# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 40-F

**o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ý ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2018**

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**Commission file number: 001-34152**

# WESTPORT FUEL SYSTEMS INC.

(Exact Name of Registrant as Specified in its charter)

| **Alberta** | **3537** | **N/A** |
|---|---|---|
| (Province or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number (if applicable)) | (I.R.S. Employer Identification Number (if applicable)) |

**1750 West 75th Avenue, Suite 101**
**Vancouver, British Columbia, Canada V6P 6G2**
**(604) 718-2000**
(Address and telephone number of Registrant's principal executive offices)

**C T Corporation System**
**111 Eighth Avenue**
**New York, NY 10011**
**(212) 590-9070**

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Copies to:
**Steven B. Stokdyk, Esq.**
**Lewis W. Kneib, Esq.**
**Latham & Watkins LLP**
**355 South Grand Avenue, Suite 100**
**Los Angeles, CA 90071**

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

| **Title of Each Class:** | **Name of Each Exchange On Which Registered:** |
|---|---|
| **Common Shares, no par value** | **NASDAQ Global Select Market** |

Securities registered or to be registered pursuant to Section 12(g) of the Act: **N/A**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **N/A**

For annual reports, indicate by check mark the information filed with this form:

x Annual Information Form x Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As at December 31, 2018, 133,380,899 common shares of the Registrant were issued and outstanding.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. ý Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ý Yes o No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

## EXPLANATORY NOTE

Westport Fuel Systems Inc. (the "**Company**" or the "**Registrant**") is a Canadian issuer eligible to file its annual report pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), on Form 40-F pursuant to the multi-jurisdictional disclosure system of the Exchange Act. The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act. Equity securities of the Company are accordingly exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3.

## FORWARD-LOOKING STATEMENTS

This annual report on Form 40-F and the exhibits attached hereto contain forward-looking statements or information within the meaning of the United States Private Securities Litigation Reform Act of 1995. When used in this annual report on Form 40-F, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "project" and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. In particular, this annual report on Form 40-F and the documents incorporated by reference herein contain forward-looking statements pertaining to the following:

- our liquidity and going concern discussed in the audited consolidated financial statements of the Company filed as Exhibit 99.2 to this annual report on Form 40-F;
- our ability to integrate Westport High Pressure Direct Injection 2.0 into original equipment manufacture (" **OEM**") operations and to reach scalable volume deliveries;
- the future demand for Cummins Westport Inc. products and Company products;
- increasing penetration within our existing markets and expansion of those markets geographically;
- continuing growth in the transportation sector and in the natural gas engine market;
- our ability to successfully launch new technology and market initiatives, and integrate our products in to existing OEM products;
- our ability to exploit and protect our intellectual property;
- our capital expenditure and investment programs;
- the future desirability and use of natural gas as an alternative fuel;

- commodity prices and the fuel price differential between natural gas and diesel;
- ongoing relationships between us and our business partners and the results of our development programs with such partners;
- potential disputes regarding the rights and obligations of the parties which may in the future arise under our agreements with our strategic partners;
- our ability to continue to compete with our competitors and their technologies;
- the capital and operating costs of vehicles using our technologies relative to competing technologies;
- profit margins and production costs of engines incorporating our technologies;
- the further development of infrastructure supporting the application of natural gas as an alternative fuel;
- increasingly stringent environmental and emissions regulations in the future;
- our ability to attract and retain employees;
- demand for engines incorporating our technologies;
- the timing of commissioning of liquefied natural gas (" **LNG**") refueling stations;
- the ability of our products to adapt to the use of renewable natural gas (" **RNG**") and manufactured fuels, including hydrogen, as fuels;
- expansion of our product offerings and markets;
- our estimates and assumptions used in our accounting policies, and accruals, including warranty accruals, and financial condition;
- our adoption, timing and ability to meet certain accounting standards;
- our ability to predict if or when we will operate profitably or generate positive cash flows;
- our compliance with environmental regulations; and
- the alignment of our business segments.

Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in this annual report on Form 40-F and in the documents incorporated by reference herein and other unforeseen risks, including, without limitation:

- risks related to our liquidity and going concern discussed in the audited consolidated financial statements of the Company filed as Exhibit 99.2 to this annual report on Form 40-F;
- risks related to our financing agreement with Cartesian Capital Group, including, but not limited to failure to realize the anticipated benefits of the agreement;
- market acceptance of our products;
- product development delays and delays in contractual commitments;
- changing environmental regulations;
- the ability to attract and retain business partners;
- the success of our business partners and OEMs, with whom we partner;
- future levels of government funding and incentives;
- competition from other technologies;
- price differential between compressed natural gas, LNG and liquefied petroleum gas relative to petroleum-based fuels;
- limitations on our ability to protect our intellectual property;
- potential claims or disputes in respect of our intellectual property;
- limitations in our ability to successfully integrate acquired businesses;
- limitations in the development of natural gas refueling infrastructure;
- the ability to provide the capital required for research, product development, operations and marketing;
- unforeseen claims made against us;
- exposure to factors beyond our control through our international business operations, such as currency exchange rates, changes in governmental policy, trade barriers, trade embargoes and delays in the development of international markets for our products; and
- those risks discussed under the heading “Risk Factors” in the Annual Information Form (“ **AIF**”) of the Company filed as Exhibit 99.1 to this annual report on Form 40-F.

You should not rely on any forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this annual report on Form 40-F, except as otherwise required by law.

## CURRENCY

Unless specifically stated otherwise, all dollar amounts in this annual report on Form 40-F are in United States dollars. The exchange rate of Canadian dollars into United States dollars, based upon the closing rate of exchange on December 31, 2018 as reported by the Bank of Canada for the conversion of Canadian dollars into United States dollars, was U.S.$1.00 = Cdn.$1.36.

## ANNUAL INFORMATION FORM

The Company's AIF for the fiscal year ended December 31, 2018 is filed as Exhibit 99.1 and incorporated by reference in this annual report on Form 40-F.

## AUDITED ANNUAL FINANCIAL STATEMENTS

The audited consolidated financial statements of the Company for the years ended December 31, 2018, 2017 and 2016, including the report of the independent registered public accounting firm with respect thereto, are filed as Exhibit 99.2 and incorporated by reference in this annual report on Form 40-F.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's management's discussion and analysis is filed as Exhibit 99.3 and incorporated by reference in this annual report on Form 40-F.

## TAX MATTERS

Purchasing, holding or disposing of securities of the Company may have tax consequences under the laws of the United States and Canada that are not described in this annual report on Form 40-F.

## DISCLOSURE CONTROLS AND PROCEDURES

See Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2018, included as Exhibit 99.3 to this annual report on Form 40-F, under the heading "Disclosure Controls and Procedures and Internal Controls Over Financial Reporting".

## MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

See Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2018, included as Exhibit 99.3 to this annual report on Form 40-F, under the heading "Disclosure Controls and Procedures and Internal Controls Over Financial Reporting".

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

See the audited consolidated financial statements of the Company and notes thereto for the years ended December 31, 2018, 2017 and 2016, including the reports of the independent auditors with respect thereto, filed as Exhibit 99.2 to this annual report on Form 40-F, under the heading "Report of Independent Registered Public Accounting Firm".

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

See Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2018, included as Exhibit 99.3 to this annual report on Form 40-F, under the heading "Disclosure Controls and Procedures and Internal Controls Over Financial Reporting".

## AUDIT COMMITTEE

*Audit Committee*

The Company has a separately designated standing Audit Committee established in accordance with section 3(a)(58)(A) of the Exchange Act and Nasdaq Rule 5605(c)(2). On March 19, 2019, the Company's Audit Committee consists of Michele Buchignani, Brenda J. Eprile, Colin S. Johnston, Tony Harris, Scott Mackie and Wade Nesmith. Each member of the Audit Committee, in the opinion of the directors, is independent (as determined under Rule 10A-3 of the Exchange Act and Nasdaq

Rule 5605(a)(2)) and financially literate. Please refer to the Company's AIF attached as Exhibit 99.1 to this annual report on Form 40-F for details in connection with each of these members and their qualifications.

The members of the Audit Committee do not have fixed terms and are appointed and replaced from time to time by resolution of the directors.

The Audit Committee meets with the CEO, CFO and the Company's independent auditors to review and inquire into matters affecting financial reporting, the system of internal accounting and financial controls, as well as audit procedures and audit plans. The Audit Committee also recommends to the Board of Directors which independent registered public auditing firm should be appointed by the Company. In addition, the Audit Committee reviews and recommends to the Board of Directors for approval the annual financial statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations, and undertakes other activities required by exchanges on which the Company's securities are listed and by regulatory authorities to which the Company is held responsible.

The full text of the Audit Committee Charter is disclosed in the Company's AIF, attached hereto as Exhibit 99.1, and is incorporated by reference in this annual report on Form 40-F. The Audit Committee Charter is also available on the Company's website at www.wfsinc.com.

*Audit Committee Financial Expert*

The Company's Board of Directors has determined that Brenda J. Eprile qualifies as a financial expert (as defined in Item 407 of Regulation S-K under the Exchange Act) and is independent (as determined under Exchange Act Rule 10A-3 and Nasdaq Rule 5605(a)(2)).

**PRINCIPAL ACCOUNTING FEES AND SERVICES — INDEPENDENT AUDITORS**

Information about the Company's principal accounting fees and services can be found under "Principal Accountant Fees and Services" of the Company's AIF, attached hereto as Exhibit 99.1, which is incorporated by reference in this annual report on Form 40-F.

**PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY**

**INDEPENDENT AUDITORS**

The Audit Committee nominates and engages the independent auditors to audit the consolidated financial statements and approves all audit, audit-related services, tax services and other services provided by the Company's external auditors. Any services provided by the Company's external auditors that are not specifically included within the scope of the audit must be pre-approved by the Audit Committee prior to any engagement. The Chairman of the Audit Committee is permitted to pre-approve work undertaken by the Company's external auditors between Audit Committee meetings. All such approvals must be formally affirmed at the next compliance meeting, or if not approved, the services must be canceled immediately. The Audit Committee does not delegate to management its responsibilities to pre-approve services performed by the Company's external auditor.

**OFF-BALANCE SHEET TRANSACTIONS**

The Company does not have any off-balance sheet financing arrangements or relationships with unconsolidated special purpose entities.

**CODE OF ETHICS**

The Company has adopted a Code of Conduct (the "**Code**") for all its directors, executive officers and employees. The Code is available on the Company's website at www.wfsinc.com.

All amendments to the Code, and all waivers of the Code with respect to any of the officers covered by it, will be posted on the Company's website.

There have been no amendments, waivers or implicit waivers to the Code during the year ended December 31, 2018. Shareholders may submit a request online at the Company's website www.wfsinc.com for a free printed copy of the Code.

## CONTRACTUAL OBLIGATIONS

See Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2018, included as Exhibit 99.3 to this annual report on Form 40-F, under the heading "Contractual Obligations and Commitments".

