$13,835 of dividends in the first three quarters of 2020 (nine months ended September 30, 2019 - \$17,750). 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) for additional details related to the CWI joint venture.

Management's conclusion and assessment

The Company believes that the cash on hand at September 30, 2020, coupled with additional sources of capital mentioned above, provides the cash flow necessary to fund operations over the next year to November 30, 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. Due to the application of the accounting principles generally accepted in the United States ("U.S. GAAP"), future equity financings have 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 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 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 note 4 to 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 September 30, 2020 and for all periods presented, have been recorded. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results for the Company's full year.

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 nine months ended September 30, 2020 and 2019

3. Basis of preparation (continued):

(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. Dollar, 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.

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 nine months ended	
	September 30, 2020	December 31, 2019	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Canadian Dollar	0.75	0.77	0.75	0.76	0.74	0.75
Euro	1.17	1.12	1.17	1.11	1.12	1.12
Argentina Peso	0.01	0.02	0.01	0.02	0.02	0.02
RMB	0.15	0.14	0.14	0.14	0.14	0.15
Swedish Krona	0.11	0.11	0.11	0.10	0.11	0.11
Indian Rupee	0.0136	0.0140	0.0135	0.0142	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), 14(c), and 15 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 September 30, 2020 include restricted cash of \$74 (December 31, 2019 - \$2,279). Restricted cash at September 30, 2020 and December 31, 2019 is related to cash used to secure a letter of credit.

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 nine months ended September 30, 2020 and 2019

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 nine months ended September 30, 2019, the Company recorded net income from discontinued operations of \$82 and a net loss from discontinued operations of \$158.

6. Accounts receivable:

	September 30, 2020	December 31, 2019
Customer trade receivables	\$ 62,249	\$ 62,974
Other receivables	17,123	9,092
Income tax receivable	68	475
Due from related parties (note 8(a))	70	272
Allowance for doubtful accounts	(6,514)	(5,863)
	<u>\$ 72,996</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 16 of these interim financial statements.

7. Inventories:

	September 30, 2020	December 31, 2019
Purchased parts	\$ 36,773	\$ 32,818
Work-in-process	3,163	2,854
Finished goods	15,731	12,134
	<u>\$ 55,667</u>	<u>\$ 47,806</u>

During the three and nine months ended September 30, 2020, the net change in inventory provision to net realizable value are write-downs of \$414 and \$478, respectively (three and nine months ended September 30, 2019 - write-downs of \$78 and \$60, respectively).

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 nine months ended September 30, 2020 and 2019

8. Long-term investments:

	September 30, 2020	December 31, 2019
Cummins Westport Inc. (a)	\$ 8,405	\$ 7,850
Weichai Westport Inc. (b)	1,824	1,824
Minda Emer Technologies Limited	914	737
Other equity-accounted investees	148	176
	<u>\$ 11,291</u>	<u>\$ 10,587</u>

(a) Cummins Westport Inc.:

The Company and Cummins Inc. ("Cummins") each own 50% of the common shares of CWI. For the three and nine months ended September 30, 2020, the Company recognized its share of CWI's income of \$4,874 and \$14,390, respectively (three and nine months ended September 30, 2019 - \$5,367 and \$19,839, respectively) in income from investments accounted for by the equity method.

As at September 30, 2020, the Company has a related party accounts receivable balance of \$70 due from CWI.

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

	September 30, 2020	December 31, 2019
Current assets:		
Cash and short-term investments	\$ 88,084	\$ 90,296
Accounts receivable	2,005	1,363
Long-term assets:		
Property, plant and equipment	663	844
Deferred income tax assets	20,612	21,322
Total assets	<u>\$ 111,364</u>	<u>\$ 113,825</u>
Current liabilities:		
Current portion of warranty liability	\$ 19,157	\$ 19,816
Current portion of deferred revenue	14,355	16,678
Accounts payable and accrued liabilities	2,756	3,858
	<u>36,268</u>	<u>40,352</u>
Long-term liabilities:		
Warranty liability	31,294	30,463
Deferred revenue	23,065	23,667
Other long-term liabilities	3,917	3,631
	<u>58,276</u>	<u>57,761</u>
Total liabilities	<u>\$ 94,544</u>	<u>\$ 98,113</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 nine months ended September 30, 2020 and 2019

8. Long-term investments (continued):

(a) Cummins Westport Inc. (continued):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Product revenue	\$ 59,293	\$ 55,312	\$ 148,338	\$ 171,889
Parts revenue	25,114	27,740	79,169	87,443
	84,407	83,052	227,507	259,332
Cost of revenue and expenses:				
Cost of product and parts revenue	65,452	60,352	168,712	183,579
Research and development	2,186	4,446	10,838	12,025
General and administrative	358	469	1,152	1,165
Sales and marketing	3,904	4,643	10,173	14,215
	71,900	69,910	190,875	210,984
Income from operations	12,507	13,142	36,632	48,348
Interest and investment income	183	635	911	1,901
Income before income taxes	12,690	13,777	37,543	50,249
Income tax expense	2,942	3,043	8,764	10,572
Net income	\$ 9,748	\$ 10,734	\$ 28,779	\$ 39,677

(b) Weichai Westport Inc.:

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%.

