

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Fuel Systems Inc. ("Westport", the "Company", "we", "us", "our") for the three and six months ended June 30, 2024 provides an update to our annual MD&A dated March 25, 2024 for the fiscal year ended December 31, 2023. 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, 2023 and our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2024. Our unaudited 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 United States dollar ("U.S. dollar"). This MD&A is dated as of August 13, 2024.

Additional information relating to Westport, including our Annual Information Form ("AIF") and Form 40-F each for the year ended December 31, 2023, 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, the orders or demand for our products and our HPDI joint venture's products (including from the HPDI 2.0TM fuel systems), the supply agreement with Weichai Westport Inc. ("WWI"), the timing for the launch of WWI's engine equipped with HPDI 2.0 fuel systems, the variation of gross margins from the HPDI 2.0 fuel systems product and causes thereof, and the timing for relief of supply chain issues (including those related to semiconductor supply restrictions), opportunities available to sell and supply our products in North America, consumer confidence levels, the recovery of our revenues and the timing thereof, our ability to strengthen our liquidity, growth in our HPDI joint venture and improvements in our light-duty original equipment manufacturer ("OEM") business and timing thereof, improved aftermarket revenues, our capital expenditures, 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, our ability to continue our business as a going concern and generate sufficient cash flows to fund operations, the availability of funding and funding requirements, our future cash flows, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, the 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, our industry and products, the 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. 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, conditions or events affecting cash flows or our ability to continue as a going concern, 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 are pertinent only as of the date they were made.

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 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

Westport is a global company focused on engineering, manufacturing, and supplying alternative fuel systems and components for transportation applications. Our 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 these alternative fuels, including liquefied petroleum gas ("LPG"), compressed natural gas ("CNG"), liquified natural gas ("LNG"), renewable natural gas ("RNG") or biomethane, and hydrogen. We supply our products in more than 70 countries through a network of distributors, service providers for the aftermarket and directly to OEMs and Tier 1 and Tier 2 OEM suppliers. We also provide delayed OEM ("DOEM") offerings and engineering services to our customers and partners globally. Today, our products and services are available for passenger car and light-, medium- and heavy-duty truck and off-road applications.

The majority of our revenues are generated through the following four business lines:

HPDI Joint Venture ("HPDI JV")

Westport owns a 55% interest in the HPDI JV with Volvo Group owning the remaining 45%. The HPDI JV sells systems and components, including LNG HPDI 2.0 fuel system products, to engine OEMs and commercial vehicle OEMs. Our fully integrated LNG HPDI 2.0 fuel systems enables diesel engines using primarily natural gas fuel to match the power, torque, and fuel economy benefits found in traditional compression ignition engines, resulting in reduced greenhouse gas emissions and the capability to cost-effectively run on renewable fuels. Also, we are adapting our HPDI fuel systems to use hydrogen or hydrogen/natural gas blends in internal combustion engines.

Light-Duty Business

Our Light-Duty segment manufactures LPG and CNG fuel storage solutions and supply fuel storage tanks to the aftermarket, OEM, and other market segments across a wide range of brands. The Light-Duty segment includes the consolidated results from our delayed OEM, independent aftermarket, light-duty OEM operations, and electronics businesses.

The light-duty OEM business line sells systems and components to OEMs that are used to manufacture new, direct off the assembly line LPG or CNG-fueled vehicles. The Independent Aftermarket ("IAM") business sells 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. The Delayed OEM ("DOEM") business line 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. The Electronics business line designs, industrializes and assembles electronic control modules. The Fuel Storage business line manufactures LPG fuel storage solutions and supply fuel storage tanks to the aftermarket, OEM, and other market segments.

High-Pressure Controls & Systems

Our High Pressure Controls & Systems business designs, develops, produces and sells components for transportation and industrial applications. We partner with the world's leading fuel cell and hydrogen engine manufacturers and companies committed to decarbonizing transport, offering solutions for a variety of fuel types.

Heavy-Duty OEM Business

Our Heavy-Duty OEM business represents historical results from our heavy-duty business for the period January 1 until the formation of the joint venture which occurred on June 3, 2024 and for comparative purposes, for the period January 1 to June 30, 2023. Following the close of the HPDI JV in June 2024, the results of this business are reflected in the HPDI JV business segment. Going forward, the Heavy-Duty OEM segment will reflect revenue earned from a transitional services agreement in place with the HPDI joint venture. This transitional services agreement is intended to support the HPDI JV in the short-term as the organization transitions to its own operating entity.

RISKS, LONG-TERM PROFITABILITY & LIQUIDITYGlobal Supply Chain Challenges and Inflationary Environment

While OEM production is back on track after COVID-19, there are other disruptions that we are closely monitoring and making efforts to mitigate, including the impact of the global shortage of semiconductors, raw materials and parts on our businesses; however, we do not expect this shortage to affect our long-term growth. The global semiconductor supply, raw materials shortages and inflationary pressure on production input costs continued to affect the automotive industry and will continue to impact our business for the foreseeable future. Our production and end-customer demands are materially impacted by the prolonged supply chain disruption, which continue to put pressure on our margins.