## NOTICES PURSUANT TO REGULATION BTR

There were no notices required by Rule 104 of Regulation BTR that the Company sent during the year ended December 31, 2018 concerning any equity security subject to a blackout period under Rule 101 of Regulation BTR.

## NASDAQ CORPORATE GOVERNANCE

Our common shares are quoted for trading on the Nasdaq Global Select Market under the symbol WPRT. Nasdaq Rule 5615(a)(3) permits a foreign private issuer to follow its home country practice in lieu of the Nasdaq corporate governance requirements if such issuer, amongst other requirements, makes appropriate disclosure in its annual report filed with the SEC relating to each requirement of Rule 5600 that it does not follow including a brief statement of the home country practice it follows in lieu of such Nasdaq corporate governance requirements.

A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to Rule 5600 of the Nasdaq Rules is as follows:

Rule 5620(c) requires that each listed company provide for a quorum for any meeting of the holders of the listed company's common stock that is not less than 33 1/3% of the listed company's outstanding shares of common stock entitled to vote. The Company's bylaws provide for a quorum of at least two persons present in person and holding or representing by proxy not less than 25% of the shares entitled to vote at the meeting.

Rule 5605(d)(1)(D) requires that each listed company adopt a formal written compensation committee charter that specifies, among other things, the specific compensation committee responsibilities and authority set forth in Rule 5605(d)(3). The Company's Human Resources and Compensation Committee Charter does not specify the specific compensation committee responsibilities and authority set forth in Rule 5605(d)(3).

The foregoing is consistent with the laws, customs and practices in Canada and the rules of The Toronto Stock Exchange.

## UNDERTAKING

The Company undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the SEC's staff, and to furnish promptly, when requested to do so by the SEC staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

## CONSENT TO SERVICE OF PROCESS

The Company previously filed an Appointment of Agent for Service of Process and Undertaking on Form F-X with the SEC on November 26, 2018, with respect to the class of securities in relation to which the obligation to file this annual report on Form 40-F arises.

## EXHIBIT INDEX

The following exhibits have been filed as part of this annual report:

| Exhibit | Description |
|---|---|
| **Annual Information** | |
| 99.1 | Annual Information Form of the Company for the year ended December 31, 2018 |
| 99.2 | Audited consolidated financial statements of the Company and notes thereto for the years ended December 31, 2018, 2017 and 2016 together with the report of the independent registered public accounting firm thereon |
| 99.3 | Management's Discussion and Analysis for the year ended December 31, 2018 |
| **Certifications** | |
| 99.4 | Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 99.5 | Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 99.6 | Certificate of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.7 | Certificate of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| **Consents** | |
| 99.8 | Consent of KPMG LLP |
| **Exhibits** | |
| 101.1 | XBRL Interactive Data File |

## SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

**WESTPORT FUEL SYSTEMS INC.**

By: /s/ David M. Johnson
Name: David M. Johnson
Title: Chief Executive Officer

Date: March 19, 2019

# WESTPORT FUEL SYSTEMS
# ANNUAL INFORMATION FORM

## For the year ended December 31, 2018

1750 West 75th Avenue, Suite 101

Vancouver, British Columbia

V6P 6G2, Canada

T +1 604-718-2000

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www.wfsinc.com

## Effective Date: March 19, 2019

# Table of Contents


| | |
|---|---|
| CORPORATE STRUCTURE | 1 |
| FORWARD-LOOKING INFORMATION | 2 |
| CURRENCY | 2 |
| GENERAL DEVELOPMENTS | 3 |
| COMPANY OVERVIEW | 3 |
| MARKET OVERVIEW | 3 |
| STRATEGY | 4 |
| THREE YEAR HISTORY | 5 |
| MERGERS, ACQUISITIONS AND DIVESTITURES | 7 |
| BUSINESS OVERVIEW | 9 |
| OPERATING BUSINESS UNITS | 10 |
| DISCONTINUED OPERATIONS | 16 |
| INTELLECTUAL PROPERTY | 16 |
| COMPETITIVE CONDITIONS | 17 |
| HUMAN RESOURCES AND POLICIES | 18 |
| SOCIAL AND ENVIRONMENTAL POLICIES | 18 |
| DIVIDEND POLICY | 19 |
| DESCRIPTION OF CAPITAL STRUCTURE | 19 |
| MARKET FOR SECURITIES | 20 |
| DIRECTORS AND EXECUTIVE OFFICERS | 22 |
| DIRECTOR BIOGRAPHIES | 22 |
| EXECUTIVE OFFICER BIOGRAPHIES | 27 |
| FORMER DIRECTORS AND OFFICERS | 29 |
| SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS | 31 |
| CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS | 31 |
| CONFLICTS OF INTEREST | 32 |
| RISK FACTORS | 33 |
| AUDIT COMMITTEE MATTERS | 43 |
| NON-AUDIT SERVICES | 44 |
| PRINCIPAL ACCOUNTANT FEES AND SERVICES | 44 |
| LEGAL AND REGULATORY PROCEEDINGS | 44 |
| INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS | 45 |
| TRANSFER AGENT AND REGISTRAR | 45 |
| MATERIAL CONTRACTS | 45 |
| INTERESTS OF EXPERTS | 47 |
| ADDITIONAL INFORMATION | 47 |
| SCHEDULE "A" AUDIT COMMITTEE CHARTER | 48 |
| SCHEDULE "B" FORWARD LOOKING INFORMATION | 53 |

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# Corporate Structure

In this Annual Information Form ("**AIF**"), references to "Westport Fuel Systems","Westport", "the Company", "we", "us" and "our" refer to Westport Fuel Systems Inc., its subsidiaries and its joint ventures, collectively, unless the context otherwise requires.

Westport Fuel Systems governing corporate statute is the *Business Corporations Act* (Alberta). Our head office and principal place of business is at 1750 West 75th Avenue, Suite 101, Vancouver, British Columbia V6P 6G2. Our registered office is at 4500, 855 2nd Street SW, Calgary, Alberta T2P 4K7.

Westport has the following material subsidiaries:

1. Westport Power Inc., which is wholly-owned by Westport Fuel Systems and incorporated pursuant to the Business Corporations Act (British Columbia);
2. MTM S.r.l., an Italian corporation, which is an indirect subsidiary of Westport Fuel Systems;
3. Emer S.p.A, also an Italian corporation and indirect subsidiary of Westport Fuel Systems; and
4. Prins Autogassystemen B.V., a Netherlands corporation and indirect subsidiary of Westport Fuel Systems.

## Key Entities

A list of Westport Fuel Systems principal key entities and each of their jurisdictions of incorporation as of December 31, 2018 is set out below. Our legal structure (including that of our subsidiaries) is not necessarily indicative of our operational structure.

| KEY ENTITIES | | |
|---|---|---|
| Name | Voting Securities | Jurisdiction of Incorporation |
| Westport Fuel Systems | 100% | Canada |
| Westport Power Inc. | 100% | Canada |
| Westport Luxembourg S.a.r.l. | 100% | Luxembourg |
| Juniper Engines Italy S.r.l. | 100% | Italy |
| Emer S.p.A. | 100% | Italy |
| Valtek S.p.A. | 100% | Italy |
| Minda Emer Technologies Limited | 50% | India |
| Prins Autogas Holdings | 100% | Netherlands |
| Prins Autogassystemen B.V. | 100% | Netherlands |
| Westport Innovations (U.S.) Holdings Inc. | 100% | U.S.A. |
| Westport Fuel Systems (U.S.) Inc. | 100% | U.S.A. |
| Cummins Westport Inc. | 50% | U.S.A. |
| Westport Dallas Inc. | 100% | U.S.A. |
| Fuel Systems Solutions Inc. | 100% | U.S.A. |
| MTM. S.r.l. | 100% | Italy |
| TA Gas Technologies | 100% | Argentina |
| Rohan BRC Gas | 100% | India |
| Westport Innovations (Hong Kong) Limited | 100% | Hong Kong |
| Weichai Westport Inc. | 23.33% | China |

### Notes:

1. *The table shows the percentages of the votes attached to all voting securities, beneficially owned by us or over which control or direction is exercised by us, either directly or indirectly. Parent/subsidiary relationships are identified by indentations.*
2. *Entities not shown represent less than 10% of our total consolidated revenues and total consolidated assets (although not all entities shown necessarily each represent more than 10% of our total consolidated assets and total consolidated sales) and, if considered in aggregate as a single entity, represent less than 20% of our total consolidated revenues and total consolidated assets.*

# Forward-Looking Information

Certain statements contained in this Annual Information Form ("**AIF**") and in certain documents incorporated by reference in this AIF, constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "project" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. In particular, this AIF contains forward-looking statements which are outlined in Schedule "B" : Forward Looking Information.

# Currency

All dollar amounts set forth in this AIF are in U.S dollars unless specifically stated otherwise.

# General Developments

## Company Overview

### We are Driving Innovation to Power a Cleaner Tomorrow. And We Are Doing It Today.

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

Westport Fuel Systems is well positioned to increase revenues and market share as new stringent environmental regulations mandating greenhouse gas emission reductions have been introduced in key markets around the world. We are leveraging our market-ready products and customer base to capitalize on these opportunities. In addition to our significant operational competency in well-established transportation markets, our development of new technologies provides us a premier technology leadership position which is expected to drive future growth. Westport Fuel Systems has a track record of innovation, specialized engineering capabilities, and a deep patent portfolio resulting in a strong intellectual property position.

## Market Overview

Today, there are more than 50 million LPG, LNG and CNG vehicles globally, which accounts for approximately 4% market share of the total vehicles in service. The market for alternative fuels has historically been driven by economic and energy security considerations. Concerns over oil supply availability, costs of oil production, price levels and price volatility have all contributed to the demand for cleaner, low-carbon technology solutions for the transport sector. The acceptance of LPG, CNG and LNG vehicles depends in large part on the price differential between natural gas and LPG, versus diesel fuel and gasoline. Despite oil price volatility LPG, CNG and LNG have generally been, and currently are, less expensive than diesel fuel in many jurisdictions. This price differential is affected by many factors, including changes in the resource base for natural gas compared with crude oil, availability of shale oil and shale gas, pipeline transportation capacity for natural gas, refining capacity for crude oil, exports for refined products, and government excise and fuel tax policies.

Global trends in greenhouse gas ("GHG") emission reduction regulations and increasingly stringent urban air quality requirements are also driving the adoption of alternative fuel vehicles. The Paris Climate Agreement (the "PC Agreement") signaled a strong call to action with 195 countries committing to GHG emissions reductions over the next 15 years. The PC Agreement has the central aim to strengthen the global response to the threat of climate change by keeping a global average temperature rise this century to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to further limit the temperature increase to 1.5 degrees Celsius.[1]

In response to documented health concerns arising from urban air pollution and the role of transportation, many jurisdictions have introduced new regulations that place certain restrictions on the use of high emission vehicles (both gasoline and diesel) and offer preferred access for next-generation low-emission vehicles. Currently these regulations cover passenger and delivery vehicles and while blanket bans on diesel vehicles have not been imposed, there are regions implementing aggressive policies to restrict their use. As an example, the European Commission has proposed setting CO2 emission standards for heavy-duty vehicles in the European Union (“EU”). The proposed targets for average CO2 emissions from new heavy-duty vehicles, using 2019 as the baseline year, would be 15% lower in 2025 and 30% lower in 2030. This proposal is expected to be enacted into EU law in April 2019.