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 nine months ended September 30, 2020 and 2019

9. Property, plant and equipment:

September 30, 2020	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 5,177	\$ 1,664	\$ 3,513
Computer equipment and software	6,913	5,516	1,397
Furniture and fixtures	4,657	3,980	677
Machinery and equipment	98,108	51,448	46,660
Leasehold improvements	12,449	9,352	3,097
	<u>\$ 127,304</u>	<u>\$ 71,960</u>	<u>\$ 55,344</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:

September 30, 2020	Cost	Accumulated amortization	Net book value
Brands, patents and trademarks	\$ 21,255	\$ 10,636	\$ 10,619
Technology	5,673	5,202	471
Customer contracts	12,659	11,862	797
Other intangibles	342	342	—
Total	<u>\$ 39,929</u>	<u>\$ 28,042</u>	<u>\$ 11,887</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>

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 nine months ended September 30, 2020 and 2019

11. Accounts payable and accrued liabilities:

	September 30, 2020	December 31, 2019
Trade accounts payable	\$ 48,156	\$ 60,170
Accrued payroll	16,273	15,906
Taxes payable	4,826	3,497
Deferred revenue	8,493	2,717
Accrued interest	109	1,568
Due to related parties	192	794
Other payables	1,011	1,528
	<u>\$ 79,060</u>	<u>\$ 86,180</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 nine months ended September 30, 2020 and 2019

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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Operating lease cost:				
Amortization of right-of-use assets	\$ 1,294	\$ 823	\$ 2,770	\$ 2,652
Interest	377	222	600	728
Total lease cost	<u>\$ 1,671</u>	<u>\$ 1,045</u>	<u>\$ 3,370</u>	<u>\$ 3,380</u>

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

The remainder of 2020	\$ 1,150
2021	4,297
2022	4,111
2023	3,042
2024	2,455
Thereafter	17,239
Total undiscounted cash flows	32,294
Less: imputed interest	(4,657)
Present value of operating lease liabilities	27,637
Less: current portion	(4,373)
Long term operating lease	<u>\$ 23,264</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 nine months ended September 30, 2020 and 2019

13. Short-term debt:

	September 30, 2020	December 31, 2019
Revolving financing facility (a)	\$ 6,827	\$ 3,625
Credit facility (b)	4,512	—
Balance, end of period	<u>\$ 11,339</u>	<u>\$ 3,625</u>

(a) The Company has a revolving financing facility with HSBC. This facility is secured by certain receivables of the Company and the maximum draw amount is \$10,000, based on the receivables outstanding. As the Company collects these secured receivables, the facility is repaid. The interest rate for this facility is the Libor rate plus 2.5%.

On November 4, 2020, the Company and HSBC amended the terms of the revolving financing facility to increase the maximum draw amount to \$20,000.

(b) On July 23, 2020, the Company entered into a one-year \$10,000 non-revolving term credit facility with EDC to provide working capital support in response to short-term liquidity shortfalls as a result of the COVID-19 pandemic. This credit facility's interest rate is the U.S. Prime Rate plus 3.0% per annum on amounts drawn and has no prepayment penalty or standby charge. As at September 30, 2020, the Company has drawn \$4,500 on this facility.

14. Long-term debt:

	September 30, 2020	December 31, 2019
Term loan facilities, net of debt issuance costs (a)	\$ 52,370	\$ 22,207
Senior financing (b)	—	2,504
Convertible debt (c)	8,765	17,431
Other bank financing (d)	1,366	1,480
Capital lease obligations (e)	<u>2,156</u>	<u>1,632</u>
Balance, end of period	64,657	45,254
Current portion	(12,103)	(9,942)
Long-term portion	<u>\$ 52,554</u>	<u>\$ 35,312</u>

(a) The Company has six separate term loans: one with EDC, four with UniCredit, and one with Deutsche Bank. 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 September 30, 2020, the amount outstanding for this loan was \$13,480, 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 September 30, 2020, the amount outstanding for this loan was \$4,723 compared to \$5,569 as at December 31, 2019, and is secured by a cash pledge of \$1,743, 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 September 30, 2020, the amount outstanding for this loan was \$2,812 compared to \$3,369 as at December 31, 2019, and is secured by a cash pledge of \$1,055, with these restricted funds also being recorded in other long-term assets.