Furthermore, due to the ongoing conflict in the Middle East and attacks on cargo ships in the Red Sea, hundreds of vessels are avoiding the Suez Canal and disrupting global supply chains. These vessels are being forced to reroute around southern Africa vastly increasing transport times and freight costs. This global disruption to the international trade routes has put additional pressure on the Company's supply chain and the automotive sector as a whole. We continue to monitor the situation to mitigate transportation delays and costs to the Company.

Fuel Prices

To date, there have been continued global gaseous price fluctuations including LNG and CNG but also for liquid fuels including crude oil, diesel, and gasoline, which continue to persist, given uncertainty in supply levels and European geopolitical risk due to the Russia-Ukraine conflict. Higher gaseous fuel price negatively impacts the price differential of gaseous fuels versus diesel and gasoline, which may impact our customers' decisions to adopt such gaseous fuels as a transportation energy solution in the short-term. We observed softness in demand in our Heavy-Duty OEM sales volumes caused by the uncertainty with prices of CNG and LNG relative to diesel and gasoline in Europe. Despite the uncertainty with CNG and LNG prices, the increased LPG price differential to gasoline in Europe continued in 2023 and to date in 2024 and was favourable to customer demand for LPG components and kits.

Long-term Profitability and Liquidity

We continue to observe high inflationary pressures, global supply chain disruptions, higher interest rates and volatile fuel prices, which negatively affect customer demand going forward and have an adverse impact on our production and cost structure.

We believe that we have considered all possible impacts of known events arising from the risks discussed above related to supply chain and fuel prices in the preparation of the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2024. However, changes in circumstances due to the forementioned risks could affect our judgments and estimates associated with our liquidity and other critical accounting assessments.

We continue to sustain operating losses and generate minimal cash flows from operating activities primarily due to the lack of scale in our Heavy-Duty OEM and High-Pressure Controls & Systems segments. Cash provided by operating activities was \$1.6 million for the six months ended June 30, 2024.

As at June 30, 2024, we had cash and cash equivalents of \$41.5 million. Although we believe we have sufficient liquidity to continue as a going concern beyond August 2025, the long-term financial sustainability of the Company will depend on our ability to generate sufficient positive cash flows from all of our operations specifically through profitable, sustainable growth and on the ability to finance our long-term strategic objectives and operations. In addition to new contract announcements, entering new markets, and formation of the HPDI joint venture with Volvo Group, we are focused on improving profitability through growth in our Light-Duty and High-Pressure Controls & Systems segments, driving economies of scale and improvements in our manufacturing operations including pricing measures, cost reductions, and manufacturing strategies driving margin expansion. If, as a result of future events, we were to determine we were 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 unaudited condensed consolidated interim financial statements and the adjustments could be material.

SECOND QUARTER 2024 RESULTS

Revenues for the three months ended June 30, 2024 decreased by 2% to \$83.4 million compared to \$85.0 million in the same quarter last year, primarily driven by decreased sales volumes in our Light-Duty segment. This was partially offset by increased sales volume in High-Pressure Controls & Systems and Heavy-Duty OEM segments in the quarter. Revenue for the three months ended June 30, 2024 includes two-months of revenue from the Heavy-Duty OEM segment.

We reported a net income of \$5.8 million for the three months ended June 30, 2024 compared to net loss of \$13.2 million for the same quarter last year. This was primarily the result of:

- gain on deconsolidation of \$13.3 million related to deconsolidation of HPDI business and formation of HPDI JV with Volvo Group.
- improvement in gross margin for the three months ended June 30, 2024 of \$2.7 million compared to the same quarter last year
- decrease in foreign exchange loss by \$2.3 million and depreciation and amortization by \$1.3 million
- partially offset by increases in research and development expenditures of \$0.8 million

Cash and cash equivalents were \$41.5 million at the end of the second quarter 2024. Cash provided by operating activities was \$1.5 million primarily from net cash generated from change in working capital of \$4.5 million, partially offset by operating losses in the quarter. Investing activities included the sale of investments for \$20.4 million related to partial sale of our ownership interests in the HPDI JV and the Minda Westport JV, offset by cash capital contributions into the newly formed HPDI JV of \$9.9 million and the purchase of capital assets of \$5.4 million. Cash used in financing activities was primarily net debt repayments of \$8.9 million in the period.