The degree to which we are able to realize the targets for the transport sector and diversify beyond oil will be a function of technology breakthroughs on both fuels and vehicles, political action, shifting demographics, and a range of new public policy considerations that will influence how people and freight are moved, and how and where we live. Achieving deep reductions in GHG emissions and fossil fuel consumption remains a challenge, but this challenge also presents an opportunity for leadership.

Virtually all individuals and companies use vehicles, fleets, and other modes of transportation to get work done. With our current market-ready product portfolio, brand value, and geographic reach in key markets, Westport Fuel Systems is currently delivering viable commercial and environmental solutions to the marketplace.

## Notes:

*1. Paris Agreement, Article 2, 1(a), https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf.*

# Strategy

## 1) Offer a Range of Products for Diverse Applications and Markets

Westport Fuel Systems sells alternative fuel systems and components to more than 20 global OEMs and to aftermarket customers in more than 70 countries. Products designed by Westport Fuel Systems are sold through local distributors or directly to OEMs under 10 well-recognized and well-established brands. Our breadth of reach includes passenger car, light-, medium- and heavy-duty truck, cryogenic, and hydrogen markets.

We continue to pursue strategic technological investments which advance our products and capabilities to maintain our market leadership position. We have been able to optimize our industry-leading portfolio by offering full systems and conversions, in addition to stand-alone components. Our global footprint allows us to leverage capabilities to better serve customers through product localization and after-sales support. By partnering with OEMs, we can further leverage the manufacturing, distribution, sales, and aftermarket service capabilities driving economies of scale through our business system.

We direct our commercialization efforts in regions where market conditions provide an environment to foster greater LPG, CNG, LNG or RNG vehicle sales penetration. These regions generally have conditions that serve to promote the shift to alternative fuel for transportation, including but not limited to: i) a favourable LPG, CNG, LNG or RNG fuel price differential compared to petroleum-derived fuels; and ii) policies and regulations for either GHG mitigation, urban air quality, or energy security purposes that either mandate alternative fuels or promote their use.

## 2) Provide Market-Ready Solutions for Urgent Environmental Challenges

Transportation accounts for about 23% of global GHG emissions.[1] Compared to other primary energy use sectors, including industry and buildings, transportation is the most difficult to decarbonize because of the challenge of economically replacing the energy density of fossil fuels.

Our alternative fuel expertise has made us an attractive partner for customers needing market-ready, commercially-available solutions to meet increasingly stringent regulatory frameworks. The networks of aftermarket dealers and installers, taxi companies, personal transportation, transit and shuttle bus companies, conventional truck and tractor fleets, refuse collection trucks, delivery fleets, and other specialty vehicles in Europe, Asia, and North America are among the largest customers for our clean products.

Renewable natural gas ("**RNG**") or biomethane is transportation grade natural gas producted from non-geologic sources. Feedstocks for RNG include landfill gas, municipal solid waste, waste water treatment plants, or agricultural manure, or power-to-gas applications that avoid the land use challenges of other biofuels and supporting growth in the circular economy. In the case of these alternative natural gas feedstocks, substantial carbon intensity reductions can be achieved because turning these waste products into transportation fuel eliminates direct emissions of carbon dioxide ("**$CO_2$**") and methane that occur naturally and without any end-use benefit. One of the key attributes of natural gas vehicles is "fuel flexibility" meaning natural gas vehicles can operate with any blend of renewable and geologic gas from 0% to 100% RNG.

## 3) Maintain a Premier, Leading Technology Position

Westport Fuel Systems has both significant operational competency and a leading technology position related to alternative fuel systems and components for transportation applications, using LPG, CNG, LNG and RNG. We believe the combination of our considerable investment in research and development and team of world-class engineers is responsible for unique innovative solutions and differentiated intellectual property that allows us to attract and partner with leading global engine OEMs in the transportation space.

Our global patent portfolio has been pivotal to our market-leading position and it continues to serve as a significant barrier to new entrants. In order to maintain our technology leadership, we explore product improvements and new product opportunities in each of the segments we serve to ensure that our portfolio evolves to meet market dynamics. We expect to expand our intellectual property portfolio as we file new patents to capture value generated by new technological advances. We also believe that our gaseous-fueled engine technologies, cryogenic fuel systems, and experience will allow us to exploit opportunities that may arise related to emerging low-carbon fuels such as synthetic gas and hydrogen.

Westport Fuel Systems has established several strategic partner relationships with key automotive, engine and truck OEMs, and fueling infrastructure providers. These relationships provide strategic value to Westport Fuel Systems by enhancing our global market access and distribution channels to better service our customers and end users.

## Notes:

1. *Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter8.pdf*

# Three Year History

## Recent History of Announced Product News

### 2018

On September 26, 2018, Cummins Westport Inc. ("**CWI**") announced that an independent third-party study on the Cummins Westport ISX12N 400 hp natural gas engine has demonstrated that the engine meets or exceeds the Air Resources Board ("**ARB**") in California's optional Low NOx standard of 0.02 g/bhp-hr.

On August 28, 2018, the Company announced that it has entered into definitive development and supply agreements with Weichai Westport Inc. to develop, market and commercialize a heavy-duty, natural gas engine featuring the Westport HPDI 2.0™ technology, based on one of Weichai Power Co., Ltd's heavy-duty engine platforms.

On March 8, 2018, the Company announced a critical technology advancement that allowed its natural gas high pressure direct injection ("**HPDI**") system to support the efficiency improvements anticipated from higher peak cylinder pressure ("**PCP**").

On January 4, 2018, CWI announced that it had received certifications from both the U.S. Environmental Protection Agency ("EPA") and ARB in California for its 2018 ISX12N natural gas engine.

On January 2, 2018, the Company announced it had entered into a development and supply agreement with Tata Motors Limited ("**Tata Motors**") for their 4 cylinder and 6 cylinder natural gas spark ignited commercial vehicle engine family to meet the Indian Government's new BS-VI emission standards, scheduled to take effect in April of 2020.

### 2017

On December 22, 2017, the Company announced it signed a non-binding Memorandum of Understanding with Weichai Power Co., Ltd.to finalize the development, marketing, and commercialization of Westport high pressure direct injection ("**Westport™ HPDI**") technology in China.

On December 13, 2017, CWI announced that it had received certifications from both the U.S. EPA and CARB for its 2018 L9N and B6.7N natural gas engines.

On October 31, 2017, the Company announced that BRC Gas Equipment ("**BRC**") was awarded a competitive tender bid by Algeria's National Company for Petroleum Products Marketing and Distribution to supply 40,000 LPG sequential injection systems to be delivered into the growing Algerian market in 2018.

On June 9, 2017, the Company announced that Suzuki Italia S.p.A. chose the BRC LPG system to expand its bi-fuel vehicle offering.

On June 5, 2017, the Company announced the publication of a new study by Natural & bio Gas Vehicle Association ("**NGVA**") Europe that quantified the GHG emission reduction benefits of natural gas for light duty and heavy duty transportation.

On May 1, 2017, CWI announced its model year 2018 dedicated natural gas engines for regional haul truck / tractor, vocational and transit, school bus, and refuse applications.

On April 12, 2017, Prins and BRC were awarded with the Inpro Innovation award at the International GasShow in Warsaw, Poland for their VSI Dual Injection technology and 'EMV' electronic LPG tank multivalve, respectively.

## 2016

On December 8, 2016, CWI announced that its ISB6.7 G, 6.7 litre midrange, factory built natural gas engine was fully available as a production engine for shuttle bus, medium duty truck, and vocational applications in North America.

On November 28, 2016, the Company announced that its Westport™ WiNG product line has received certification from the U.S. EPA for its Westport WiNG™ Power System on multiple 2017 model year Ford Motor Company ("Ford") products and streamlined the supply chain through a Ford-approved ship-thru process on the F-150, F-250/350 and transit vehicles, reducing transportation costs and simplifying the ordering process.

On October 13, 2016, CWI announced that orders were being processed and production of the ISL G ("ISL G") Near Zero ("NZ") NOx natural gas engine had commenced. The ISL G NZ is the first medium duty engine in North America to receive emission certification from both the U.S. EPA and CARB to meet the optional 0.02 g/bhp-hr. NZ NOx Emissions standards eight years in advance of the 2023 California NZ NOx schedule and contributing to California Clean Air initiatives.

On September 27, 2016, the Company announced the signing of a new multi-year agreement between a distributor of Westport Fuel Systems and Honda Turkey to supply LPG systems for the new Civic ECO model that would be launched in October 2016.

On August 23, 2016, the Company confirmed its next generation natural gas engines and vehicles, including Westport HPDI 2.0™ and Enhanced Spark Ignition technologies, comply with the announced U.S. EPA and the Department of Transportation's National Highway Traffic Safety Administration Phase 2 GHG emissions and fuel efficiency standards for medium- and heavy-duty vehicles.

On June 17, 2016, IMPCO Technologies, Inc., a released a new Heavy-Duty/Light Weight Rail Auxiliary Power Unit developed in collaboration with the railroad industry expert Canadian Environmental Technologies ("CET").

On May 18, 2016, the Company announced it had received certification from the CARB for the dedicated CNG Westport WiNG™ Power System used in the Ford Transit Cargo Van and Passenger Wagon, and the F-150 pickup truck for model year 2016.

# Recent History of Announced Corporate Matters

## 2019

On February 4, 2019, the Company announced the resignation of Michael J. Willis as Chief Financial Officer. Jim MacCallum, Vice-President, Finance and Corporate Controller, was named Acting Chief Financial Officer.

On January 15, 2019, the Company announced the appointment of David M. Johnson as Chief Executive Officer and that Nancy S. Gougarty, Westport Fuel Systems' prior Chief Executive Officer, was retiring from the Company and stepped down from the Board.

## 2018

On May 31, 2018, the Company announced the appointment of Michael J. Willis as Chief Financial Officer ("CFO") effective June 11, 2018. Ashoka Achuthan, Westport Fuel Systems prior CFO, stepped down from his position.

On March 19, 2018, the Company announced the appointment of Michele Buchignani to the Company's Board of Directors, effective March 16, 2018.

## 2017

On December 13, 2017, the Company announced that it signed a $20 million secured term loan agreement with Export Development Canada (**EDC**") to support the commercial launch of the Westport HPDI 2.0™ program.

On December 1, 2017, CWI announced changes to its board of directors and management in accordance with the terms of the 50/50 Joint Venture Agreement between Cummins Inc. and Westport Fuel Systems.

On July 28, 2017, the Company announced the exercise of the underwriters' option from its previously announced offering (the **Offering**") to purchase an additional 2,425,000 Common Shares at the Offering price of $1.50 per share. With the exercise of the option, Westport Fuel Systems issued a total of 19,125,000 Common Shares under the Offering for gross proceeds of $28,687,500.