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 nine months ended September 30, 2020 and 2019

14. Long-term debt (continued):

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 September 30, 2020, the amount outstanding for this loan was \$5,575. There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità.

On July 17, 2020, the Company entered into a fourth Euro denominated loan agreement with UniCredit. The effective interest rate of this loan is 1.75% with a maturity date of July 31, 2026. As at September 30, 2020, the amount outstanding for this loan was \$17,577. There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità.

On August 11, 2020, the Company entered into a Euro denominated loan agreement with Deutsche Bank. The effective interest rate of this loan is 1.7% with a maturity date of August 31, 2026. As at September 30, 2020, the amount outstanding for this loan was \$8,203. 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 repaid on September 30, 2020. This Euro denominated loan bore interest at an annual rate equal to the 6-month Euribor plus 3.3%.

(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. 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 amendment, 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.

(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 September 30, 2020:

	Term loan facilities	Convertible Debt	Other bank financing	Capital lease obligations	Total
Remainder of 2020	\$ 2,282	\$ —	\$ 549	\$ 202	\$ 3,033
2021	13,714	—	242	771	14,727
2022	14,557	—	242	485	15,284
2023	8,486	8,765	242	351	17,844
2024 and thereafter	13,331	—	91	347	13,769
	<u>\$ 52,370</u>	<u>\$ 8,765</u>	<u>\$ 1,366</u>	<u>\$ 2,156</u>	<u>\$ 64,657</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 nine months ended September 30, 2020 and 2019

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

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

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 18,258	\$ 20,935
Accretion expense	2,094	3,357
Repayment	(5,948)	(6,034)
Balance, end of period	14,404	18,258
Current portion	(7,268)	(5,936)
Long-term portion	<u>\$ 7,136</u>	<u>\$ 12,322</u>

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

2021	\$ 7,268
2022	5,103
2023	1,162
2024	1,637
2025	2,270
2026	2,851
	<u>\$ 20,291</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 nine months ended September 30, 2020 and 2019

16. Warranty liability:

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 8,901	\$ 4,941
Warranty claims	(4,823)	(1,863)
Warranty accruals	13,716	6,794
Change in estimate	(43)	(481)
Impact of foreign exchange	387	(490)
Balance, end of period	18,138	8,901
Less: current portion	(13,589)	(4,505)
Long-term portion	\$ 4,549	\$ 4,396

During the first quarter of 2020, the Company recorded a \$9,962 warranty accrual related to a field service campaign for the replacement of a pressure release device that 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.

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

During the three and nine months ended September 30, 2020, the Company issued 283,074 and 623,497 common shares, respectively, net of cancellations, upon exercises of share units (three and nine months ended September 30, 2019 – 142,455 and 425,330 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 nine months ended September 30, 2020, the Company recognized \$852 and \$2,093, respectively (three and nine months ended September 30, 2019 - \$261 and \$956, respectively) of stock-based compensation associated with the Westport Omnibus Plan.

A continuity of the Units issued under the Westport Omnibus Plan as at September 30, 2020 and September 30, 2019 are as follows:

	Nine months ended September 30, 2020		Nine months ended September 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	\$ 4.41
Granted	487,781	1.87	309,236	2.53
Exercised	(623,497)	2.08	(718,889)	3.19
Forfeited/expired	(14,017)	2.65	(32,721)	3.77
Outstanding, end of period	1,628,208	\$ 3.22	2,225,029	\$ 4.56
Units outstanding and exercisable, end of period	66,222	\$ 2.14	1,790,410	\$ 4.90

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 nine months ended September 30, 2020 and 2019

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

During the nine months to September 30, 2020, 487,781 share units were granted to certain employees and directors (2019 - 309,236). This included 466,881 restricted share units ("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 September 30, 2020, \$1,979 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 September 30, 2020 as follows:

	September 30, 2020 (CDN \$)
Share units:	
Outstanding	\$ 3,549
Exercisable	144

(c) Stock-based compensation:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 32	\$ —	\$ 90	\$ —
Research and development	130	26	236	123
General and administrative	607	203	1,587	726
Sales and marketing	83	32	180	138
	<u>\$ 852</u>	<u>\$ 261</u>	<u>\$ 2,093</u>	<u>\$ 987</u>

18. Related party transactions:

The Company enters into related party transactions with the CWI joint venture. Refer to note 8(a) for the related party transactions with CWI.

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 nine months ended September 30, 2020 and 2019

19. 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.

20. 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.

