

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

WESTPORT FUEL SYSTEMS INC.

For the years ended December 31, 2022 and 2021



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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Westport Fuel Systems Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Westport Fuel Systems Inc. (and subsidiaries) (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2023 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Indicators of impairment for property, plant and equipment in the Company's heavy-duty Original Equipment Manufacturer business

As discussed in Note 9 to the consolidated financial statements, the carrying value of property, plant and equipment as of December 31, 2022, is \$62,641 thousand, which includes the property, plant and equipment used in the Company's heavy-duty Original Equipment Manufacturer (OEM) business, including a specific fuel systems business, which is in the early stages of commercialization and has generated losses to date. As discussed in Note 3(k) to the consolidated financial statements, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying

amount of the assets may not be recoverable. The Company's determination of whether an indicator of impairment exists includes the preparation of a forecast of future cash flows of the specific fuel systems business. The significant assumptions used in the Company's forecast of future cash flows include, amongst others, estimates of component sales in the future. We identified the assessment of indicators of impairment for property, plant and equipment related to this specific fuel systems business as a critical audit matter. A higher degree of subjective auditor judgment was required to assess the Company's evaluation of indicators of impairment due to the uncertainty in the estimates of component sales in the future.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's process for the identification and evaluation of indicators of impairment. We evaluated the reasonableness of the estimates of component sales in the future by comparing them to the Company's approved budget, internal documentation and external communications and compared their consistency with relevant industry data and regulatory factors. We compared the forecasted sales for a key customer in the heavy-duty OEM business to the demand forecast provided to the Company by this customer. We performed sensitivity analyses to assess the impact of changes of the estimates of component sales in the future. We compared the Company's historical sales forecasts to actual results to assess the accuracy of the Company's forecasts of future sales.

We have served as the Company's auditor since 2015.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line.

Chartered Professional Accountants

Vancouver, Canada
March 13, 2023

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Westport Fuel Systems Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Westport Fuel Systems Inc.'s (and subsidiaries') (the Company) internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated March 13, 2023 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Chartered Professional Accountants

Vancouver, Canada

March 13, 2023

WESTPORT FUEL SYSTEMS INC.

Consolidated Balance Sheets

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

December 31, 2022 and 2021

	December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (including restricted cash, note 3(c))	\$ 86,184	\$ 124,892
Accounts receivable (note 5)	101,640	101,508
Inventories (note 6)	81,635	83,128
Prepaid expenses	7,760	6,997
Assets held for sale (note 7)	—	22,039
Total current assets	277,219	338,564
Long-term investments (note 8)	4,629	3,824
Property, plant and equipment (note 9)	62,641	64,420
Operating lease right-of-use assets (note 13)	23,727	28,830
Intangible assets (note 10)	7,817	9,286
Deferred income tax assets (note 19(b))	10,430	11,653
Goodwill (note 11)	2,958	3,121
Other long-term assets (notes 7 and 17)	18,030	11,615
Total assets	\$ 407,451	\$ 471,313
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	\$ 98,863	\$ 99,238
Current portion of operating lease liabilities (note 13)	3,379	4,190
Short-term debt (note 14)	9,102	13,652
Current portion of long-term debt (note 15)	11,698	10,590
Current portion of long-term royalty payable (note 16)	1,162	5,200
Current portion of warranty liability (note 17)	11,315	13,577
Total current liabilities	135,519	146,447
Long-term operating lease liabilities (note 13)	20,080	24,362
Long-term debt (note 15)	32,164	45,125
Long-term royalty payable (note 16)	4,376	4,747
Warranty liability (note 17)	2,984	5,214
Deferred income tax liabilities (note 19(b))	3,282	3,392
Other long-term liabilities	5,080	5,607
Total liabilities	203,485	234,894
Shareholders' equity:		
Share capital (note 18):		
Unlimited common and preferred shares, no par value		
171,303,165 (2021 - 170,799,325) common shares issued and outstanding	1,243,272	1,242,006
Other equity instruments	9,212	8,412
Additional paid-in-capital	11,516	11,516
Accumulated deficit	(1,024,716)	(992,021)
Accumulated other comprehensive loss	(35,318)	(33,494)
Total shareholders' equity	203,966	236,419
Total liabilities and shareholders' equity	\$ 407,451	\$ 471,313
Commitments and contingencies (note 21)		

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

Anthony Guglielmin

Director

Brenda J. Eprile

Director

WESTPORT FUEL SYSTEMS INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)

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

Years ended December 31, 2022 and 2021

	Years ended December 31,	
	2022	2021
Revenue	\$ 305,698	\$ 312,412
Cost of revenue and expenses:		
Cost of revenue	269,496	264,260
Research and development	23,497	25,194
General and administrative	37,042	36,290
Sales and marketing	15,073	13,495
Foreign exchange loss (gain)	6,378	(1,984)
Depreciation and amortization (notes 9 and 10)	4,416	5,390
Loss (gain) on sale of assets	62	(146)
Impairment on long-lived assets, net	—	459
	<u>355,964</u>	<u>342,958</u>
Loss from operations	(50,266)	(30,546)
Income from investments accounted for by the equity method	930	33,741
Bargain purchase gain from acquisition (note 4)	—	5,856
Gain on sale of investment (note 7)	19,119	—
Interest on long-term debt and amortization of discount	(3,351)	(4,937)
Other income (loss), net	879	1,053
Interest income, net of bank charges	<u>1,406</u>	<u>360</u>
Income (loss) before income taxes	(31,283)	5,527
Income tax expense (recovery) (note 19):		
Current	1,852	2,172
Deferred	<u>(440)</u>	<u>(10,303)</u>
	1,412	(8,131)
Net income (loss) for the year	<u>(32,695)</u>	<u>13,658</u>
Other comprehensive income (loss):		
Cumulative translation adjustment	(1,824)	(8,953)
Comprehensive income (loss)	<u>\$ (34,519)</u>	<u>\$ 4,705</u>
Income (loss) per share:		
Net income (loss) per share - basic	\$ (0.19)	\$ 0.09
Net income (loss) per share - diluted	<u>\$ (0.19)</u>	<u>\$ 0.08</u>
Weighted average common shares outstanding:		
Basic	171,225,305	160,232,742
Diluted	171,225,305	162,099,175

See accompanying notes to consolidated financial statements.

WESTPORT FUEL SYSTEMS INC.