On July 16, 2017, the Company announced the closing of the Offering of 16,700,000 Common Shares at a price of US$1.50 per share, for gross proceeds of $25,050,000.

On July 14, 2017, the Company announced the pricing of its offering of Common Shares in the United States.

## 2016

On November 7, 2016 the Company announced that effective at the opening of trading on Thursday, November 10, 2016, shares of Westport Fuel Systems would commence trading on the Toronto Stock Exchange ("**TSX**") under the symbol "**WPRT**".

On September 26, 2016, the Company announced that Scott R. Mackie, President of Qualitor Inc.'s International Brakes Industries division, a leading diversified supplier of safety and wear parts for the automotive aftermarket, had been appointed to the Board of Westport Fuel Systems. In connection with this appointment, Dr. Dezso J. Horvath, one of Westport Fuel Systems directors, stepped down from the Board.

On July 22, 2016, the Company announced the appointment of Nancy S. Gougarty as CEO and that David R. Demers, Westport Fuel Systems prior CEO, had retired from the Company.

On April 20, 2016, the Company announced that it sold a derivative economic interest in its Hong Kong holding company, Westport Hong Kong Ltd. ("**Westport HK**"), to Cartesian Capital Group ("**Cartesian**") for an upfront payment of $6.3 million plus a potential future payment based on Cartesian's return on investment. Westport had previously announced its plans to enter into an asset sale transaction with Cartesian and its affiliates in a press release dated January 11, 2016.

On January 11, 2016, the Company announced that it entered into an agreement with Cartesian ("**the Cartesian Agreement**") for up to $71.3 million in financing to support global growth initiatives. The financing agreement immediately provided $17.5 million in non-dilutive capital with additional capital contingent on reaching key milestones and establishing new investment opportunities. The financing package included a contingent payment (derived substantially from future HPDI product sales), a convertible note, non-core asset sales, and incremental funding capacity to support future product development. As part of the Cartesian Agreement Peter Yu, Managing Partner and Founder of Cartesian, was appointed to Westport's Board.

# Mergers, Acquisitions and Divestitures

Significant acquisitions and divestitures in the last three fiscal years are listed below.

## 2018

On July 25, 2018, the Company announced that it had completed the sale of its CNG compressor business to Snam S.p.A. ("**Snam**"), a leading European gas utility company, for total proceeds of 12.3 million Euro, net of a 500,000 Euro holdback to be released upon fulfillment of an independent audit process.

## 2017

On June 1, 2017, the Company announced the closing of the sale of assets related to its IMPCO Industrial business for a total of $17.5 million. Net proceeds to the Company at closing were approximately $15 million, after adjusting for estimated net working capital, transaction costs, hold back amounts and other deal related expenses.

On May 1, 2017, the Company announced the sale of the assets of its IMPCO Industrial APU business. Net proceeds to the Company at closing were approximately US$60 million, after adjusting for estimated net working capital, transaction costs, hold back amounts and other deal related expenses.

## 2016

On August 22, 2016, and through subsequent corrective disclosure, the Company announced that it entered into agreements to sell an interest in the WWI joint venture for gross proceeds of 48.2 million RMB (approximately $7.2 million) to Weichai and Guanya (Shanghai) Private Equity Partnership (Limited Partnership). Associated with the sale, Westport Fuel Systems would receive a dividend payment of 23.8 million RMB (approximately US$3.5 million) from the joint venture, generating total gross proceeds of 72.0 million RMB (approximately $10.7 million).

On August 1, 2016, the Company announced initial post-Merger actions targeted at consolidating operations and driving efficiencies while maintaining an ability to deliver OEM customer programs on schedule. Included in these efforts was the sale of non-core assets that unlock invested capital without disrupting delivery of OEM customer programs. Specifically, the Company completed the sale of its Michigan Tech Center assets located in Plymouth, Michigan for a total value of over $12 million. Of the total, $11.5 million was received in cash with the remaining amount received as in-kind strategic value including access to test cells, facility space, and other supporting equipment.

On June 1, 2016, the Company announced the completion of the Merger between Westport Innovations and Fuel Systems Solutions. Shareholders of both companies approved the Merger at separate special meetings of shareholders. Fuel Systems shareholders received 2.4755 Westport Common Shares for each share of Fuel Systems common stock owned. Westport filed a business acquisition report in respect of the Merger on August 12, 2016, which was revised by an amended business acquisition report filed on July 13, 2017.

On April 20, 2016, the Company sold a portion of its economic interest in Westport HK to Cartesian, a related party, for an upfront payment of $6.3 million plus a potential future payment based on Cartesian's return on investment.

On March 18, 2016, the Company announced that it held its Special Meeting of Shareholders in Vancouver, British Columbia and its shareholders had approved all resolutions presented in relation to the Merger.

On March 7, 2016, the Company announced that it signed an Amendment to the Agreement and Plan of Merger in relation to the Merger. The exchange ratio was amended to include a collar mechanism based on the NASDAQ volume weighted average price of the Company Common Shares.

# Business Overview

Westport Fuel Systems is the premier global organization for the engineering, manufacturing, and supply of alternative fuel systems and components for transportation applications. We believe gaseous fuels such as natural gas, propane, RNG, and hydrogen provide the best near-term alternative to petroleum-derived fuels in many applications, offering compelling environmental, economic, and energy security benefits.

## Our Brands

## Alternative Fuel Capabilities




## Broad Applications




Our products and services cover broad transportation market segments including passenger car, light-, medium- and heavy-duty truck, cryogenic and hydrogen applications. Through the Westport Fuel Systems family of brands and an extensive distribution network, we serve customers in more than 70 countries. We are well positioned to benefit from the transportation industry's shift towards alternative fuel sources.

# Operating Business Groups

Since January 2018, the Company has operated its business through three segments: Transportation, CWI Joint Venture and Corporate. The revenue for the two (2) most recent fiscal years and the principal focus of the segments is summarized below.

| OPERATING BUSINESS GROUPS REVENUE | | |
|---|---|---|
| *(Expressed in millions of dollars)* | **12/31/2018** | **12/31/2017** |
| Transportation (consolidated)[1] | $ 270.3 | $ 229.8 |
| CWI (non-consolidated) | $ 319.4 | $ 317.3 |

Prior to 2018, the Company operated its business through three segments: Automotive, Corporate and Technology Investments, and the CWI Joint Venture.

Effective January 2018, commensurate with the commercial launch of Westport HPDI 2.0™, the company restructured its business segments to allow for further integration of product offerings. The Westport HPDI 2.0™ product line and all other technology related activities previously reported under the Corporate & Technology segment were combined with the Automotive business segment and renamed Transportation.

## Notes:

1. *The company has modified information from 2017 to exclude the revenue from the CNG Compressor business which has been recoded as discontinued operations with effect from the second quarter of 2018.*

# Transportation

The Westport Fuel Systems Transportation group designs, manufactures, tests, certifies, and sells alternative fuel (CNG, LNG, LPG and hydrogen) components and systems for the passenger car and light-, medium- and heavy-duty truck, cryogenics, and hydrogen applications. We have a strong customer base in Europe, the Americas, Asia, and a growing presence in Africa. Products are either sold through a local distributor/dealer network and conversion centers (Independent Aftermarket), directly to the Original Equipment Manufacturer (OEM), or through delayed OEM (DOEM) programs. Through these channels, we supply a large number of systems and components to global OEMs including Volkswagen, Tata Motors, GAZ Group ("**GAZ**"), FCA, General Motors, Ford, Maruti Suzuki, Honda, Hyundai, Scania, Kia, Mitsubishi, Nissan, Piaggio, Ssangyong and Weichai.

Our capabilities include the research and development of complete, in-house solutions for CNG, LPG, LNG and hydrogen fuel systems including engine management, applications, and certification. Our team has the specialized technical knowledge and engineering talent that can conceive, prototype, demonstrate, and commercialize next generation gaseous fueled automotive OEM and aftermarket technologies.

Our portfolio of products includes pressure regulators, injectors, electronic control units, valves and filters, complete bi-fuel, mono-fuel and dual-fuel LPG and CNG conversion kits and high pressure hydrogen components. Our product portfolio also includes Westport HPDI 2.0™, a complete fully-OEM-integrated system that enables heavy-duty trucks to operate on natural gas.

## PRODUCTS

### Independent Aftermarket

The world market of LPG/CNG conversion kits is estimated to be in excess of 1 million units per year and Westport Fuel Systems is recognized as a leader, with roughly 30% market share. Our rich portfolio of independent aftermarket products, conversion kits and components allow for the conversion of vehicles after they have been sold to the end-user through an extensive network of dealers and installers.

Our diverse and complete product offerings sold under various recognized brands including BRC, Prins, Zavoli, OMVL, TA Gas Technology and Valtek and range from premium to value solutions, allowing us to support a broad spectrum of independent aftermarket business. Our primary markets include Italy, Russia, Turkey, Poland, Algeria, and Argentina.

## DOEM Vehicle Solutions

Westport Fuel Systems provides DOEM solutions to address local market needs when a global alternative fuel vehicle platform is not available. The DOEM model is an opportunity for OEMs and their channels to increase local market share in countries with relevant alternative fuel presence with a shorter time to market, higher flexibility in tracking market demand and the ability to offer an extension of an LPG/CNG model range without requiring typical OEM investments.

We offer a turnkey solution covering all process phases from development to prototype, calibration, validation, homologation, vehicles conversion and logistic services. Vehicle conversions are performed inside DOEM conversion centers (at 0km) directly operated by Westport Fuel Systems or in cooperation with local distributors or dealers.

- The main BRC DOEM clients are Kia, Hyundai, Nissan,Mitsubishi, Suzuki, and Ssangyong. The conversion of the cars is completed in our Cherasco, Italy facility. BRC also provides this solution for Honda Turkey, and the conversion of the Honda Civic ECO is integrated inside the Honda Turkey factory.
- The Sequent Plug & Drive system is one of the most successful LPG injection systems for port injection engines produced by BRC and sold to several other DOEM and OEM customers worldwide. BRC also provides SDI 2.0 and LDI systems, especially designed and developed for the latest direct injection engines.
- As a leading developer and installer in Ford's QVM North American program, the Westport brand has the largest line-up of Ford alternative fueled vehicles. Sold under the Westport WiNG™ Power System product brand, the bi-fuel and dedicated CNG and LPG systems are developed and engineered at our Dallas, Texas production facility. The WiNG System undergoes the same rigorous testing for safety and durability required for all Ford OEM products.
- Prins Autogassystemen in the Netherlands is offering its bi-fuel VSI-2.0 LPG system to several customers through their distributors. Its Direct LiquiMax ("**DLM**") system is sold to Ford in Poland and Hyundai in Germany. The Prins DLM system is a bi-fuel LPG system using liquefied LPG for direct injection motor engines achieving highest efficiency in terms of fuel use and lowest emission exhaust including CO2 and particles.