We reported negative adjusted EBITDA of \$2.0 million, (see "Non-GAAP Measures" section in this MD&A) during the second quarter as compared to negative EBITDA of \$4.0 million for the same quarter last year.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our financial results:

Selected Consolidated Statements of Operations Data

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(in millions of U.S. dollars, except for per share amounts and shares outstanding)</i>				
Revenue	\$ 83.4	\$ 85.0	\$ 161.0	\$ 167.3
Gross margin ¹	\$ 17.1	\$ 14.4	\$ 28.8	\$ 27.7
Gross margin % ¹	21 %	17 %	18 %	17 %
Income (loss) from investments accounted for by the equity method	\$ (0.7)	\$ 0.1	\$ (0.7)	\$ 0.2
Net income (loss)	\$ 5.8	\$ (13.2)	\$ (7.8)	\$ (23.8)
Net income (loss) per share - basic	\$ 0.34	\$ (0.77)	\$ (0.45)	\$ (1.39)
Net income (loss) per share - diluted	\$ 0.33	\$ (0.77)	\$ (0.45)	\$ (1.39)
Weighted average basic shares outstanding in millions	17.2	17.2	17.2	17.2
Weighted average diluted shares outstanding millions	17.5	17.2	17.2	17.2
EBIT ¹	\$ 7.3	\$ (13.1)	\$ (5.1)	\$ (22.4)
EBITDA ¹	\$ 9.0	\$ (10.1)	\$ (0.2)	\$ (16.4)
Adjusted EBITDA ¹	\$ (2.0)	\$ (4.0)	\$ (8.6)	\$ (8.5)

¹These financial measures or ratios are non-GAAP financial measures or ratios. See the section 'Non-GAAP Financial Measures' for explanations and discussions of these non-GAAP financial measures or ratios.

Selected Balance Sheet Data

The following table sets forth a summary of our financial position as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
<i>(in millions of U.S. dollars, except for per share amounts and shares outstanding)</i>		
Cash and cash equivalents	\$ 41.5	\$ 54.9
Net working capital ¹	46.1	56.4
Total assets	333.1	355.7
Short-term debt	3.4	15.2
Long-term debt, including current portion	40.8	45.0
Other non-current liabilities ¹	26.8	29.5
Total liabilities	181.6	195.3
Shareholders' equity	151.5	160.4

¹These financial measures or ratios are non-GAAP financial measures or ratios. See the section 'Non-GAAP Financial Measures' for explanations and discussions of these non-GAAP financial measures or ratios.

RESULTS FROM OPERATIONS

OPERATING SEGMENTS

On June 3, 2024, the Company entered into a joint venture agreement with Volvo to form the HPDI JV and deconsolidated its former HPDI business. As a result, the Company changed how it reviews and manages its business through five reportable segments: Light-Duty, High-Pressure Controls & Systems, Heavy-Duty OEM, Corporate, and HPDI JV. This reflects the manner in which operating decisions and assessing business performance is currently managed by the Chief Operating Decision Maker (“CODM”).

(in millions of U.S. dollars)

	Three Months Ended June 30, 2024			
	Revenue	Operating Income (Loss)	Depreciation & Amortization	Equity Income (Loss)
Light-Duty	\$ 69.5	\$ 3.3	\$ 1.5	\$ 0.5
High-Pressure Controls & Systems	3.4	(0.9)	0.1	—
Heavy-Duty OEM	10.5	(2.3)	—	—
Corporate	—	(5.4)	0.1	(1.2)
HPDI JV	4.1	(2.0)	0.3	—
Total segment	87.5	(7.3)	2.0	(0.7)
Less: HPDI JV	4.1	(2.0)	0.3	—
Total consolidated	\$ 83.4	\$ (5.3)	\$ 1.7	\$ (0.7)

(in millions of U.S. dollars)

	Three Months Ended June 30, 2023			
	Revenue	Operating Income (Loss)	Depreciation & Amortization	Equity Income (Loss)
Light-Duty	\$ 73.7	\$ (1.8)	\$ 1.7	\$ 0.1
High-Pressure Controls & Systems	2.8	(0.6)	0.1	—
Heavy-Duty OEM	8.5	(3.3)	1.1	—
Corporate	—	(4.5)	0.1	—
HPDI JV	—	—	—	—
Total segment	85.0	(10.2)	3.0	0.1
Less: HPDI JV	—	—	—	—
Total consolidated	\$ 85.0	\$ (10.2)	\$ 3.0	\$ 0.1

Revenue for the three and six months ended June 30, 2024

(in millions of U.S. dollars)

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	Change \$	Change %	2024	2023	Change \$	Change %
Light-Duty	\$ 69.5	\$ 73.7	\$ (4.2)	(6)%	\$ 132.7	\$ 140.2	\$ (7.5)	(5)%
High-Pressure Controls & Systems	3.4	2.8	0.6	21 %	5.8	5.7	0.1	2 %
Heavy-Duty OEM	10.5	\$ 8.5	\$ 2.0	24 %	\$ 22.5	\$ 21.4	\$ 1.1	5 %
Total Revenue	\$ 83.4	\$ 85.0	\$ (1.6)	(2)%	\$ 161.0	\$ 167.3	\$ (6.3)	(4)%

Light-Duty

Revenue for the three and six months ended June 30, 2024 was \$69.5 million and \$132.7 million, respectively, compared with \$73.7 million and \$140.2 million for the three and six months ended June 30, 2023.