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 nine months ended September 30, 2020 and 2019

20. Segment information (continued):

Financial information by business segment as follows:

	Three months ended September 30, 2020			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income (loss)
OEM	\$ 37,429	\$ (4,884)	\$ 2,060	\$ (249)
IAM	27,978	1,718	1,346	—
Corporate	—	50	54	4,874
CWI - 50%	42,204	6,254	30	—
Total segment	107,611	3,138	3,490	4,625
Less: CWI - 50%	(42,204)	(6,254)	(30)	—
Total consolidated	\$ 65,407	\$ (3,116)	\$ 3,460	\$ 4,625

	Three months ended September 30, 2019			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	\$ 36,185	\$ (906)	\$ 2,232	\$ 32
IAM	39,218	3,962	1,890	—
Corporate	—	(4,327)	47	5,368
CWI - 50%	41,526	6,571	33	—
Total Segment	116,929	5,300	4,202	5,400
Less: CWI - 50%	(41,526)	(6,571)	(33)	—
Total Consolidated	\$ 75,403	\$ (1,271)	\$ 4,169	\$ 5,400
Discontinued Operations	\$ —	\$ 82	\$ —	\$ —

	Nine months ended September 30, 2020			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income (loss)
OEM	\$ 90,780	\$ (18,251)	\$ 6,054	\$ (277)
IAM	77,814	5,292	3,991	—
Corporate	—	(8,303)	186	14,390
CWI - 50%	113,754	18,316	91	—
Total Segment	282,348	(2,946)	10,322	14,113
Less: CWI - 50%	(113,754)	(18,316)	(91)	—
Total Consolidated	\$ 168,594	\$ (21,262)	\$ 10,231	\$ 14,113

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 nine months ended September 30, 2020 and 2019

20. Segment information (continued):

	Nine months ended September 30, 2019			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	\$ 120,052	\$ (6,628)	\$ 7,634	\$ 101
IAM	110,961	9,653	4,655	—
Corporate	—	(18,938)	173	19,839
CWI - 50%	129,666	24,174	13	—
Total Segment	360,679	8,261	12,475	19,940
Less: CWI - 50%	(129,666)	(24,174)	(13)	—
Total Consolidated	\$ 231,013	\$ (15,913)	\$ 12,462	\$ 19,940
Discontinued Operations	\$ —	\$ (158)	\$ —	\$ —

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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Europe	73 %	70 %	69 %	67 %
Americas	13 %	15 %	15 %	17 %
Asia	7 %	6 %	8 %	8 %
Other	7 %	9 %	8 %	8 %

As at September 30, 2020, total long-term investments of \$10,377 (December 31, 2019 - \$9,850) were allocated to the Corporate segment and \$914 (December 31, 2019 - \$737) were allocated to the OEM segment.

Total assets are allocated as follows:

	September 30, 2020	December 31, 2019
OEM	\$ 124,211	\$ 132,179
IAM	156,990	119,769
Corporate	25,210	27,978
CWI - 50%	55,682	56,913
Total segment assets	362,093	336,839
Less: CWI - 50%	(55,682)	(56,913)
Total consolidated assets	\$ 306,411	\$ 279,926

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 nine months ended September 30, 2020 and 2019

21. 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 September 30, 2020, the Company had \$46,322 of cash, cash equivalents and short-term investments.

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

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	\$ 79,060	\$ 79,060	\$ 79,060	\$ —	\$ —	\$ —
Short-term debt (note 13)	11,339	11,339	11,339	—	—	—
Term loan facilities (note 14 (a))	52,370	55,821	12,536	25,583	12,998	4,704
Convertible debt (note 14 (c))	8,765	11,841	650	11,191	—	—
Other bank financing (note 14 (d))	1,366	1,374	552	487	242	93
Long-term royalty payable (note 15)	14,404	20,291	7,268	6,265	3,907	2,851
Capital lease obligations (note 14 (e))	2,156	2,199	333	1,296	493	77
Operating lease obligations (note 12)	27,637	32,295	4,373	7,467	4,674	15,781
	<u>\$ 197,097</u>	<u>\$ 214,220</u>	<u>\$ 116,111</u>	<u>\$ 52,289</u>	<u>\$ 22,314</u>	<u>\$ 23,506</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 nine months ended September 30, 2020 and 2019

21. 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 values of the term loan facilities, convertible debt, and other bank financing included in the long-term debt (note 14) do not materially differ from their fair value as at September 30, 2020.

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 September 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.

22. Subsequent Events:

On November 9, 2020, the Company announced an ATM Program that allows the Company to issue up to \$50,000 of common shares from treasury to the public from time to time, at the Company's discretion and subject to regulatory requirements.