## OEM

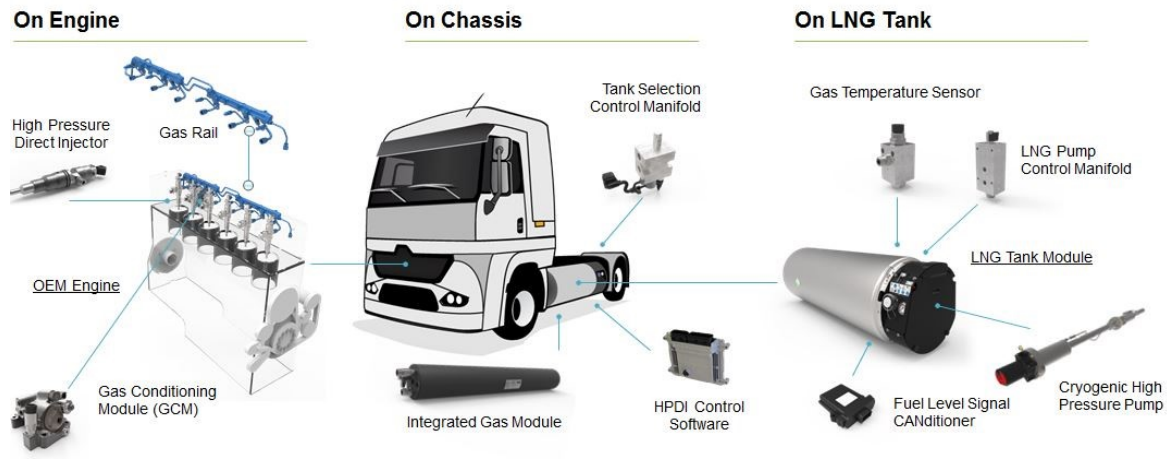
Westport Fuel Systems engineer, design, and build LPG and CNG components and systems including pressure regulators, injectors, electronic control units, valves, filters and complete bi-fuel, mono-fuel and dual-fuel LPG and CNG conversion kits. Our OEM products are sold under the Emer and BRC brands. In addition, the BRC Electronic Division provides EMS electronic boards and complete EMS solutions to not only Westport Fuel Systems companies, but also external clients in the automotive, industrial, marine, and other sectors.

In the medium-duty segment, we serve clients such as YaMZ, Tata Motors and Mahindra. YaMZ is the powertrain division of GAZ in Russia and is a leading manufacturer of diesel and CNG engines, powering Liaz, Paz, Ural and Gaz vehicles. The YaMZ CNG 530 engine family includes a 4.4 liter 4-cylinder and a 6.6 liter 6 cylinder. Both engines are equipped with Westport Fuel Systems engine management, complete fuel systems and off engine high pressure components.

We have also recently expanded our alternative fuel product offering to develop and supply hydrogen fuel system components to our OEM partners. This is a fundamental milestone on the path to support the growing interest for fuel-cell powered vehicles. It is anticipated that our experience in this sector may allow Westport Fuel Systems to leverage our relationships with OEMs to offer light, medium and heavy duty 350 bar and develop 700 bar hydrogen technology and other hydrogen fuel control components and solutions covering a complete spectrum of alternative fuel systems.

Westport HPDI 2.0™ is a complete fully-OEM-integrated system that enables heavy-duty trucks (with more than 400 horsepower engines) to operate primarily on natural gas. As the only natural gas technology that delivers performance and efficiency equivalent to that of current high-performance diesel-fueled engines while significantly reducing GHG emissions, Westport HPDI 2.0™ provides global OEMs a vertically integrated solution with attractive price, performance, and fuel economy. Developed and validated to rigorous OEM standards, Westport HPDI 2.0™ can be integrated into diesel engines of approximately 10 litres or higher displacement with minimal mechanical change.

For Westport HPDI 2.0™, we completely re-designed our cryogenic tank and pump products for reduced cost, improved quality and durability and minimum space claim on the vehicle compared to the original HPDI 1.0 system. Rigorous validation and durability testing has been carried out including bonfire, vibration, drop and rifle shot tests. The tank modules have passed shaker table testing that correlates to approximately 1,250,000 km of real world driving conditions.




In 2017, we began commercial sales for Westport HPDI 2.0™ components to our OEM launch partner, a leading global vertically integrated heavy-duty truck manufacturer, who in 2018 launched commercial trucks incorporating Westport HPDI 2.0™ technology in Europe. Westport HPDI 2.0™ was initially rolled out in Europe in response to strong partner and customer demand and a rapidly expanding network of LNG stations.

In 2018, we signed development and purchase agreements with Weichai Westport Inc. ("WWI") to develop, market, and commercialize a heavy-duty, natural gas engine featuring the Westport HPDI 2.0 technology, based on one of Weichai Power Co. Ltd.'s heavy-duty engine platforms. The new natural gas engine will be certified to meet China VI emissions standards and is expected to be launched in the second half of 2019.

# DEVELOPMENT AND PRODUCTION

Development and production activities for the Transportation group are located in Italy, Argentina, Canada, India, the Netherlands, and the United States. Most of our production is localized in many continents across the globe to assure a high level of service and local quality products. Certain plants and related processes are certified to ISO 9001 and ISO TS 16949. Certain facilities are also certified to ISO 14001 in accordance with OEM supply agreements.

Westport Fuel Systems research and development centers include high quality infrastructure and test laboratories for components (flow and pressure test benches, climatic, thermal, low temperature and shock chambers, shakers, salt spray test machines for components endurance), as well as several modern and innovative chassis and engine dynos to develop and test engines and vehicle emissions.

## Europe

Production activities are carried out in several plants located in Italy which have automatic assembly lines, sophisticated lathes, milling and cutting equipment, robots to perform machining and assembly of critical electronic components, and automatic testing capabilities. In the Netherlands, products are assembled and packaged in Eindhoven facilities which are NEN-EN-ISO-9001:2008 certified.

## India

Minda Emer Technologies Limited, is a 50/50 joint venture between Minda Group and Emer Ltd., an affiliate of Westport Fuel Systems Inc., committed to jointly marketing and/or producing certain LPG and CNG alternative fuel systems and products in India, Bhutan, Sri Lanka and Nepal.

Rohan BRC has been operating in the growing CNG Indian market for several years, offering a localized supply of CNG pressure regulators, injectors, engine control units and solenoid valves, as well as a DOEM CNG conversion program, making it a flexible and appreciated partner for the major customers of one of world's leading alternative fuel markets.

## North America

Westport Fuel Systems performs the conversion of Ford alternative fueled vehicles with bi-fuel and dedicated (mono-fuel) CNG and LPG systems at our Dallas, Texas facility. In Kitchener, Ontario, we produce light, medium and heavy duty 350 bar and develop 700 bar hydrogen technology and other hydrogen fuel control components and solutions covering a complete spectrum of alternative fuel systems. In Calgary, Alberta we design, develop and manufacture electronic control modules and engine management software for spark ignited natural gas engines.

The development center for HPDI 2.0™ is located in Canada with production performed in Italy alongside key partners across Europe and the United States. To ensure capacity, high level of service and quality, and intellectual property protection, we have invested capital into our facilities and our partner's facilities. Our partners are certified in accordance with automotive OEM standards such as ISO 9001 and ISO TS 16949. Certain facilities are also certified to ISO 14001, in accordance with OEM supply agreements, to meet specific customer and automotive requirements and enable us to supply to the market for future OEMs.

All manufacturing planning activities and current customer management for Westport HPDI 2.0™ are coordinated from the Netherlands, allowing rapid response to customer demand including a 24-hour support system with the research and development center in Canada. Our Emer facility located in Italy, which supports numerous light- and medium-duty OEM customers, also assembles LNG tanks on a build to order system to serve Westport HPDI 2.0™ customer requirements, as well as future needs for tanks and cryogenic system needs.

## South America

In Buenos Aires, CNG reducers, valves and injectors branded TA Gas Technology are manufactured and distributed in Argentina, Brazil, Perù, Colombia, Bolivia and Mexico.

# PRODUCTS UNDER DEVELOPMENT

## High Efficiency Spark Ignited ("HESI") Natural Gas System

Westport Fuel Systems' proprietary HESI technology is designed to provide vehicle and engine OEMs with a natural gas solution that exceeds the power and torque of the diesel engine upon which it is based. This allows for engine downsizing resulting in a smaller, lighter, more powerful, more fuel efficient and lower emissions package. Using 100% dedicated natural gas as fuel, this technology optimizes the combustion system and thermal management of the engine by taking full advantage of the ultra-high octane performance fuel properties of natural gas. Developed to meet the highest level of OEM quality standards, Westport's new combustion system and components have undergone performance and durability testing to offer ready integration into OEM applications globally.

## Higher Pressure HPDI System

Westport Fuel Systems has undertaken research and development in technology advancements to allow natural gas HPDI systems to take advantage of the efficiency and performance improvements anticipated from higher peak cylinder pressure expected to be introduced into next generations of diesel engine platforms.

## Conformable CNG Storage

Large CNG cylinders can be a barrier to natural gas vehicle adoption when on-board space is at a premium and range requirements are high. Westport's conformable CNG tank combats this by providing a shapeable CNG fuel storage solution that uses conventional composite materials to produce a space-efficient, tough, lightweight and low-cost storage solution for CNG vehicles. We are currently working with an OEM and a manufacturing partner to develop the concept for a light-duty truck platform.

## Cryogenic Pump

For applications such as mining, rail, marine, and oil & gas, current cryogenic pump options available in the market today are bulky, expensive, unreliable and do not provide instant fueling on startup. Our high-horsepower P200 cryogenic pump has been developed to overcome these problems and has met the required validation for structural and durability factors equivalent to over 10,000 hours of operation.

# CWI Joint Venture

CWI, our 50/50 joint venture with Cummins, Inc. ("**Cummins**"), serves the medium and heavy-duty on highway engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles, such as short-haul port drayage trucks, concrete mixers and street sweepers. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty commercial vehicle market. All CWI natural gas engines are dedicated 100% natural gas engines. The fuel for CWI engines can be carried in tanks on the vehicle as CNG or LNG. All engines are also capable of operating on up to 100% RNG.

CWI is a Delaware corporation owned 50% by WPI, a wholly-owned subsidiary of Westport, and 50% by Cummins. The board of directors of CWI is comprised of three (3) representatives from each of Westport and Cummins. On February 19, 2012, Westport, Cummins and CWI entered into a Second Amended and Restated Joint Venture Agreement ("**Amended JVA**") governing the operations of CWI which amended the focus of CWI's future product development investments to North American markets, including engines for on-road applications between the displacement range of 5.9 litres through 12 litres, and to have these engines manufactured in Cummins' North American plants.

The purpose of the CWI joint venture is to engage in the business of selling, marketing and developing SI natural gas or propane engines for on-highway use. CWI utilizes Cummins' supply chain, back office systems and distribution and sales networks. The joint venture term is scheduled to end on December 31, 2021.