Light-Duty revenue decreased by \$4.2 million for the three months ended June 30, 2024 compared to the prior year quarter. This was primarily driven by a decrease in sales in our DOEM, IAM and fuel storage businesses, partially offset by an increase in sales in our light-duty OEM and electronics businesses.

Light-Duty revenue decreased by \$7.5 million for the six months ended June 30, 2024 compared to the prior year period. This was primarily driven by a decrease in sales in our DOEM, fuel storage, and IAM businesses, partially offset by an increase in sales in our electronics and light-duty OEM business.

High-Pressure Controls & Systems

Revenue for the three and six months ended June 30, 2024 was \$3.4 million and \$5.8 million, respectively, compared with \$2.8 million and \$5.7 million for the three and six months ended June 30, 2023.

The increase in revenue for the three months ended June 30, 2024 compared to the prior year quarter was primarily driven by increased sales in product and service revenue.

Heavy-Duty OEM

Revenue for the three and six months ended June 30, 2024 includes revenue until the closing of the transaction to form the HPDI JV, which occurred on June 03, 2024. Revenue for the three and six months ended June 30, 2024 was \$10.5 million and \$22.5 million, respectively, compared with \$8.5 million and \$21.4 million for the three and six months ended June 30, 2023.

The increase in revenue for the three months ended June 30, 2024 primarily relates to an increase in product and engineering sales for the two months the Company wholly owned the HPDI business. Additionally, there is one month of inventory sales from the Company to the HPDI JV for \$0.5 million under the transitional services agreement.

Gross Margin for the three months ended June 30, 2024

(in millions of U.S. dollars)	Three months ended June 30,		% of Revenue	Three months ended June 30,		% of Revenue	Change	
	2024			2023			\$	%
Light-Duty	\$ 15.1		22 %	\$ 12.7		17 %	\$ 2.4	19 %
High-Pressure Controls & Systems	0.7		21 %	0.6		21 %	0.1	17 %
Heavy-Duty OEM	1.3		12 %	1.1		13 %	0.2	18 %
Total gross margin	\$ 17.1		21 %	\$ 14.4		17 %	\$ 2.7	19 %

Light-Duty

Gross margin increased by \$2.4 million to \$15.1 million, or 22% of revenue, for the three months ended June 30, 2024 compared to \$12.7 million, or 17% of revenue, for the three months ended June 30, 2023. This was primarily driven by a change in sales mix with an increase in sales to European customers and a reduction in sales to developing regions.

High-Pressure Controls & Systems

Gross margin increased by \$0.1 million to \$0.7 million, or 21% of revenue, for the three months ended June 30, 2024 compared to \$0.6 million or 21% of revenue, for the three months ended June 30, 2023.

Heavy-duty OEM

Gross margin increased by \$0.2 million to \$1.3 million, or 12% of revenue, for the three months ended June 30, 2024 compared to \$1.1 million or 13% of revenue, for the three months ended June 30, 2023.

Gross Margin for the six months ended June 30, 2024

(in millions of U.S. dollars)	Six months ended June 30, 2024		% of Revenue	Six months ended June 30, 2023		% of Revenue	Change	
	\$			\$			\$	%
Light-Duty	\$	27.5	21 %	\$	25.0	18 %	\$ 2.5	10 %
High-Pressure Controls & Systems		1.1	19 %		1.4	25 %	(0.3)	(21)%
Heavy-Duty OEM		0.2	1 %		1.3	6 %	(1.1)	(85)%
Total gross margin	\$	28.8	18 %	\$	27.7	17 %	\$ 1.1	4 %

Light-Duty

Gross margin increased by \$2.5 million to \$27.5 million, or 21% of revenue, for the six months ended June 30, 2024 compared to \$25.0 million, or 18% of revenue, for the six months ended June 30, 2023.

High-Pressure Controls & Systems

Gross margin decreased by \$0.3 million to \$1.1 million, or 19% of revenue, for the six months ended June 30, 2024 compared to \$1.4 million, or 25% of revenue, for the six months ended June 30, 2023. The decrease in gross margin was primarily related to higher production overhead costs related to the development of new products.

Heavy-Duty OEM

Gross margin decreased by \$1.1 million to \$0.2 million, or 1% of revenue, for the six months ended June 30, 2024 compared to \$1.3 million, or 6% of revenue, for the six months ended June 30, 2023.