Consolidated Statements of Shareholders' Equity

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

December 31, 2022 and 2021

	Common shares outstanding	Share capital	Other equity instruments	Additional paid-in- capital	Accumulated deficit	Accumulated other comprehensive loss	Total shareholders' equity
January 1, 2021	144,069,972	\$ 1,115,092	\$ 7,671	\$ 11,516	\$ (1,005,679)	\$ (24,541)	\$ 104,059
Issuance of common shares on exercise of share units	327,774	1,001	(1,001)	—	—	—	—
Issuance of common shares on conversions of convertible debt	3,651,867	5,186	—	—	—	—	5,186
Issuance of common shares on at-the-market public offering, net of costs incurred	1,819,712	12,806	—	—	—	—	12,806
Issuance of common shares on public offering, net of costs incurred	20,930,000	107,921	—	—	—	—	107,921
Stock-based compensation	—	—	1,742	—	—	—	1,742
Net income for the year	—	—	—	—	13,658	—	13,658
Other comprehensive loss	—	—	—	—	—	(8,953)	(8,953)
December 31, 2021	<u>170,799,325</u>	<u>\$ 1,242,006</u>	<u>\$ 8,412</u>	<u>\$ 11,516</u>	<u>\$ (992,021)</u>	<u>\$ (33,494)</u>	<u>\$ 236,419</u>
Issuance of common shares on exercise of share units	503,840	1,266	(1,266)	—	—	—	—
Stock-based compensation	—	—	2,066	—	—	—	2,066
Net loss for the year	—	—	—	—	(32,695)	—	(32,695)
Other comprehensive loss	—	—	—	—	—	(1,824)	(1,824)
December 31, 2022	<u>171,303,165</u>	<u>\$ 1,243,272</u>	<u>\$ 9,212</u>	<u>\$ 11,516</u>	<u>\$ (1,024,716)</u>	<u>\$ (35,318)</u>	<u>\$ 203,966</u>

See accompanying notes to consolidated financial statements.

WESTPORT FUEL SYSTEMS INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

Years ended December 31, 2022 and 2021

	Years ended December 31,	
	2022	2021
Operating activities:		
Net income (loss) for the year	\$ (32,695)	\$ 13,658
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	11,800	14,035
Stock-based compensation expense	2,066	1,911
Unrealized foreign exchange loss (gain)	6,378	(1,984)
Deferred income tax	(440)	(10,303)
Income from investments accounted for by the equity method	(930)	(33,741)
Interest on long-term debt and accretion of royalty payable	3,351	4,937
Impairment on long lived assets, net	—	459
Change in inventory write-downs to net realizable value (note 6)	722	914
Net gain on sale of investments (note 7)	(19,119)	—
Net (gain) loss on sale of assets	62	(146)
Other (income) loss, net	(879)	—
Bargain purchase gain from acquisition (note 4)	—	(5,856)
Change in bad debt expense	810	(326)
Changes in operating assets and liabilities:		
Accounts receivable	(1,528)	(11,117)
Inventories	(3,505)	(31,744)
Prepaid expenses	(134)	3,964
Accounts payable and accrued liabilities	122	11,313
Warranty liability	2,341	233
Net cash used in operating activities	(31,578)	(43,793)
Investing activities:		
Purchase of property, plant and equipment	(14,242)	(14,158)
Purchase of intangible assets	(287)	—
Acquisitions, net of acquired cash	—	(5,948)
Proceeds on sale of investments (note 7)	31,445	—
Proceeds on sale of assets	731	600
Dividends received from joint ventures	—	21,796
Net cash provided by investing activities	17,647	2,290
Financing activities:		
Drawings on operating lines of credit and long-term facilities	41,218	74,408
Repayment of operating lines of credit and long-term facilities	(58,478)	(82,958)
Proceeds from share issuance, net	—	120,727
Repayment of royalty payable	(5,200)	(7,451)
Net cash (used in) provided by financing activities	(22,460)	104,726
Effect of foreign exchange on cash and cash equivalents	(2,317)	(2,593)
Net (decrease) increase in cash and cash equivalents	(38,708)	60,630
Cash and cash equivalents, beginning of year (including restricted cash)	124,892	64,262
Cash and cash equivalents, end of year (including restricted cash)	86,184	124,892

See accompanying notes to consolidated financial statements.

WESTPORT FUEL SYSTEMS INC.

Consolidated Statements of Cash Flows (continued)

(Expressed in thousands of United States dollars)

Years ended December 31, 2022 and 2021

	Years ended December 31,	
	2022	2021
Supplementary information:		
Interest paid	\$ 3,037	\$ 3,916
Taxes paid, net of refunds	1,795	3,106

See accompanying notes to consolidated financial statements.

WESTPORT FUEL SYSTEMS INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

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 is a global company focused on engineering, manufacturing, and supplying alternative fuel systems and components for transportation applications. The Company's diverse product offerings sold under a wide range of established global brands enable the use of a number of alternative fuels in the transportation sector that provide environmental and/or economic advantages as compared to diesel, gasoline, batteries or fuel cell powered vehicles. The Company's fuel systems and associated components control the pressure and flow of alternative fuels, including liquid petroleum gas ("LPG"), compressed natural gas ("CNG"), liquified natural gas ("LNG"), renewable natural gas ("RNG") or biomethane, and hydrogen. The Company supplies its products in more than 70 countries through a network of distributors, service providers for the aftermarket and directly to original equipment manufacturers ("OEMs") and Tier 1 and Tier 2 OEM suppliers. The Company's products and services are available for passenger car and light-, medium- and heavy-duty truck and off-road applications.

2. Liquidity and Going Concern:

In connection with preparing consolidated 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.

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

The assessment of the liquidity and going concern requires the Company to make judgments about the existence of conditions or events that raise substantial doubt about the ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. This includes judgments about the Company's future activities and the timing thereof and estimates of future cash flows. Significant assumptions used in the Company's forecasted model of liquidity include forecasted sales, including forecasted increases in sales of the heavy-duty OEM business, forecasted costs and capital expenditures, amongst others. Changes in the assumptions could have a material impact on the forecasted liquidity and going concern assessment.

The Company continues to sustain operating losses and negative cash flows from operating activities. As at December 31, 2022, the Company has cash and cash equivalents of \$86,184 and during the year ended December 31, 2022, the Company used cash in operating activities of \$31,578. The ability to continue as a going concern beyond March 2024 will depend on the Company's ability to generate sufficient positive cash flows from all its operations, specifically through profitable, sustainable growth.

The Company is closely monitoring and making efforts to mitigate the impact on the business from global supply chain shortages of semiconductors, raw materials and other parts. Besides shortages, the Company is incurring inflationary pressure on production input costs from sourcing semiconductors, raw materials and parts, higher energy costs in operating the Company's factories and increased labor costs that are impacting margins. The Company sources components globally and is exposed to price risk and inflation risk, which may affect the Company's liquidity.

WESTPORT FUEL SYSTEMS INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

3. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation.

These consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Certain reclassifications in short-term and long-term debt have been made to prior year consolidated financial statements to conform to the current year presentation.

(b) Foreign currency translation:

The Company's functional currency is the Canadian dollar and its reporting currency for its consolidated financial statement presentation is the United States dollar ("U.S. Dollar"). The functional currencies for the Company's subsidiaries include the following: U.S. dollar, Canadian dollar, Euro, Argentine Peso, Chinese Renminbi ("RMB"), Swedish Krona, Indian Rupee and Polish Zloty. 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 (loss).