## PRODUCTS

Through December 31, 2017, CWI had four engines in commercial production for the North American market: the ISX12 G, ISL G NZ, ISL G, and the ISB6.7 G. In May 2017, CWI announced its model year 2018 dedicated natural gas engines for regional haul truck/tractor, vocational and transit, school bus, and refuse applications: the ISX12N, L9N, and B6.7N. This new lineup replaced the ISL G, ISL G NZ, ISX12 G, and ISB6.7 G engines in North America. The change in names follows the Cummins tradition of using B, L, and X series letters, followed by engine displacement. The letter "N" denotes engines that are fueled by natural gas.

The ISX12N, L9N, and B6.7N engines started production in January and February of 2018. These engines are certified to the U.S. EPA and the California ARB optional low NOx standards and meet the 2017 EPA GHG emission requirements.

In addition to low emissions, the 2018 engines feature a new Engine Control Module with improved durability, On-Board Diagnostic capability, an enhanced maintenance-free Three-Way Catalyst, and a Closed Crankcase Ventilation system.

### ISX12N

The ISX12N meets California ARB optional Low NOx standard of 0.02 g/bhp-hr, a 90% reduction from engines operating at the current EPA NOx limit of 0.2 g/bhp-hr. Based on the ISX12 G, first introduced in 2013, the ISX12N natural gas engine is available with ratings from 320 to 400 hp and up to 1,450 lb-ft. of peak torque. The ISX12N is designed for line haul, regional haul, refuse, and vocational trucks, as well as motorcoach and commuter buses.

### L9N

The L9N is certified to California ARB optional low NOx standard of 0.02 g/bhp-hr, a 90% reduction from engines operating at the current EPA NOx limit of 0.2 g/bhp-hr. The L9N offers ratings from 250 to 320 hp and up to 1,000 lb-ft of peak torque, making it ideal for transit, shuttle and school bus, as well as medium-duty truck and refuse applications.

### B6.7N

The B6.7N is certified to California ARB optional low NOx standard of 0.1 g/bhp-hr - a 50% reduction from engines operating at the current EPA NOx limit of 0.2 g/bhp-hr. Available with ratings from 200 to 240 hp and up to 560 lb-ft of peak torque, the B6.7N is targeted at school bus, shuttle, and medium-duty truck applications.

### CWI 2018 International Products

CWI also has a number of engines available outside of North America meeting the emissions regulations of the markets they are sold in including the L9N, ISL G, ISC8.3 G, C Gas Plus and B Gas Plus.

## DEVELOPMENT AND PRODUCTION

CWI engines are manufactured in Cummins' North American engine plants in Rocky Mount, North Carolina, and Jamestown, New York, allowing CWI to leverage Cummins' manufacturing footprint without incurring additional capital costs. Engines are sold to truck and bus OEM for installation onto new vehicles. The fuel storage systems are installed at the OEM factory or at a third party location, such as a truck-body builder or at a fuel system integrator.

# Corporate

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

# Operations

## OFFICE AND FACILITY LOCATIONS

The number of cities where our development, manufacturing and commercial offices and facilities are located are collectively as follows:

**OPERATIONS LOCATIONS**

| Geographic Region | Locations |
|---|---|
| North America | 4 |
| Europe | 6 |
| Asia | 2 |
| South America | 1 |

## RAW MATERIALS AND INPUTS

Westport Fuel Systems organizes operational planning into different models to adapt to our diverse customer base and expectations. We operate as a virtual factory in which we optimize our inventories based on customer deliveries, or in a traditional manufacturing planning technique that directly undertakes operational procurement activities. Our procurement is divided into three general categories depending on the type of goods: raw materials, commercial off-the-shelf parts, and custom made-to-order parts. Raw material parts are typically sourced from large-scale trading partners and are purchased at the fair market value when benefit can be gained. When practical, the Company will sign long-term agreements on commodity pricing to access lower market prices. Commercial off-the-shelf parts are typically sourced in local regions and can be shared across the organization to ensure a consistent supply where it is needed and to leverage our purchasing power. Custom made-to-order parts are sourced from strategic suppliers, or jointly developed with partners, to ensure the best combination of price, quality and delivery. Our supply base is subject to our general terms and conditions or unique long term supply agreements and is subject to review against key performance indicators to ensure we are getting optimal performance and value.

# Discontinued Operations

## CNG Compressor Business

On July 25, 2018, the Company closed the sale of its CNG compressor business to Snam S.p.A., a leading European gas utility company, for gross proceeds of $14.7 million (€12.3 million), inclusive of a holdback that was released upon the fulfillment of an independent audit process that was completed during the same quarter. Effective Q2 2018, the CNG compressor business was no longer considered an operating segment and was reclassified to discontinued operations. The divestiture was consistent with Westport Fuel Systems' strategy to streamline its business and product lines and focus on alternative fuel solutions for the transportation industry.

## Industrial Business Segments

On May 1, 2017, the Company completed the sale of the auxiliary power unit ("**APU**") business and on June 1, 2017, the Company completed the sale of assets from its IMPCO business. Effective Q1 2017, the Industrial Business Segment was no longer considered an operating segment and was reclassified to discontinued operations. The divestiture was consistent with Westport Fuel Systems' strategy to streamline its business and product lines and focus on alternative fuel solutions for the transportation industry. Fuel system components and systems primarily sold under the IMPCO Industrial, Westport and GFI brands that were not included in the divesture were transitioned to the Automotive, now Transportation, business segment.

# Intellectual Property

The goal of our intellectual property strategy is to capture, protect, and utilize our intellectual property in coordination with our business and technology plans and to best enable the successful commercialization of our proprietary products. Our intellectual property strategy is designed to be adaptive to our target markets and the products intended for those markets, to support the commercial launch of new products, and to sustain a long-term competitive edge in the markets. We rely on a combination of patents, trade secrets, trademarks, copyrights and contracts to protect our proprietary technology.

We use patents as the primary means of protecting our technological advances and innovations, which include proprietary claims to components, materials, operating techniques, and systems. We have a proactive approach to identifying, evaluating and choosing strategic inventions that we seek to protect through the timely filing and prosecution of patent applications. We have a comprehensive invention disclosure program involving written invention memoranda and maintenance and preservation of supporting laboratory records. Patent applications are filed in various jurisdictions internationally, which are carefully chosen based on the likely value and enforceability of intellectual property rights in those jurisdictions, and to strategically reflect our anticipated major markets.

As of December 31, 2018, we had filed over 1,360 patent applications worldwide relating to almost 300 inventions, and we held more than 525 issued patents worldwide, including more than 125 issued U.S. patents. We also have more than 215 patent applications pending in the U.S. and other countries and under the international Patent Cooperation Treaty, which preserves for at least 30 months our right to file corresponding patent applications in all of the major industrial countries that are of interest to us. These issued patents and pending patent applications cover various aspects of our technology.

We believe we have developed a significant international patent portfolio, which establishes a broad foundation for our ongoing research activities and continues to yield new and patentable developments. Our strategy is directed not only to capturing improvements that we make to our current technologies and extending the window for such technologies, but also to capturing future technologies that we believe could supplant current technologies.

Portions of our know-how are protected as trade secrets and through contractual agreements with our employees, suppliers, partners and customers. We take measures to carefully protect our intellectual property rights in our collaboration agreements and attempt to capture maximum value from our products to ensure a competitive advantage. We are supporting the ongoing development of our market image and branding strategy by seeking timely registration of our trademarks in strategically chosen jurisdictions.

# Competitive Conditions

Westport Fuel Systems is a leader in high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. We believe we are one of the few companies that is focused on the development and commercialization of these technologies. The Company primarily competes directly with companies offering alternative fuel combustion technologies, fuel delivery systems, components, electronics, and related systems using gaseous fuels. The Company also competes, as well as collaborates, with other alternative powered vehicle technologies such as those powered by electric or hybrid-electric, hydrogen fuel cell or other propulsion technologies.

Indirectly, the Company competes with conventional manufacturers and developers of combustion technologies, fuel delivery systems, components, and electronics for vehicles fueled by diesel or gasoline. Industry participants compete on innovation, product performance, customer support, price, and other factors. Increasing interest in the alternative-fuels marketplace has increased the number of new entrants; however, lower oil price levels in recent years and changing macroeconomic factors have also reduced the number of competitors, particularly reducing the number of smaller firms that do not have the economies of scale to stay competitive. The Company has leading market share positions in many of its markets and application segments globally or in certain countries, including its alternative fuel systems and components, light-duty DOEM products, and heavy-duty applications.

Specifically, Westport Fuel Systems products and its related technologies compete with:

- Manufacturers of on-engine and off-engine components and systems that use alternative fuels such as LPG, CNG, LNG, and hydrogen. These companies may produce only a small sub-set of components, or manufacture or assemble complete systems. They may also manufacture or assemble conversion kits that are used to convert vehicles fueled by diesel or gasoline to an alternative fuel. In the future, the Company may also compete with traditional automotive component suppliers. The Company also competes with motor vehicle OEMs that develop fuel systems internally.
- Conversion specialists that convert vehicles to run on alternative fuels by installing alternative fuel components or systems on vehicles as part of a vehicle production OEM process, a DOEM process, or by installing components and conversion kits on vehicles in the aftermarket that were originally fueled by diesel or gasoline.
- Conventional established technologies using spark-ignited or direct injection combustion technologies and related systems and components, such as engines powered by diesel fuel and gasoline. These incumbent technologies, from a fairly large number of global manufacturers, hold a very large market share in our target applications.
- Alternative-fuel engines and related technologies using broadly the same technical approaches as Westport Fuel Systems products, such as high pressure direct injection combustion technology, spark-ignited natural gas and dual-fuel engines, LNG tanks, and new and aftermarket fuel system components. These Westport Fuel Systems products compete head-to-head with conceptually-similar products from other companies.

In addition, electric vehicles are emerging in some markets and applications, particularly in urban applications where driving range requirements are limited. Currently, the primary applications for electric vehicles are passenger cars, transit buses and urban delivery vehicles. Electric vehicles have represented a very small share of global vehicle sales to date.

Electric vehicles are primarily offered with pure battery electric powertrains (“BEVs’) or with hybrid powertrains that combine an internal combustion engine with a battery and electric motor (“PHEVs”). PHEVs represent a continuing opportunity for Westport Fuel Systems as their internal combustion engines can benefit from the emissions and operating cost reductions available from the use of gaseous fuels.

Westport Fuel Systems products will compete with BEV offerings in many markets and market segments. While the zero tailpipe emissions from BEVs are attractive to many customers, BEVs today have, in general, higher initial purchase costs, limited range and reduced capability in hot or cold weather. Electricity in many geographies continues to be generated using a significant portion of coal so the overall emissions related to the operation of the vehicle are not zero. The production of current technology lithium-ion battery cells can generate significant CO2 emissions that are not included in the vehicle emissions calculations in most jurisdictions, and they also incorporate materials such as cobalt that are available from limited sources that can have dubious environmental and labor standards. The current cost, weight and power density of battery technology does not suit all vehicle applications. Batteries are slow to charge unless expensive fast-charging equipment is used, and fast charging infrastructure is relatively sparse in most markets. In many markets, local electrical supply is not completely stable and power outages would result in immobilization of BEVs unless electricity back-up systems are installed.