Research and Development Expenses ("R&D")

(in millions of U.S. dollars)	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Light-Duty	\$ 3.3	\$ 2.6	\$ 0.7	27 %	\$ 6.9	\$ 6.6	\$ 0.3	5 %
High-Pressure Controls & Systems	1.2	1.8	(0.6)	(33)%	2.5	1.6	0.9	56 %
Heavy-Duty OEM	2.1	1.4	0.7	50 %	4.9	4.8	0.1	2 %
Total R&D expenses	\$ 6.6	\$ 5.8	\$ 0.8	14 %	\$ 14.3	\$ 13.0	\$ 1.3	10 %

Light-Duty

R&D expenses for the three and six months ended June 30, 2024 were \$3.3 million and \$6.9 million compared to \$2.6 million and \$6.6 million for the three and six months ended June 30, 2023, respectively.

High-Pressure Controls & Systems

R&D expenses for the three and six months ended June 30, 2024 were \$1.2 million and \$2.5 million compared to \$1.8 million and \$1.6 million for the three and six months ended June 30, 2023, respectively. This is primarily driven by the research and development incurred for engineering programs.

Heavy-Duty OEM

R&D expenses for the three and six months ended June 30, 2024 were \$2.1 million and \$4.9 million compared to \$1.4 million and \$4.8 million for the three and six months ended June 30, 2023, respectively.

Selling, General and Administrative Expenses ("SG&A")

(in millions of U.S. dollars)	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Light-Duty	\$ 8.1	\$ 7.8	\$ 0.3	4 %	\$ 14.7	\$ 15.2	\$ (0.5)	(3)%
High-Pressure Controls & Systems	0.3	0.5	(0.2)	(40)%	0.9	1.0	(0.1)	(10)%
Heavy-Duty OEM	1.5	2.6	(1.1)	(42)%	3.8	4.7	(0.9)	(19)%
Corporate	5.2	4.5	0.7	16 %	9.3	7.9	1.4	18 %
Total SG&A expenses	<u>\$ 15.1</u>	<u>\$ 15.4</u>	<u>\$ (0.3)</u>	<u>(2)%</u>	<u>\$ 28.7</u>	<u>\$ 28.8</u>	<u>\$ (0.1)</u>	<u>— %</u>

Light-Duty

SG&A expenses for the three and six months ended June 30, 2024 were \$8.1 million and \$14.7 million, compared with \$7.8 million and \$15.2 million for the three and six months ended June 30, 2023, respectively.

High-Pressure Controls & Systems

SG&A expenses for the three and six months ended June 30, 2024 were \$0.3 million and \$0.9 million, compared with \$0.5 million and \$1.0 million for the three and six months ended June 30, 2023, respectively.

Heavy-Duty OEM

SG&A expenses for the three and six months ended June 30, 2024 were \$1.5 million and \$3.8 million, compared with \$2.6 million and \$4.7 million for the three and six months ended June 30, 2023, respectively. This was due to Heavy-Duty OEM having 2 months of activity in the quarter as a wholly owned subsidiary of Westport.

Corporate

SG&A expenses for the three and six months ended June 30, 2024 were \$5.2 million and \$9.3 million, respectively, compared with \$4.5 million and \$7.9 million for the three and six months ended June 30, 2023. The increase in SG&A expenses is primarily driven by consulting costs incurred for the formation of the HPDI JV.

Selected HPDI JV Statements of Operations Data

We account for the HPDI JV using the equity method of accounting. However, due to its significance to our long-term strategy and operating results, we disclose HPDI JV's certain financial information in notes 8 and 19 in our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2024.

The following table sets forth a summary of the financial results of HPDI JV for the period June 3, 2024 to June 30, 2024:

(in millions of U.S. dollars)	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Total revenue	\$ 4.1	\$ —	\$ 4.1	— %	\$ 4.1	\$ —	\$ 4.1	— %
Gross margin ¹	0.2	—	0.2	— %	0.2	—	0.2	— %
Gross margin %	5 %	— %			5 %	— %		
Loss before income taxes	(2.0)	—	(2.0)	— %	(2.0)	—	(2.0)	— %
Net loss attributable to the Company	(1.1)	—	—	— %	(1.1)	—	—	— %

¹Gross margin is a non-GAAP financial measure. See the section 'Non-GAAP Financial Measures' for explanations and discussions of these non-GAAP financial measure or ratio.

Other significant expense and income items for the three and six months ended June 30, 2024

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, accounts receivable and accounts payable. In addition, we have foreign exchange exposure on Euro denominated monetary assets and liabilities where the functional currency of the subsidiary is not the Euro. For the three and six months ended June 30, 2024, we recognized foreign exchange losses of \$0.1 million and \$1.9 million, respectively, compared to foreign exchange losses of \$2.4 million and \$3.5 million for the three and six months ended June 30, 2023, respectively. The loss recognized in the current period primarily relates to unrealized foreign exchange loss resulting from the translation of U.S. dollar denominated debt in our Canadian legal entities.