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 consolidated statements of operations, except for the translation gains and losses arising from available-for-sale instruments, which are recorded through other comprehensive (loss) until realized through disposal or impairment.

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

	Year-end exchange rate as at:		Average for the year ended:	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Canadian dollar	1.35	1.27	1.30	1.25
Euro	0.94	0.88	0.95	0.85
RMB	6.90	6.35	6.72	6.45
Polish Zloty	4.39	4.04	4.44	3.92
Swedish Krona	10.42	9.05	10.08	8.57
Indian Rupee	82.69	74.45	78.50	73.92
Argentine Peso	176.79	102.54	127.11	94.79

WESTPORT FUEL SYSTEMS INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

3. Significant accounting policies (continued):

(c) 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 and cash equivalents at December 31, 2022 include restricted cash of \$98 (2021 - \$104). Restricted cash at December 31, 2022 and 2021 is related to cash used to secure a letter of credit.

(d) Accounts receivable, net:

The accounts receivable balance reflects invoiced and accrued revenue and is presented net of an allowance for credit losses. The Company expects most of its accounts receivable balances to continue to come from large customers as it supplies the majority of its products and services through a network of distributors and OEMs and provides Delayed OEM ("DOEM") services. The Company establishes current expected credit losses ("CECL") for pools of assets with similar risk characteristics by evaluating historical levels of credit losses, current economic conditions that may affect a customer's ability to pay, and creditworthiness of significant customers. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company (such as in the case of bankruptcy filings or material deterioration in the customer's operating results or financial position, and payment experiences), the Company records a specific credit loss provision to reduce the customer's related accounts receivable to its estimated net realizable value. If circumstances related to specific customers change, the Company's estimates of the recoverability of accounts receivable balances could be further adjusted.

(e) Inventories:

The Company's inventories consist of the Company's fuel system products (finished goods), work-in-progress, purchased parts and assembled parts. Inventories are recorded at the lower of cost and net realizable value. The cost of fuel system product inventories, assembled parts and work-in-progress includes materials, labour and production overhead, including depreciation. The Company records inventory write-downs based on an analysis of excess and obsolete inventories determined primarily by future demand forecasts. In addition, the Company records a liability for firm, noncancellable, and unconditional purchase commitments with manufacturers for quantities in excess of the Company's future demand forecast consistent with its valuation of excess and obsolete inventory.

(f) Property, plant and equipment:

Property, plant and equipment are stated at cost. Depreciation is provided for as follows:

Assets	Basis	Rate
Buildings	Straight-line	10 years
Computer equipment and software	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Machinery and equipment	Straight-line	5 - 10 years
Leasehold improvements	Straight-line	Shorter of lease term or estimated useful life

Depreciation expense on machinery and equipment used in the production and manufacturing process is included in cost of revenue. All other depreciation is included in depreciation and amortization expense in the consolidated statements of operations and comprehensive income (loss).

WESTPORT FUEL SYSTEMS INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

3. Significant accounting policies (continued):

(g) Long-term investments:

The Company accounts for investments in which it has significant influence, including variable interest entities ("VIEs") for which the Company is not the primary beneficiary, using the equity method of accounting. Under the equity method, the Company recognizes its share of income from equity accounted investees in the statement of operations with a corresponding increase in long-term investments. Any dividends paid or payable are credited against long-term investments.

(h) Financial liabilities:

Accounts payable and accrued liabilities, short-term debt, long-term debt and long-term royalty payable are measured at amortized cost. Transaction costs relating to long-term debt are netted against long-term debt and are amortized using the effective interest rate method.

(i) Research and development costs:

Research and development costs are expensed as incurred and are recorded net of funding received or receivable.

(j) Intangible assets:

Intangible assets consist primarily of the estimated value of intellectual property, trademarks, technology, customer contracts and non-compete agreements acquired through acquisitions. Intangible assets are amortized over their estimated useful lives, which range from 5 to 20 years.

(k) Impairment of long-lived assets:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such conditions exist, assets are considered impaired if the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

The Company has significant investments in property, plant and equipment used in its heavy-duty OEM business, relating to the HPDI 2.0™ fuel systems that is in the early stages of commercialization, and, as a result, is currently generating losses. Based on the Company's current projections, meaningful increases in component sales, compared to 2022 levels, are expected, allowing the business to benefit from economies of scale and become profitable. If these assumptions are not realized, the Company may be required to record an impairment on these assets in future periods.

(l) Goodwill:

Goodwill is recorded at the time of purchase for the excess of the amount of the purchase price over the fair values of the identifiable assets acquired and liabilities assumed. The fair value is determined using the estimated discounted future cash flows of the reporting unit. Goodwill is not amortized and instead is tested at least annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at December 31. Future adverse changes in market conditions or poor operating results of underlying assets could result in an inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge.

WESTPORT FUEL SYSTEMS INC.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

3. Significant accounting policies (continued):

(m) Warranty liability:

Estimated warranty costs are recognized at the time the Company sells its products and are included in cost of revenue. The Company provides warranty coverage on products sold from the date the products are put into service by customers. Warranty liability represents the Company's best estimate of warranty costs expected to be incurred during the warranty period. Furthermore, the current portion of warranty liability represents the Company's best estimate of the costs to be incurred in the next twelve-month period. The Company uses historical failure rates and costs to repair defective products to estimate the warranty liability. New product launches require a greater use of judgment in developing estimates until claims experience becomes available. Product specific experience is typically available four or five quarters after product launch, with a clear experience trend not evident until eight to twelve quarters after launch. The Company records warranty expense for new products using historical experience from previous generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. The amount payable by the Company and the timing will depend on actual failure rates and cost to repair failures of its products.

(n) Revenue recognition:

The Company generates revenues primarily from product sales. Product revenues are derived from standard product sales contracts and from long-term fixed price contracts. The Company recognizes revenue when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment. On standard product sales contracts, revenues are recognized when customers obtain control of the product, that is when transfer of title and risks and rewards of ownership of goods have passed and when obligation to pay is considered certain. Invoices are generated and revenue is recognized at that point in time. Provisions for warranties are made at the time of sale. Service revenue is recognized over time as performance obligations are satisfied.

(o) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the accounting basis and tax basis of the assets and liabilities and for loss carry-forwards, tax credits and other tax attributes, using the enacted tax rates in effect for the years in which the differences are expected to reverse. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred income tax assets to the extent the assets are more-likely-than-not to be realized. In making such a determination, the Company considers all available positive and negative evidence including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations. If it is determined that, based on all available evidence, it is more-likely-than-not that some or all of the deferred income tax assets will not be realized, a valuation allowance is provided to reduce the deferred income tax assets.