Westport Fuel Systems believes that it is impossible to predict how quickly BEVs will gain market share from internal combustion powered vehicles in all markets and segments. In some market segments, where there are lower vehicle range requirements and electricity is inexpensive and readily available, BEVs may gain share relatively quickly. In others, where longer vehicle range is required or electricity is expensive or

not readily available, BEVs may not become practical or economically viable. Westport Fuel Systems also believes that our products and systems are technically and economically viable today and provide OEMs and end customers with excellent alternatives that provide low emissions and attractive operating cost savings. In addition, natural gas is available from renewable sources that provide up to a 100% reduction in net $CO_2$ emissions from a vehicle, providing lower overall $CO_2$ emissions than BEVs powered by electricity generated from coal and possibly a long term competitive advantage for our products.

# Human Resources and Related Policies

Westport Fuel Systems employs a highly educated and experienced team of professionals focused on the development and commercialization of a portfolio of products and technologies. We actively recruit skilled individuals with diverse backgrounds from around the world and provide them with specific training relating to our product and technology portfolios, and retain consultants and contract workers with specific expertise when appropriate. Each new employee is required to execute confidentiality and proprietary rights agreements as well as a Code of Conduct certification as part of the employee's terms of employment.

As at December 31, 2018 our headcount worldwide was 1,249 employees. Our employee base consists of a mix of engineers, manufacturing technicians, and commercial professionals that have experience with alternative fuel systems, combustion technologies, and fuel storage and delivery systems, including cryogenics. Our employees are not represented by a labour union, except in Italy, Sweden, and Argentina.

We are committed to a workplace free of discrimination and harassment. Our expectations for individual integrity and ethical, moral, and legal conduct are outlined in our Code of Conduct which applies to everyone in Westport Fuel Systems, including directors, officers, employees, contractors, agents and consultants who act on behalf of Westport Fuel Systems in any business dealings. The Code of Conduct is reviewed and signed annually by all directors, officers and employees. We have also implemented an ethics hotline to provide an avenue for employees to raise concerns about corporate conduct. The Whistleblower Policy includes the reassurance that individuals will be protected from reprisals or victimization for "whistle blowing" in good faith.

# Social and Environmental Policies

Westport Fuel Systems is committed to the protection of the environment and the prevention of pollution and strives to be an industry leader in mitigating the environmental impacts of fuel system research, development, testing and assembly. The following Environmental Policy Statement outlines our operational standards:

- Westport Fuel Systems will work to ensure that its operations comply with all applicable environmental legislation, industry codes, and standards;
- Westport Fuel Systems will work to collaborate with partners and industry stakeholders in the protection of the environment, the conservation of resources, and the implementation of pollution mitigating practices;
- Westport Fuel Systems will continue to research, design, and develop alternative fuel engine technologies that preserve environmental health and safeguard employees, customers and the general public from injuries or health hazards;
- Westport Fuel Systems determines, evaluates, and strives to mitigate the environmental impacts of our existing operations;
- Westport Fuel Systems will set internally established standards to utilize energy and other resources efficiently in its operations;
- Westport Fuel Systems will strive to be an environmentally responsible neighbour in the communities where we operate and to act promptly and responsibly to correct incidents or conditions that endanger health, safety or the environment;
- Westport Fuel Systems will work to fully investigate all environmental incidents or unplanned releases and to communicate findings as necessary to all affected parties;

- Westport Fuel Systems will endeavor to train its employees on their individual responsibility to protect the environment, to adhere to this Environmental Policy Statement, and to cooperate with Westport Fuel Systems efforts in this regard. On-site contractors and others acting on behalf of Westport Fuel Systems are expected to abide by the same environmental code of conduct;
- Westport Fuel Systems will strive to evaluate its environmental performance through regular auditing and assessment of its regulatory compliance and adherence to this policy. We will strive to communicate the appropriate information to our stakeholders including our Board, employees, shareholders, governmental agencies and the general public; and
- Westport Fuel Systems will strive to continuously improve our environmental management system and measure the environmental impacts of our operations. Westport Fuel Systems will implement this policy through a comprehensive plan with measurable goals/targets and a rigorous analysis of performance. Westport Fuel Systems will work to provide a candid discussion of our environmental achievements and challenges in its annual sustainability report published on its website. A global sustainability report covering key environmental metrics for all of our worldwide locations will be published in April 2019.

Our commitment to corporate responsibility is evident not only in the development of our products and technologies, but also in our ongoing efforts to enhance the social benefits derived from our business activities and minimize the environmental footprint of our operations. Every year, we review our operations, assess our environmental footprint and set targets for improvement.

# Dividend Policy

To date, we have not paid out any dividends on our Common Shares. The future payment of dividends will be dependent on our ability to pay, including factors such as cash on hand, sustainable cash flow and achieving profitability, the financial requirements to fund growth, our general financial condition, and other factors that the Board may consider appropriate in the circumstances. Under our credit facilities, any dividends, shareholder loan repayments and other capital withdrawals require prior consent from our creditors.

# Description of Capital Structure

Our authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares (**Preferred Shares**") issuable in series with no par value. As at December 31, 2018, our issued share capital consisted of 133,380,899 Common Shares and no Preferred Shares. Our Board may at any time issue any Preferred Shares in one or more series, each series to consist of such number of Preferred Shares as may be determined by the Board. The Board may determine at the time of issuance the designation, rights, privileges, restrictions, and conditions attaching to each series of Preferred Shares.

As more fully described below under "Description of Common Shares", the holders of our Common Shares are entitled to notice of, to attend and to one vote per Common Share at all meetings of our shareholders. The holders of our Preferred Shares shall have no right to receive notice of or to be present at or vote either in person, or by proxy, at any of our general meetings by virtue of or in respect of their holding of Preferred Shares.

Subject to any rights, privileges, restrictions and conditions that may have been determined by the directors to apply to any series of Preferred Shares or any restrictions in any of our debt agreements, the directors shall have complete discretion to pay dividends on any class or classes of shares or any series within a class of shares issued and outstanding in any particular year to the exclusion of any other class or classes of shares or any series within a class of shares out of any or all profits or surplus available for dividends. Under our credit facilities, any dividends, shareholder loan repayments and other capital withdrawals require prior consent from our creditors.

On our winding-up, liquidation or dissolution or upon the happening of any other event giving rise to a distribution of our assets other than by way of dividend amongst our shareholders for the purposes of winding-up the Company's affairs, subject to any rights, privileges, restrictions and conditions that may have been determined by the Board to attach to any series of Preferred Shares, the holders of all Common Shares and Preferred Shares shall be entitled to participate *pari passu*.

## Description of Common Shares

The holders of our Common Shares are entitled to one vote per Common Share at meetings of shareholders, to receive such dividends as declared by the Board, and to receive Westport Fuel Systems remaining property and assets upon dissolution or winding-up. The Common Shares are not subject to any future call or assessment, and there are no exchange, pre-emptive, conversion, redemption or retraction rights

attached to the Common Shares. The following table provides additional information regarding the outstanding Common Shares as well as Westport Fuel Systems outstanding performance share units ("**PSUs**"), and restricted share units ("**RSUs**") as at December 31, 2018.

| OUTSTANDING COMMON SHARES, PSUs, & RSUs | |
|---|---|
| | **Share Units** |
| Shares Outstanding | 133,380,899 |
| PSUs | |
| Outstanding | 450,000 |
| Exercisable | 450,000 |
| RSUs | |
| Outstanding | 2,217,403 |
| Exercisable | 1,626,684 |

# Market for Securities

The outstanding Common Shares are listed and posted for trading on the TSX under the trading symbol "WPRT". The following table sets forth the market price ranges (in Canadian dollars) and the aggregate volume of trading of the Common Shares on the TSX for the periods indicated:

| TSX (WPRT) in Canadian Dollars | | | | |
|---|---|---|---|---|
| Period | High (C$) | Low (C$) | Close (C$) | Volume |
| January 2018 | 5.44 | 3.48 | 3.56 | 2,216,000 |
| February 2018 | 4.12 | 3.35 | 3.42 | 1,587,700 |
| March 2018 | 4.00 | 2.72 | 2.85 | 1,728,840 |
| April 2018 | 3.18 | 2.71 | 2.99 | 2,410,690 |
| May 2018 | 3.98 | 2.97 | 3.43 | 2,038,010 |
| June 2018 | 3.64 | 3.17 | 3.32 | 916,350 |
| July 2018 | 3.58 | 3.18 | 3.32 | 658,060 |
| August 2018 | 4.87 | 3.04 | 4.79 | 1,650,280 |
| September 2018 | 4.86 | 3.81 | 3.84 | 1,097,790 |
| October 2018 | 4.16 | 2.88 | 3.10 | 977,420 |
| November 2018 | 3.72 | 2.63 | 2.80 | 1,210,100 |
| December 2018 | 2.85 | 1.68 | 1.81 | 1,083,410 |
| January 2019 | 2.42 | 1.82 | 2.00 | 976,640 |
| February 2019 | 2.09 | 1.55 | 1.79 | 1,267,740 |
| March 1–18, 2019 | 2.09 | 1.63 | 2.01 | 696,620 |

The outstanding Common Shares are also listed and posted for trading on the NASDAQ Global Select Market under the trading symbol "WPRT". The following table sets forth the market price ranges (in US dollars) and the aggregate volume of trading of the Common Shares on the NASDAQ Global Select Market for the periods indicated:

| NASDAQ GLOBAL SELECT MARKET (WPRT) | | | | |
|---|---|---|---|---|
| Period | High ($) | Low ($) | Close ($) | Volume |
| January 2018 | 4.33 | 2.83 | 2.85 | 18,904,600 |
| February 2018 | 3.30 | 2.61 | 2.67 | 14,563,300 |
| March 2018 | 3.09 | 2.10 | 2.19 | 15,271,958 |
| April 2018 | 2.49 | 2.11 | 2.35 | 11,687,410 |
| May 2018 | 3.11 | 2.30 | 2.63 | 17,316,909 |
| June 2018 | 2.77 | 2.43 | 2.53 | 11,047,575 |
| July 2018 | 2.74 | 2.45 | 2.56 | 5,797,407 |
| August 2018 | 3.77 | 2.32 | 3.64 | 17,944,672 |
| September 2018 | 3.69 | 2.92 | 3.00 | 13,930,011 |
| October 2018 | 3.25 | 2.19 | 2.35 | 12,510,533 |
| November 2018 | 2.83 | 1.97 | 2.10 | 9,566,483 |
| December 2018 | 2.17 | 1.27 | 1.33 | 16,297,635 |
| January 2019 | 1.83 | 1.33 | 1.52 | 11,042,755 |
| February 2019 | 1.60 | 1.17 | 1.35 | 19,271,661 |
| March 1–18, 2019 | 1.57 | 1.21 | 1.49 | 6,774,890 |

In the twelve-month period ended December 31, 2018, Westport Fuel Systems granted the following restricted RSUs pursuant to the Westport Fuel Systems Omnibus Plan. The following grants are in Canadian dollars.

| WESTPORT FUEL SYSTEMS OMNIBUS PLAN in units and Canadian Dollars | | |
|---|---|---|
| Date | Number of Securities Granted (RSUs) | Per Share Market Value of Shares Underlying Securities at Time of Unit Issuance ($CDN) |
| March 23,2018 | 126,122 | $3.69 |
| May 18, 2018 | 336,791 | $3.49 |
| August 13, 2018 | 12,023 | $3.44 |
| October 3, 2018 | 214,000 | $3.88 |
| November 12, 2018 | 320,294 | $3.21 |

## Prior Securities Issued

No securities of Westport Fuel Systems not listed or quoted on any exchange were issued during the year ended December 31, 2018, other than RSUs. Additional information with respect to the issuance of securities under Westport Fuel Systems equity compensation plans during the most recently completed financial year will be contained in Westport Fuels Systems Management Information Circular in respect of its 2019 Annual Meeting of Shareholders to be held on May 6, 2019, which will be made available on SEDAR at www.sedar.com.