Depreciation and amortization for the three and six months ended June 30, 2024 was \$1.7 million and \$5.0 million, compared to \$3.0 million and \$6.1 million for the three and six months ended June 30, 2023, respectively. The amounts included in cost of revenue for the three and six months ended June 30, 2024 were \$1.0 million and \$3.2 million, respectively, compared with \$2.0 million and \$4.0 million for the three and six months ended June 30, 2023.

Income (loss) from investments primarily relates to our 55% interest in the HPDI JV earnings accounted for by the equity method. See the "Selected HPDI JV Statements of Operations Data" section in this MD&A for more detail.

Interest on long-term debt and amortization of discount

(in millions of U.S. dollars)	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Interest expense on long-term debt	\$ 0.4	\$ 0.6	\$ 1.2	\$ 1.2
Royalty payable accretion expense	—	—	—	0.2
Total interest on long-term debt and accretion on royalty payable	<u>\$ 0.4</u>	<u>\$ 0.6</u>	<u>\$ 1.2</u>	<u>\$ 1.4</u>

The decreases in interest expense on long-term debt and accretion on royalty payable for the three months ended June 30, 2024 compared to the prior year quarter was primarily related to the repayment of long-term debt.

Income tax expense was \$1.0 million and \$1.7 million for the three and six months ended June 30, 2024 compared to income tax expense of \$0.2 million and \$1.2 million for the three and six months ended June 30, 2023, respectively. The increase in income tax expense was mainly due to increase in taxes from higher profitability of our European operations.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

Our cash and cash equivalents position decreased by \$2.4 million during the second quarter of 2024 to \$41.5 million from \$43.9 million at March 31, 2024 and decreased by \$13.3 million during the first six months of 2024 from \$54.9 million at December 31, 2023. The decrease in cash during the three months ended June 30, 2024 was primarily driven by purchases of fixed assets and net debt repayments, partially offset by net cash provided by operating activities and proceeds from sale of investments and other investing activities.

Cash Flow from Operating Activities

For the three months ended June 30, 2024, our net cash provided by operating activities was \$1.5 million, an increase of \$2.1 million from net cash used of \$0.6 million in the three months ended June 30, 2023. The increase in net cash provided by operating activities was primarily driven by net cash inflows from management of inventory and accounts payables and accrued liabilities compared to the prior year quarter, which were partially offset by an increase in trade accounts receivable and prepaid expenses and reduction in warranty.

The global supply chain disruptions and high inflation continue to challenge the automotive industry with rising manufacturer costs. We are responding with pricing and productivity countermeasures to manage our profitability. For further discussion, see the "Long-term Profitability and Liquidity" sections in this MD&A. These conditions continue to persist. Consequently, the duration and severity of the impact on future quarters is currently uncertain.

Cash Flow from Investing Activities

For the three months ended June 30, 2024, our net cash provided by investing activities was \$5.8 million compared to net cash used of \$4.9 million for the three months ended June 30, 2023. The increase in net cash provided by investing activities was primarily driven by proceeds from sale of investments of \$20.4 million, partially offset by capital contributions to HPDI JV of \$9.9 million and capital investments of \$5.4 million in the three months ended June 30, 2024.

Cash Flow from Financing Activities

For the three months ended June 30, 2024, our net cash used in financing activities was \$8.9 million compared to net cash used in financing activities of \$14.4 million for the three months ended June 30, 2023. In the current quarter, we reduced our use of the revolving credit facility by \$5.2 million and \$3.7 million of principal repayments. In the prior year quarter, we repaid \$8.7 million to settle our long-term royalty obligation with Cartesian.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	\$ 103.7	\$ 103.7	\$ 103.7	\$ —	\$ —	\$ —
Short-term debt (1)	3.4	3.4	3.4	—	—	—
Long-term debt, principal, (2)	40.8	36.6	12.6	19.1	4.3	0.6
Long-term debt, interest (2)	—	8.4	3.1	3.5	1.6	0.2
Operating lease obligations (3)	19.8	22.6	2.4	4.8	2.3	13.1
	<u>\$ 167.7</u>	<u>\$ 174.7</u>	<u>\$ 125.2</u>	<u>\$ 27.4</u>	<u>\$ 8.2</u>	<u>\$ 13.9</u>

Notes

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

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

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

SHARES OUTSTANDING

During the six months ended June 30, 2024 and June 30, 2023, the weighted average number of shares used in calculating the basic and diluted net loss per share was 17,230,000 and 17,171,137, respectively. The Common Shares and Share Units (comprising of performance share units, restricted share units and deferred share units) outstanding and exercisable as at the following dates are shown below:

(weighted average exercise prices are presented in Canadian dollars)

	June 30, 2024	August 13, 2024
	Number	Number
Common Shares outstanding	17,258,364	17,264,864
Share Units		
Outstanding	526,210	504,350
Exercisable	15,052	—