The Company uses a two-step process to recognize and measure the income tax benefit of uncertain tax positions taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is recognized if it is more-likely-than-not that the position will be sustained upon examination by a tax authority based solely on the technical merits of the position. A tax benefit that meets the more-likely-than-not recognition threshold is measured as the largest amount that is greater than 50% likely to be realized upon settlement with the tax authority. To the extent a full benefit is not expected to be realized, an income tax liability is established. Any change in judgment related to the expected resolution of an uncertain tax position is recognized in the year of such a change.

Interest and penalties related to income taxes are included as a component of income tax expense.

WESTPORT FUEL SYSTEMS INC.

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3. Significant accounting policies (continued):

(p) Leases:

The Company determines if an arrangement is a lease or contains a lease at inception. Operating leases with lease terms greater than 12 months are included in current and non-current assets, current and non-current liabilities in the consolidated balance sheet. Assets under finance leases are included in property, plant and equipment and the related lease liabilities in current and non-current liabilities in the consolidated balance sheets.

Operating lease and finance lease right-of-use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. As the rate implicit in the lease is not readily determinable for the Company's operating leases, an incremental borrowing rate is generally used to determine the present value of future lease payments. The incremental borrowing rate for each lease is based on the Company's estimated borrowing rate over a similar term to that of the lease payments, adjusted for various factors including collateralization, location and currency.

The operating lease expenses are recognized on a straight-line basis over the lease term and included in general and administration expenses. Short-term leases, which have an initial term of 12 months or less, are not recorded in the consolidated balance sheets.

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 2023 and 2038. 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 3.0% based on incremental borrowing rates applicable in each location.

(q) Stock-Based Compensation:

The Company measure stock-based awards at fair value on the date of the grant and expense the awards over the requisite service period of employees or consultants. The fair value of stock options is determined using the fair market value at the time of grant. The fair value of restricted stock units ("RSU"s) and Deferred Share Units ("DSU"s) are determined using the share price of the Company at the date of grant. The fair value of performance based restricted stock units ("PRSU"s) is determined using the Monte Carlo Simulation Model. Stock-based compensation expense related to stock option awards is recognized over the requisite service period on a graded vesting basis. Forfeitures are accounted for as they occur.

The Company's estimates may be impacted by certain variables including, but not limited to, stock price volatility, employee stock option exercise behaviors, additional stock option grants, the Company's performance and related tax impacts.

(r) Earnings (Loss) Per Common Share:

Basic earnings or loss per share includes no potential dilution and is computed by dividing the earnings or loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings or loss per share reflect the potential dilution of securities that could share in the earnings or loss of our Company. Dilutive securities are excluded from the calculation of our diluted weighted average common shares outstanding if their effect would be anti-dilutive based on the treasury stock method or due to a net loss from continuing operations. Common Shares that have not been released under the Company's stock based plan or are being held in trust for purposes of the Company's restricted stock unit program have been excluded from the calculation of basic earnings per share.

WESTPORT FUEL SYSTEMS INC.

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4. Business combinations:

Acquisition of Stako sp. z.o.o (“Stako”):

On May 28, 2021, the Company entered into an agreement to acquire all of the issued and outstanding shares of Stako from Worthington Industries Inc. for a total purchase price of \$7,130. The transaction was completed on May 30, 2021.

Stako is a leading manufacturer of liquid petroleum gas fuel (“LPG”) storage, supplying the aftermarket and OEM market segments through a worldwide network of dealers. Stako’s current product range includes over 1,000 models of LPG storage tanks. Over the last 30 years, Stako has supplied tanks to leading automobile manufacturers worldwide.

The business combination resulted in a bargain purchase transaction as the fair value of assets acquired and liabilities assumed exceeded the total of the transaction date fair value of consideration paid by \$5,856. The Company was able to acquire Stako for less than its fair value due to the decision of the seller to divest their non-core LPG business.

There were no business combinations during the year ended December 31, 2022.

5. Accounts receivable:

	December 31,	
	2022	2021
Customer trade receivables	\$ 82,533	\$ 90,324
Other receivables	19,355	14,504
Income tax receivable	818	872
Due from related parties (note 20)	3,974	1,651
Allowance for credit losses	(5,040)	(5,843)
	<u>\$ 101,640</u>	<u>\$ 101,508</u>

6. Inventories:

	December 31,	
	2022	2021
Purchased parts and materials	\$ 61,213	\$ 62,896
Work-in-progress	2,423	3,681
Finished goods	17,999	16,551
	<u>\$ 81,635</u>	<u>\$ 83,128</u>

During the year ended December 31, 2022, the Company recorded write-downs to net realizable value of \$722 (year ended December 31, 2021 - \$914).

WESTPORT FUEL SYSTEMS INC.

Notes to Consolidated Financial Statements

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Years ended December 31, 2022 and 2021

7. Sale of investment

	December 31,	
	2022	2021
Cummins Westport Inc.	\$ —	\$ 22,039

On February 7, 2022, the Company sold 100% of its shares in Cummins Westport Inc. ("CWI") to Cummins Inc. ("Cummins") for proceeds of \$22,200, with Cummins continuing to operate the business as the sole owner. As part of the agreement, Cummins agreed to purchase the Company's interest in the intellectual property with proceeds to the Company of \$20,000. The Company received proceeds of \$31,445, net of a \$10,800 holdback, after the closing date. The holdback will be retained by Cummins for a term of three years to satisfy any extended warranty obligations in excess of the recorded extended warranty obligation. Any unused amounts will be repaid to the Company at the end of three-year term and, in the event that the holdback is not sufficient to cover the extended warranty obligations, the Company may also be required to supplement this holdback amount to cover valid extended warranty claims.

	December 31, 2022
Proceeds from sale of investment	\$ 31,445
Holdback receivable ¹	9,713
Less: carrying value of investment	22,039
Gain on sale of investment	\$ 19,119

¹Holdback receivable is included in other long-term assets in the consolidated balance sheets.

WESTPORT FUEL SYSTEMS INC.

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8. Long-term investments:

	December 31,	
	2022	2021
Weichai Westport Inc.	\$ 1,824	\$ 1,824
Minda Westport Technologies Limited	2,657	1,852
Other equity accounted investees	148	148
	<u>\$ 4,629</u>	<u>\$ 3,824</u>

Weichai Westport Inc. ("WWI"):

The Company, indirectly through its wholly-owned subsidiary, Westport Innovations (Hong Kong) Limited ("Westport HK"), is currently the registered holder of a 23.33% equity interest in WWI. In April 2016, the Company sold to Cartesian Capital Group ("Cartesian") 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 4.55%.