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our unaudited 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. 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 the assessment of liquidity and going concern, warranty liability, revenue recognition, inventories and property, plant and equipment. The application of these and other accounting policies are described in note 3 of our annual consolidated financial statements and our MD&A, for the year ended December 31, 2023, filed on March 25, 2024. Actual amounts may vary significantly from estimates used. There have been no significant changes in accounting policies applied to the June 30, 2024 unaudited condensed consolidated interim financial statements and we do not expect to adopt any significant changes at this time.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," to enhance disclosures for significant segment expenses for all public entities required to report segment information in accordance with ASC 280. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Retrospective adoption is required for all prior periods presented in the financial statements. We plan to adopt the standard beginning with our 2024 annual consolidated financial statements. We are currently assessing the impacts of this ASU but expect it to impact disclosures with no impact to its operations, cash flows or financial position.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements in Income Tax Disclosures" to enhance the transparency and decision usefulness of income tax disclosures. This amendment requires public companies to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. Additionally, under the amendment entities are required to disclose the amount of income taxes paid disaggregated by federal, state and foreign taxes, as well as disaggregated by material individual jurisdictions. Finally, the amendment requires entities to disclose income from continuing operations before income tax expense disaggregated between domestic and foreign and income tax expense from continuing operations disaggregated by federal, state and foreign. The new rules are effective for annual periods beginning after December 15, 2024. We will adopt this standard on a prospective basis as allowed by the standard. We are currently assessing the impacts of this ASU but expect it to impact disclosures with no impact to its operations, cash flows or financial position.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the six months ended June 30, 2024, 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, R&D project cycles, timing of related government funding, impairment charges, restructuring charges, stock-based compensation awards and foreign exchange impacts. Net income and net loss has and can vary significantly from one quarter to another depending on operating results, gains and losses from investing activities, recognition of tax benefits and other similar events.

The following table provides summary unaudited consolidated financial data for the past years as comparison :

Selected Consolidated Quarterly Operations Data

Three months ended	30-Sep-22	31-Dec-22	31-Mar-23	30-Jun-23	30-Sep-23	31-Dec-23	31-Mar-24	30-Jun-24
<i>(in millions of U.S. dollars except for per share amounts)</i>								
Total revenue	\$ 71.2	\$ 78.0	\$ 82.2	\$ 85.0	\$ 77.4	\$ 87.2	\$ 77.6	\$ 83.4
Cost of revenue	\$ 59.9	\$ 73.5	\$ 68.9	\$ 70.6	\$ 64.2	\$ 79.2	\$ 65.9	\$ 66.3
Gross margin ¹	\$ 11.3	\$ 4.5	\$ 13.3	\$ 14.4	\$ 13.2	\$ 8.0	\$ 11.7	\$ 17.1
Gross margin percentage ¹	15.9%	5.8%	16.2%	16.9%	17.1%	9.2%	15.1%	20.5%
Net income (loss)	\$ (11.9)	\$ (16.9)	\$ (10.6)	\$ (13.2)	\$ (11.9)	\$ (13.9)	\$ (13.6)	\$ 5.8
EBITDA ¹	\$ (8.0)	\$ (13.5)	\$ (6.3)	\$ (10.1)	\$ (8.6)	\$ (10.9)	\$ (9.2)	\$ 9.0
Adjusted EBITDA ¹	\$ (4.5)	\$ (12.9)	\$ (4.5)	\$ (4.0)	\$ (3.0)	\$ (10.0)	\$ (6.6)	\$ (2.0)
U.S. dollar to Euro average exchange rate	0.99	0.98	0.93	0.92	0.95	0.92	0.92	0.93
U.S. dollar to Canadian dollar average exchange rate	1.31	1.36	1.35	1.34	1.35	1.35	1.35	1.37
Loss per share								
Basic	\$ (0.70)	\$ (1.00)	\$ (0.62)	\$ (0.77)	\$ (0.70)	\$ (0.81)	\$ (0.79)	\$ 0.34
Diluted	\$ (0.70)	\$ (1.00)	\$ (0.62)	\$ (0.77)	\$ (0.70)	\$ (0.81)	\$ (0.79)	\$ 0.33

Notes

(1) These financial measures or ratios are non-GAAP financial measures or ratios. See the section 'Non-GAAP Financial Measures' for explanations and discussion of these non-GAAP financial measures or ratios.