9. Property, plant and equipment:

December 31, 2022	Cost	Accumulated Depreciation	Net Book Value
Land and buildings	\$ 8,455	\$ 2,107	\$ 6,348
Computer equipment and software	8,756	6,740	2,016
Furniture and fixtures	7,283	5,606	1,677
Machinery and equipment	115,235	66,272	48,963
Leasehold improvements	13,874	10,237	3,637
	<u>\$ 153,603</u>	<u>\$ 90,962</u>	<u>\$ 62,641</u>
December 31, 2021	Cost	Accumulated Depreciation	Net Book Value
Land and buildings	\$ 8,843	\$ 1,883	\$ 6,960
Computer equipment and software	7,965	6,054	1,911
Furniture and fixtures	6,223	5,149	1,074
Machinery and equipment	113,479	62,320	51,159
Leasehold improvements	13,502	10,186	3,316
	<u>\$ 150,012</u>	<u>\$ 85,592</u>	<u>\$ 64,420</u>

Total depreciation expense for the year ended December 31, 2022 was \$10,712 (year ended December 31, 2021 - \$12,437). The amount of depreciation expense included in cost of revenue for the year ended December 31, 2022 was \$7,384 (year ended December 31, 2021 - \$8,645).

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10. Intangible assets:

	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
December 31, 2022			
Patents and trademarks	\$ 19,799	\$ 12,189	\$ 7,610
Technology	3,952	3,745	207
Customer contracts	11,242	11,242	—
Total	<u>\$ 34,993</u>	<u>\$ 27,176</u>	<u>\$ 7,817</u>
December 31, 2021			
Patents and trademarks	\$ 20,748	\$ 11,823	\$ 8,925
Technology	4,202	3,894	308
Customer contracts	11,954	11,901	53
Total	<u>\$ 36,904</u>	<u>\$ 27,618</u>	<u>\$ 9,286</u>

During the year ended December 31, 2022, amortization expense of \$1,088 (year ended December 31, 2021 - \$1,598) was recognized in the statement of operations and comprehensive income (loss). The Company currently estimates annual amortization expense to be for \$1,159 for 2023, \$1,159 for 2024, \$1,118 for 2025, \$892 for 2026 and \$761 for 2027.

11. Goodwill:

Changes in the carrying amount of goodwill are as follows:

	December 31,	
	2022	2021
Balance, beginning of year	\$ 3,121	\$ 3,397
Impact of foreign exchange changes	(163)	(276)
Balance, end of year	<u>\$ 2,958</u>	<u>\$ 3,121</u>

Goodwill of \$2,958 (December 31, 2021 - \$3,121), relates to the acquisition of Westport Fuel Systems Netherlands Holding B.V. (formerly known as Prins Autogassystemen Holding B.V.) in 2014. The Company completed its annual assessment of impairment and concluded that goodwill of \$2,958 related to the independent aftermarket business segment was not impaired as at December 31, 2022.

12. Accounts payable and accrued liabilities:

	December 31,	
	2022	2021
Trade accounts payable	\$ 72,934	\$ 73,388
Accrued payroll	17,069	16,591
Taxes payable	4,425	4,621
Deferred revenue	4,435	3,503
Other payables	—	1,135
	<u>\$ 98,863</u>	<u>\$ 99,238</u>

WESTPORT FUEL SYSTEMS INC.

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

The components of lease cost are as follows:

	Years ended December 31,	
	2022	2021
Amortization of right-of-use assets	\$ 3,529	\$ 3,620
Interest	717	891
Total lease cost	<u>\$ 4,246</u>	<u>\$ 4,511</u>

The maturities of lease liabilities as of December 31, 2022 are as follows:

2023	\$ 3,379
2024	2,838
2025	2,473
2026	2,332
2027	2,143
Thereafter	13,908
Total undiscounted cash flows	27,073
Less: imputed interest	3,614
Present value of operating lease liabilities	23,459
Less: current portion	3,379
Long-term operating lease liabilities	<u>\$ 20,080</u>

14. Short-term debt:

	December 31,	
	2022	2021
Revolving financing facilities	\$ 9,102	\$ 13,652

The Company has a revolving financing facility with Hong Kong and Shanghai Banking Corporation ("HSBC"). This facility is secured by certain receivables of the Company and the maximum draw amount is \$20,000, based on the receivables outstanding. As the Company collects these secured receivables, the facility is repaid. On December 22, 2021, the Company and HSBC amended the revolving financing facility's advances denominated in U.S. Dollars' and Euros' interest rates to the secured overnight financing rate plus 2.66% per annum and the Euro short-term rate plus 2.5%, respectively. As of December 31, 2022, the amount outstanding for this loan was \$8,308 (December 31, 2021 - \$12,965). Revolving financing facilities includes a new line of credit with Santander with the maximum draw amount of \$800,000 and has a rate range of 2.02% - 3.04%. As of December 31, 2022 the amount outstanding was \$794 (December 31, 2021 - nil).

The Company closed the existing revolving financing facility with Santander during the year, and as at December 31, 2022, the amount outstanding for this loan was nil (December 31, 2021 - \$687).

The Company has a revolving financing facility with ING. The maximum draw amount is \$1,365. Advances under this financing facility are denominated in Polish Zloty and bear interest at the Warsaw interbank offered rate plus 1.2% per annum. As of December 31, 2022, the amount outstanding for this facility was nil (December 31, 2021 - nil).

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15. Long-term debt:

	December 31,	
	2022	2021
Term loan facilities, net of debt issuance costs (a)	\$ 41,934	\$ 53,516
Other bank financing (b)	512	544
Capital lease obligations (c)	1,416	1,655
Balance, end of year	43,862	55,715
Less: current portion	11,698	10,590
Long-term portion	\$ 32,164	\$ 45,125

(a) On December 13, 2021, the credit facility and non-revolving term facility with Export Development Canada ("EDC") were refinanced into one \$20,000 term loan. The refinanced term loan provides an extension of the maturity to September 15, 2026 and reduced the interest rate to U.S. Prime Rate plus 2.01% per annum with quarterly principal and interest payments. The Company incurred costs of \$300 related to this amendment, which are being amortized over the remainder of the loan term from the debt modification date using the effective interest rate method.

As at December 31, 2022, the amount outstanding for this loan was \$14,683, net of transaction costs (December 31, 2021 - \$18,583). The loan is secured by share pledges over Westport Fuel Systems Canada Inc., Fuel Systems Solutions, Inc., Westport Luxembourg S.a.r.l and by certain of the Company's property, plant and equipment.

On October 9, 2018 and November 28, 2019, the Company entered into Euro denominated loan agreements with UniCredit S.p.A. ("UniCredit"). On April 29, 2021, the Company and UniCredit amended the terms of these Euro denominated loan agreements to combine the facilities into one \$8,803 loan facility. This loan matures on March 31, 2027, bears interest at an annual rate of 1.65%, and interest is paid quarterly. As at December 31, 2022, the amount outstanding for this loan was \$8,044 (December 31, 2021 - \$8,470).

On May 20, 2020, the Company entered into a 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 December 31, 2022, the amount outstanding for this loan was \$2,699 (December 31, 2021 - \$4,000). There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità to help Italian companies to secure liquidity to continue operating while mitigating some of the impact of COVID-19.

On July 17, 2020, the Company entered into a 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 December 31, 2022, the amount outstanding for this loan was \$11,273 (December 31, 2021 - \$15,335). 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 December 31, 2022, the amount outstanding for this loan was \$5,235 (December 31, 2021 - \$7,128). There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità.

WESTPORT FUEL SYSTEMS INC.

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15. Long-term debt (continued):

(b) Other bank financing consists of an unsecured bank financing arrangement with an interest rate of 0.55% and matures in 2027.

(c) The Company has capital lease obligations that have terms of two to five years at interest rates ranging from 1.7% to 2.7%.

Throughout the term of certain of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2022, the Company is in compliance with all covenants under the financing arrangements.

The principal repayment schedule of long-term debt is as follows as at December 31, 2022:

	Term loan facilities	Other bank financing	Capital lease obligations	Total
2023	\$ 11,207	\$ —	\$ 491	\$ 11,698
2024	11,746	128	474	12,348
2025	11,169	128	270	11,567
2026	7,313	128	94	7,535
2027 and thereafter	499	128	87	714
	<u>\$ 41,934</u>	<u>\$ 512</u>	<u>\$ 1,416</u>	<u>\$ 43,862</u>

16. Long-term royalty payable:

	December 31,	
	2022	2021
Balance, beginning of year	\$ 9,947	\$ 16,042
Accretion expense	791	1,356
Repayment	(5,200)	(7,451)
Balance, end of year	5,538	9,947
Less: current portion	1,162	5,200
Long-term portion	<u>\$ 4,376</u>	<u>\$ 4,747</u>

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. Pursuant to the sale of CWI, amounts due to Cartesian are solely secured by an interest in the Company's HPDI 2.0TM fuel systems intellectual property.

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 is paid 15% of the net proceeds from these asset sales to a maximum of \$15,000 with these payments being allocated on a non-discounted basis to future years' minimum payments.

As of December 31, 2022, total royalty payments to Cartesian as a result of the Consent Agreement were \$11,912 (December 31, 2021 - \$11,912).

WESTPORT FUEL SYSTEMS INC.

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16. Long-term royalty payable (continued):

The estimated repayments including interest are as follows, for the years ending December 31:

2023	\$	1,162
2024		1,637
2025		2,270
2026		2,851
	\$	<u>7,920</u>

17. Warranty liability:

A continuity of the warranty liability is as follows:

	Years ended December 31,	
	2022	2021
Balance, beginning of year	\$ 18,791	\$ 18,936
Warranty claims	(11,081)	(5,322)
Warranty accruals	4,338	7,025
Change in estimate	3,559	(337)
Impact of foreign exchange changes	(1,308)	(1,511)
Balance, end of year	14,299	18,791
Less: current portion	11,315	13,577
Long-term portion	<u>\$ 2,984</u>	<u>\$ 5,214</u>

The Company recorded an insurance recovery of \$8,865 during the year ended December 31, 2020, including \$3,521 in other receivables and \$5,344 in other long-term assets. As at December 31, 2022, the Company had a remaining balance of \$2,937 and \$4,122 in other receivables and other long-term assets, respectively, related to insurance recoveries.

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

In the first quarter of 2021, the Company issued 1,819,712 common shares at weighted average share price of \$7.26 per share for gross proceeds of \$13,211, net of total transaction costs of \$405, including commission of \$264, resulting in net proceeds of \$12,806. The at-the-market ("ATM") Program was completed as of March 20, 2021, and the Company raised a total of \$27,586 gross proceeds through this ATM Program.

On January 21, 2021, Cartesian exercised its option to convert a principal amount of \$2,500, plus accrued and unpaid interest on such principal amount, into 1,815,117 common shares of the Company.

On June 8, 2021, the Company completed a marketed public offering of common shares for gross proceeds to the Company of \$115,115. The Company issued a total of 20,930,000 common shares at \$5.50 per common share, including 2,730,000 common shares following the exercise in full by the underwriters of their over-allotment option. Total transaction costs of \$7,194 were incurred and deducted from the gross proceeds for net proceeds of \$107,921.

On August 31, 2021, the Company exercised its option to convert the final principal balance of \$2,500, plus accrued and unpaid interest on such principal amount, into 1,836,750 common shares of the Company. As at December 31, 2021, the convertible note was fully repaid and converted into common shares of the Company.

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

During the year ended December 31, 2022, the Company issued 503,840 common shares, net of cancellations, upon exercises of share units (year ended December 31, 2021 – 327,774 common shares). 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 vested and the underlying shares are issued from treasury of the Company, the value is reclassified to share capital.

During the year ended December 31, 2022, the Company recognized \$2,066 (year ended December 31, 2021 - \$1,911) of stock-based compensation associated with the Westport Omnibus Plan. The Westport Omnibus Plan aims to advance the Company's interests by encouraging Employees, Consultants and Non-Employee Directors to receive equity-based compensation and incentives. The plan outlines the stock-based options types, eligibility and vesting terms.

A continuity of the Units issued under the Westport Omnibus Plan are as follows:

	December 31 2022		December 31 2021	
	Number of Units	Weighted average grant date fair value (CDN \$)	Number of Units	Weighted average grant date fair value (CDN \$)
Outstanding, beginning of year	1,866,433	\$ 2.98	1,452,378	\$ 3.29
Granted	2,541,098	1.83	875,703	4.87
Vested and exercised	(503,840)	3.19	(327,774)	3.86
Forfeited/expired	(729,370)	1.28	(133,874)	1.62
Outstanding, end of year	3,174,321	\$ 2.41	1,866,433	\$ 2.98
Units outstanding and exercisable, end of year	—	—	61,086	\$ 2.84

During the year ended December 31, 2022, 2,541,098 share units were granted to directors, executives and employees (year ended December 31, 2021 - 875,703). This included 994,700 Restricted Share Units ("RSUs") (year ended December 31, 2021 - 417,719) and 1,221,398 Performance Share Units ("PSUs") (year ended December 31, 2021 - 457,984) and 325,000 Deferred Share Units ("DSUs") (year ended December 31, 2021 - 0 DSUs). Values of PSUs awards are determined using either the Monte – Carlo averaging technique or the Black Scholes model. 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 be issued over time but are based on future performance and other conditions tied to the payout of the PSU. Vesting of DSUs shall occur, immediately prior to the resignation, retirement or termination of directorship, in accordance with the terms of Westport's Omnibus Plan.

As at December 31, 2022, \$4,134 of compensation expense related to Units has yet to be recognized in results from operations and will be recognized ratably over two years.