Non-GAAP Measures:

In addition to the results presented in accordance with U.S. GAAP, we used EBIT, EBITDA, Adjusted EBITDA, gross margin, gross margin as a percentage of revenue, net working capital, and non-current liabilities (collectively, the "Non-GAAP Measures") throughout this MD&A. We believe these non-GAAP measures provide additional information that is useful to stakeholders in understanding our underlying performance and trends through the same financial measures employed by our management. We believe that EBIT, EBITDA, and Adjusted EBITDA are useful to both management and investors in their analysis of our ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligations and fund capital expenditures. Management also uses these non-GAAP measures in its review and evaluation of the financial performance of the Company. EBITDA is also frequently used by stakeholders for valuation purposes whereby 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. We believe these non-GAAP financial measures also provide additional insight to stakeholders as supplemental information to our U.S. GAAP results and as a basis to compare our financial performance period-over-period and to compare our financial performance with that of other companies. We believe that these non-GAAP financial measures facilitate comparisons of our core operating results from period to period and to other companies by, in the case of EBITDA, removing the effects of our capital structure (net interest income on cash deposits, interest expense on outstanding debt and debt facilities), asset base (depreciation and amortization) and tax consequences. Adjusted EBITDA provides this same indicator of Westport's EBITDA from operations and removing such effects of our capital structure, asset base and tax consequences, but additionally excludes any unrealized foreign exchange gains or losses, stock-based compensation charges and other one-time impairments and costs that are not expected to be

repeated in order to provide greater insight into the cash flow being produced from our operating business, without the influence of extraneous events. Readers should be aware that non-GAAP measures have no standardized meaning under U.S. GAAP and accordingly may not be comparable to the calculation of similar measures by other companies. Non-GAAP 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.

Three months ended	30-Jun-23	30-Sep-23	31-Dec-23	31-Mar-24	30-Jun-24
Revenue	\$ 85.0	\$ 77.4	\$ 87.2	\$ 77.6	\$ 83.4
Less: Cost of revenue	70.6	64.2	79.2	65.9	66.3
Gross margin	\$ 14.4	\$ 13.2	\$ 8.0	\$ 11.7	\$ 17.1
Gross margin %	16.9 %	17.1 %	9.2 %	15.1 %	20.5 %

	June 30, 2024	December 31, 2023
<i>(in millions of U.S. dollars)</i>		
Accounts receivable	\$ 93.8	\$ 88.1
Inventories	56.4	67.5
Prepaid expenses	6.4	6.3
Accounts payable and accrued liabilities	(103.7)	(95.3)
Current portion of operating lease liabilities	(2.4)	(3.3)
Current portion of warranty liability	(4.4)	(6.9)
Net working capital	\$ 46.1	\$ 56.4

	June 30, 2024	December 31, 2023
<i>(in millions of U.S. dollars)</i>		
Total liabilities	\$ 181.6	\$ 195.3
Less:		
Total current liabilities	128.4	134.8
Long-term debt	26.4	31.0
Non-current liabilities	\$ 26.8	\$ 29.5

EBIT and EBITDA

Three months ended	30-Sep-22	31-Dec-22	31-Mar-23	30-Jun-23	30-Sep-23	31-Dec-23	31-Mar-24	30-Jun-24
Income (loss) before income taxes	\$ (11.0)	\$ (16.4)	\$ (9.7)	\$ (13.0)	\$ (12.0)	\$ (14.0)	\$ (12.9)	\$ 6.8
Interest expense (income), net ¹	0.2	0.1	0.4	(0.1)	0.2	(0.2)	0.5	0.5
EBIT	(10.8)	(16.3)	(9.3)	(13.1)	(11.8)	(14.2)	(12.4)	7.3
Depreciation and amortization	2.8	2.8	3.0	3.0	3.2	3.3	3.2	1.7
EBITDA	\$ (8.0)	\$ (13.5)	\$ (6.3)	\$ (10.1)	\$ (8.6)	\$ (10.9)	\$ (9.2)	\$ 9.0

Notes

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

Adjusted EBITDA

Three months ended	30-Sep-22	31-Dec-22	31-Mar-23	30-Jun-23	30-Sep-23	31-Dec-23	31-Mar-24	30-Jun-24
EBITDA	\$ (8.0)	\$ (13.5)	\$ (6.3)	\$ (10.1)	\$ (8.6)	\$ (10.9)	\$ (9.2)	\$ 9.0
Stock based compensation	0.8	0.2	0.7	0.8	(0.3)	1.4	0.3	1.2
Unrealized foreign exchange (gain) loss	2.7	0.4	1.1	2.4	1.4	(0.9)	1.8	0.1
Loss on extinguishment of royalty payable	—	—	—	2.9	—	—	—	—
Severance costs	—	—	—	—	4.5	—	0.5	0.2
Gain on deconsolidation	—	—	—	—	—	—	—	(13.3)
Restructuring costs	—	—	—	—	—	—	—	0.8
Impairment of long-term investments	—	—	—	—	—	0.4	—	—
Adjusted EBITDA	<u>\$ (4.5)</u>	<u>\$ (12.9)</u>	<u>\$ (4.5)</u>	<u>\$ (4.0)</u>	<u>\$ (3.0)</u>	<u>\$ (10.0)</u>	<u>\$ (6.6)</u>	<u>\$ (2.0)</u>