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

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units are as follows:

	December 31,	
	2022	2021
	CDN\$	CDN\$
Share units:		
Outstanding	\$ 3,310	\$ 5,434
Exercisable	—	173
Exercised	524	—

(c) Stock-based compensation:

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

	Years ended December 31,	
	2022	2021
Cost of revenue	\$ 184	\$ 91
Research and development	336	217
General and administrative	1,638	1,502
Sales and marketing	232	101
	<u>\$ 2,390</u>	<u>\$ 1,911</u>

Stock-based compensation settled in shares \$2,066 and \$324 settled in cash for the year ended December 31, 2022.

19. Income taxes:

(a) The Company's income tax provision differs from that calculated by applying the combined enacted Canadian federal and provincial statutory income tax rate of 27% for the year ended December 31, 2022 (year ended December 31, 2021 – 27%)

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as follows:

	Years ended December 31,	
	2022	2021
Expected income tax expense (recovery) expense	\$ (8,446)	\$ 1,492
Non-deductible stock-based compensation	233	389
Other permanent differences	(58)	4,559
Withholding taxes and other foreign taxes	621	76
Change in enacted tax rates	294	61
Foreign tax rate differences, foreign exchange and other adjustments	392	457
Non-taxable income from equity investment	—	(8,902)
Change in valuation allowance	(3,249)	2,970
Expired Losses	11,562	—
Bargain purchase gain	63	(1,579)
Tax realignment due to Italian tax law changes	—	(7,654)
Income tax expense (recovery)	<u>\$ 1,412</u>	<u>\$ (8,131)</u>

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19. Income taxes (continued):

(b) The significant components of the deferred income tax assets and liabilities are as follows:

	December 31,	
	2022	2021
Deferred income tax assets:		
Net loss carry forwards	\$ 208,399	\$ 223,129
Intangible assets	4,015	4,571
Property, plant and equipment	18,392	18,225
Warranty liability	3,631	4,785
Foreign tax credits	620	620
Inventory	1,933	1,614
Research and development	5,001	7,537
Tax realignment due to Italian tax law changes	7,713	8,705
Financing and share issuance cost	1,106	—
Other	8,859	10,858
Total gross deferred income tax assets	259,669	280,044
Valuation allowance	(249,239)	(268,391)
Total deferred income tax assets	\$ 10,430	\$ 11,653
Deferred income tax liabilities:		
Intangible assets	\$ (430)	\$ (430)
Property, plant and equipment	(15)	(12)
Other	(2,837)	(2,950)
Total deferred income tax liabilities	\$ (3,282)	\$ (3,392)
Total net deferred income tax assets	\$ 7,148	\$ 8,261

The valuation allowance is reviewed on a quarterly basis to determine if, based on all available evidence, it is more-likely-than-not that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent on the generation of sufficient taxable income during the future periods in which those temporary differences are expected to reverse. If the evidence does not exist that the deferred income tax assets will be fully realized, a valuation allowance has been provided.

The deferred income tax assets have been reduced by the uncertain tax position presented in note 19(f).

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19. Income taxes (continued):

(c) The components of the Company's income tax expense (recovery) are as follows:

		Income tax expense (recovery)		
	Net income (loss) before income taxes			
		Current	Deferred	Total
Year ended December 31, 2022				
Italy	\$ 1,023	\$ 20	\$ (511)	\$ (491)
United States	15,136	6	—	6
Canada	(46,657)	372	—	372
Netherlands	3,103	601	(25)	576
Poland	3,002	512	118	630
Other	(6,890)	341	(22)	319
	<u>\$ (31,283)</u>	<u>\$ 1,852</u>	<u>\$ (440)</u>	<u>\$ 1,412</u>
Year ended December 31, 2021				
Italy	\$ 921	\$ 1,417	\$ (10,373)	\$ (8,956)
United States	31,476	(3)	—	(3)
Canada	(35,809)	69	—	69
Netherlands	3,843	704	33	737
Poland	1,966	351	14	365
Other	3,130	(366)	23	(343)
	<u>\$ 5,527</u>	<u>\$ 2,172</u>	<u>\$ (10,303)</u>	<u>\$ (8,131)</u>

(d) The Company has loss carry-forwards in various tax jurisdictions available to offset future taxable income that expire in the following years, as follows:

	2023	2024	2025	2026 and later	Total
Canada	\$ —	\$ —	\$ —	\$ 616,437	\$ 616,437
United States	—	—	—	90,475	90,475
Sweden	—	—	—	10,656	10,656
China	1,528	948	2,267	1,994	6,737
India	—	—	—	4,909	4,909
Australia and Other	—	—	—	7,382	7,382
Total	<u>\$ 1,528</u>	<u>\$ 948</u>	<u>\$ 2,267</u>	<u>\$ 731,853</u>	<u>\$ 736,596</u>

Certain tax attributes are subject to an annual limitation as a result of the acquisition of Fuel Systems which constitutes a change of ownership as defined under Internal Revenue Code Section 382.

(e) The Company has not recognized a deferred income tax liability for certain undistributed earnings of foreign subsidiaries which are essentially investments in those foreign subsidiaries and are permanent in duration.

(f) The Company records uncertain tax positions in accordance with ASC No. 740, Income Taxes. As at December 31, 2022, the total amount of the Company's uncertain tax benefits was \$5,352 (December 31, 2021 - \$5,152). If recognized in future periods, the uncertain tax benefits would affect our effective tax rate. The Company files income tax returns in Canada, the U.S., Italy, and various other foreign jurisdictions. All taxation years remain open to examination by the Canada Revenue Agency, the 2019 to 2022 taxation years remain open to examination by the Internal Revenue Service, the 2017 to 2022

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taxation years remain open to examination by the Italian Revenue Agency, and various years remain open in the other foreign jurisdictions.

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20. Related party transactions:

The Company's related parties are Minda Westport Technologies Limited, directors, officers and shareholders that own greater than 10% of the Company's shares.

The Company engages in transactions with Minda Westport Technologies Limited and recorded \$3,974 of accounts receivable as at December 31, 2022 (December 31, 2021 - \$1,593). During the year ended December 31, 2022, the Company sold inventory to Minda Westport Technologies Limited for \$10,473 (year ended December 31, 2021 - \$2,232).

21. 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.

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22. Segment information:

The Company manages and reports the results of its business through three segments: OEM, Independent Aftermarket ("IAM"), and Corporate. This reflects the manner in which operating decisions and assessing business performance is currently managed by the Chief Operating Decision Maker ("CODM").

As discussed in note 7, the CWI joint venture ended as at December 31, 2021 and the Company's 50% share in the joint venture was sold to Cummins on February 7, 2022. The Company recorded the gain on sale of investment during the three months ended March 31, 2022 and no longer considered it as an operating segment; however, the income from the investment in the CWI joint venture remained as the Corporate equity income in 2021.

Financial information by business segment as follows:

	Year ended December 31, 2022			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	\$ 198,036	\$ (32,000)	\$ 8,205	\$ 930
IAM	107,662	2,340	3,162	—
Corporate	—	(20,606)	433	—
Total consolidated	<u>\$ 305,698</u>	<u>\$ (50,266)</u>	<u>\$ 11,800</u>	<u>\$ 930</u>

	Year ended December 31, 2021			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	\$ 195,476	\$ (22,259)	\$ 8,654	\$ 773
IAM	116,936	2,046	5,113	—
Corporate	—	(10,333)	268	32,968
Total consolidated	<u>\$ 312,412</u>	<u>\$ (30,546)</u>	<u>\$ 14,035</u>	<u>\$ 33,741</u>

	Years ended December 31,	
	2022	2021
Total additions to long-lived assets, excluding business combinations:		
OEM	\$ 11,178	\$ 9,878
IAM	2,754	2,493
Corporate	597	1,787
Total consolidated	<u>\$ 14,529</u>	<u>\$ 14,158</u>

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22. Segment information (continued):

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 total revenue	
	Years ended December 31,	
	2022	2021
Europe	64 %	66 %
Americas	12 %	11 %
Asia	15 %	12 %
Africa	5 %	7 %
Other	4 %	4 %

During the year ended December 31, 2022, total revenue of \$43,265 (year ended December 31, 2021 - \$49,683), or 14% (year ended December 31, 2021 - 16%) of total revenue, was generated from the Company's OEM launch partner.

As at December 31, 2022, total goodwill of \$2,958 (December 31, 2021 - \$3,121) was allocated to the IAM segment.

As at December 31, 2022, total long-term investments of \$1,972 (December 31, 2021 - \$1,972) were allocated to the Corporate segment and \$2,657 (December 31, 2021 - \$1,852) to the OEM segment.

Total assets are allocated as follows:

	Total assets by operating segment	
	Years ended December 31,	
	2022	2021
OEM	\$ 241,795	\$ 193,928
IAM	145,377	148,745
Corporate	20,279	128,640
Total consolidated assets	<u>\$ 407,451</u>	<u>\$ 471,313</u>

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22. Segment information (continued):

The Company's long-lived assets consist of property, plant and equipment, intangible assets and goodwill.

Long-lived assets information by geographic area:

December 31, 2022	Property, plant and equipment	Intangible assets and goodwill	Total
Italy	\$ 20,382	\$ 7,688	\$ 28,070
Canada	25,199	129	25,328
Rest of Europe	9,032	2,958	11,990
Asia Pacific	8,028	—	8,028
Total consolidated long-lived assets	<u>\$ 62,641</u>	<u>\$ 10,775</u>	<u>\$ 73,416</u>

December 31, 2021	Property, plant and equipment	Intangible assets and goodwill	Total
Italy	\$ 21,140	\$ 9,131	\$ 30,271
Canada	29,095	155	29,250
Rest of Europe	9,480	3,121	12,601
Asia Pacific	4,705	—	4,705
Total consolidated long-lived assets	<u>\$ 64,420</u>	<u>\$ 12,407</u>	<u>\$ 76,827</u>

23. Financial instruments:

Financial risk management

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 since inception. At December 31, 2022, the Company has \$86,184 of cash, cash equivalents and short-term investments, including of \$98 restricted cash (see note 3(c)).

The following are the contractual maturities of financial obligations as at December 31, 2022:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	\$ 98,863	\$ 98,863	\$ 98,863	\$ —	\$ —	\$ —
Short-term debt (note 14)	9,102	9,102	9,102	—	—	—
Term loan facilities (note 15(a))	41,934	48,260	14,235	25,942	8,083	—
Other bank financing (note 15(b))	512	518	—	262	256	—
Capital lease obligations (note 15(c))	1,416	1,441	516	744	181	—
Long-term royalty payable (note 16)	5,538	7,920	1,162	3,907	2,851	—
Operating lease commitments (note 13)	23,459	27,073	3,379	5,311	4,475	13,908
	<u>\$ 180,824</u>	<u>\$ 193,177</u>	<u>\$ 127,257</u>	<u>\$ 36,166</u>	<u>\$ 15,846</u>	<u>\$ 13,908</u>

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23. Financial instruments (continued):

Credit risk

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and accounts receivable. The Company manages credit risk associated with cash and cash equivalents by regularly investing primarily in liquid short-term paper issued by major banks. The Company monitors its portfolio and its policy is to diversify its investments to manage this potential risk.

The Company is also exposed to credit risk with respect to uncertainties as to timing and amount of collectability of accounts receivable and other receivables. As at December 31, 2022, 76% (December 31, 2021 - 83%) of accounts receivable relates to customer receivables, and 24% (December 31, 2021 - 17%) relates to amounts due from related parties and income tax authorities for value added taxes and other tax related refunds. In order to minimize the risk of loss for customer receivables, the Company's extension of credit to customers involves review and approval by senior management as well as progress payments as contracts are executed. Most sales are invoiced with payment terms in the range of 30 days to 90 days. Refer to note 3(d) for the Company's policy with respect to an allowance for credit losses.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company conducts a significant portion of its business activities in foreign currencies, primarily the U.S. dollar and the Euro. The Company are subject to foreign currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which the Company earn revenues. In addition, since the Company's consolidated financial statements are denominated in U.S. dollars, changes in foreign currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on the Company's results of operations, financial condition and cash flows.

Cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and long-term debt that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies. The Company's functional currency is the Canadian dollar.

The fluctuation in the average U.S. dollar in recent years has resulted in material impacts on our revenues in those years. If the U.S. dollar continues to fluctuate against other currencies, the Company will experience additional volatility in our financial statements.

A 5% increase/decrease in the relative value of the U.S. dollar against the Canadian dollar and Euro compared to the exchange rates in effect for the year ended December 31, 2022 would have resulted in lower/higher income from operations of approximately \$1,129. This assumes a consistent 5% appreciation in the U.S. dollar against the Canadian dollar and the Euro throughout the fiscal year. The timing of changes in the relative value of the U.S. dollar can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk on certain short-term and long-term debt with variable rates of interest. The Company limits its exposure to interest rate risk by continually monitoring and adjusting portfolio duration to align to forecasted cash requirements and anticipated changes in interest rates.

If interest rates for the year ended December 31, 2022 had increased or decreased by 200 basis points, with all other variables held constant, net loss for the year ended December 31, 2022 would have increased or decreased by \$476.

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23. Financial instruments (continued):

Fair value of financial instruments

The carrying amounts reported in the balance sheets 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 interests in Minda Westport Technologies Limited, Weichai Westport Inc. and other investments. Minda Westport Technologies Limited is the most significant of the investments and is accounted for using the equity method. WWI and other investments are accounted for at fair value.

The carrying values reported in the consolidated balance sheets 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, and other bank financing included in the long-term debt (note 15) are carried at amortized costs, which approximate their respective fair values as at December 31, 2022.

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

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

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

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

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

As at December 31, 2022, cash and cash equivalents are measured at fair value on a recurring basis and are included in Level 1.