# Directors and Executive Officers

Our shareholders elect the members of our Board at each annual general meeting. Directors typically hold office until their successor is appointed or until the next annual general meeting of shareholders at which time they may be re-elected or replaced.

The following tables set forth the names and municipalities of residence of all of the current members of our Board and executive officers, as well as the positions and offices held by such persons, their principal occupations, and number of Common Shares held as of March 19, 2019.

## Director Biographies

### Brenda J. Eprile — CHAIR



**Citizenship:** Canada

**Resides in:** Toronto, ON, Canada

**Director since:** October 2013

**Common Shares:** 82,000

**Share Units:** 97,242

**Principal Occupation for Last 5 years:**

Corporate Director.

**Committee Membership:**

Audit Committee, Human Resources and Compensation Committee

**Brenda J. Eprile** (64) was appointed as Chair of Westport Fuel Systems' Board of Directors in February of 2017. Ms. Eprile joined the Board of Directors in October 2013. From 2000 to 2012, Ms Eprile was a Senior Partner at PricewaterhouseCoopers and led the Risk Advisory Services practice. From 1985 to 1997, Ms. Eprile had a distinguished career as a securities regulator in Canada, having held the positions of both Executive Director and Chief Accountant at the Ontario Securities Commission. Ms. Eprile is a Fellow Certified Professional Accountant (FCPA), and holds the ICD.D designation. She has a MBA from Schulich School of Business, York University. She is the former chair of the board of Home Capital Group, a TSX listed company and led the board through a severe liquidity crisis in April 2017. She was recently appointed to the board of Olympia Trust Company, a Canadian-based financial institution.

### Michele J. Buchignani — DIRECTOR



**Citizenship:** Canada

**Resides in:** Vancouver, BC, Canada

**Director since:** March 2018

**Common Shares:** -

**Share Units:** 23,897

**Principal Occupation for Last 5 years:**

Chief Executive Officer of McLean Drive Consulting Ltd since 2010; Managing Partner of McLane Drive Holdings LP since 2012 and Corporate Director.

**Committee Membership:**

Audit Committee, Human Resources and Compensation Committee.

**Michele J. Buchignani** (55) was appointed a member of the Westport Fuel Systems Board in March of 2018. Ms. Buchignani brings experience as a strategic business leader with extensive senior level experience in law, finance, private equity, strategy, governance and compensation. Ms. Buchignani is currently Chief Executive Officer of McLean Drive Consulting Ltd., a consulting firm to private equity owned and growth companies and also serves as Managing Partner of McLane Drive Holdings LP., a U.S. real estate holding company. Ms. Buchignani also sits on the board of directors of Copper Mountain Mining Corporation, a TSX listed company.

Previously, Ms. Buchignani held executive positions including as a Director with Teachers' Private Capital, the private equity arm of the Ontario Teachers' Pension Plan in Toronto from 2005 to 2009; Managing Director and Head of the Private Equity Funds Group at CIBC Capital Partners in Toronto and New York from 1999 to 2003; and Managing Director and Canadian General Counsel for CIBC World Markets from 1996 to 1999. From 1989 to 1996, she practiced corporate law in Toronto and London at Stikeman Elliott and was elected as a partner in 1995. Ms. Buchignani holds the ICD.D designation from the Institute of Corporate Directors. She serves in board and advisory positions with several corporate and not-for-profit organizations including CAI Capital Partners V L.P. (formerly Firethorn Capital Partners, L.P.), White House Design Company Inc., and The Fraser Institute. Ms. Buchignani holds a Bachelor of Arts degree with Honours in English from the University of British Columbia and a JD from the University of Toronto. She also completed the Stanford Executive Program at the Graduate School of Business at Stanford University.

## Daniel M. Hancock — DIRECTOR



**Citizenship:** U.S.

**Resides in:** Indianapolis, IN, U.S.A.

**Director since:** July 2017

**Common Shares:** -

**Share Units:** 47,194

**Principal Occupation for Last 5 years:**

President of DMH Strategic Consulting since 2011.

**Committee Membership:**

Human Resources and Compensation Committee (Chair), Nominating and Corporate Governance Committee.

**Daniel M. Hancock** (68) was appointed to the Board in July 2017, having previously joined the Company's Advisory Board in March of 2017. Mr. Hancock is currently President of DMH Strategic Consulting LLC and also serves on the board of directors of Cryoport Systems, Inc., a U.S. headquartered company listed on the NASDAQ. Mr. Hancock retired from General Motors ("**GM**") in 2011, after 43 years of service in GM's powertrain engineering and general management functions. His last position with GM was Vice President, Global Strategic Product Alliances. During this period he served as Chairman of GM's DMAX and VM Motori diesel engine joint ventures with Isuzu and Fiat, respectively. Mr. Hancock's previous appointments at GM included: Vice President, Global Powertrain Engineering; CEO, Fiat-GM Powertrain; and President, Allison Transmission Division. He now serves in board and advisory positions with several organizations focusing on new powertrain technologies and STEM (Science, Technology, Engineering, and Mathematics) education. He was President of SAE International in 2014 and is a member of the National Academy of Engineering. He received a master's degree in mechanical engineering from Massachusetts Institute of Technology and a bachelor's degree also in mechanical engineering from General Motors Institute (now Kettering University), Michigan.

## Anthony (Tony) Harris — DIRECTOR



**Citizenship:** U.S.

**Resides in:** Alameda, CA, U.S.A.

**Director since:** June 2016

**Common Shares:** 30,190

**Share Units:** 44,209

Principal Occupation for Last 5 years:

President and CEO of Campbell/Harris Security Equipment Company since 2006.

Committee Membership:

Audit Committee, Nominating and Corporate Governance Committee (Chair).

**Anthony ("Tony") Harris** (65), was appointed to the Board in June of 2016. Since 2006, Mr. Harris has served as president and CEO of Campbell/Harris Security Equipment Company ("**CSECO**"), a manufacturer of contraband, explosives, and "dirty bomb" detection equipment. Prior to its acquisition of CSECO, he had served as Vice President of Marketing for Calpine Corporation since 2001, where he was responsible for brand management, marketing strategy development and execution, new product development, advertising and sales training. From 1997 to 1999, Mr. Harris was with PG&E Energy Services, where he served as Vice President of National Account Services and Western Region sales. From 1992 to 1997 he was with Pacific Gas and Electric Company where he served as Director of Alternative Fuel Vehicles, Division Manager, Vice President of Marketing and Sales, and President of Standard Pacific Gas Line, Inc., respectively. Mr. Harris worked at Ford Motor Company as a Production Supervisor from 1979 to 1981, at Ford Aerospace and Communications Corporation as a Program Manager from 1981 to 1986, at Anaheim Lincoln Mercury as a General Manager from 1986 to 1987 and at Sonoma Ford Lincoln/Mercury as President & CEO from 1987 to 1992. Mr. Harris holds a Bachelor of Science in mechanical engineering from Purdue University and an MBA from the Harvard Graduate School of Business. He was named a Purdue Outstanding Mechanical Engineer in 1999, a Distinguished Engineering Alumnus in 2008 and awarded an honorary Doctor of Engineering degree from Purdue in 2013. Mr. Harris is a founder of the National Society of Black Engineers and currently serves as Chair of its National Advisory Board.

## David M. Johnson — DIRECTOR



**Citizenship:** U.S.
**Resides in:** Scottsdale, AZ, U.S.A.
**Director since:** January 2019
**Common Shares:** -
**Share Units:** -

**Principal Occupation for Last 5 years:**

Chief Executive Officer of Westport Fuel Systems since January of 2019; Chief Executive Officer for Achates Power Inc. from 2008 to 2018.

**David M. Johnson** (52), was appointed Chief Executive Officer in January 2019 and is a member of the Westport Fuel Systems Board of Directors. Mr. Johnson is an industry veteran with more than 25 years of experience leading engine and vehicle development for automotive and commercial vehicle industries around the world. Prior to his appointment, Mr. Johnson served for ten years as President and Chief Executive Officer of Achates Power Inc. leading technical, commercial and corporate development to establish the organization as a leading developer of opposed-piston engines. Mr. Johnson's distinguished career began in 1990 with Ford Motor Company in Truck Powertrain Planning. He subsequently held a variety of roles in engineering, product planning, program management, and strategic development with increasing responsibility. Since then Mr. Johnson has served in a variety of roles with leading automotive companies including senior roles at Navistar and General Motors. Mr. Johnson combines deep technical expertise with a decades-long career in international markets. He earned a Master of Business Administration and a Bachelor of Science in Mechanical Engineering from Cornell University.

## Colin S. Johnston — DIRECTOR



**Citizenship:** UK
**Resides in:** Turin, Italy
**Director since:** June 2016
**Common Shares:** 102,648
**Share Units:** 44,209

**Principal Occupation for Last 5 years:**

Self-employed consultant, statutory auditor and non-executive director. Retired from Deloitte & Touche Italy in 2012.

**Committee Membership:**

Audit Committee (Chair), Human Resources and Compensation Committee.

**Colin S. Johnston** (64), was appointed director in June of 2016. He currently serves as Chairman of the Audit Committee and as a member of the Human Resources and Compensation Committee. Mr. Johnston served as a director of Fuel Systems Solutions Inc. from May 2014 to May 2016. Since 2013, Mr. Johnston has also been chairman of the statutory audit committee of CLN group, a global automotive component supplier headquartered in Italy. Prior to that Mr. Johnston worked for over 35 years in the international accounting profession, including 22 years as a partner in Arthur Andersen, then Deloitte & Touche in Italy through 2012. Mr. Johnston has extensive experience in auditing, accounting, financial reporting, internal control and governance for multinational corporations, primarily in the manufacturing sector (in the automotive, aerospace, consumer products and textile industries). While in professional practice, he worked as lead client service partner for major public and private Italian groups, including foreign registrants with the SEC, as well as for Italian subsidiaries of US groups. Mr. Johnston is a graduate of Oxford University, a UK chartered accountant, and a registered statutory auditor in Italy.

## Scott Mackie — DIRECTOR



**Citizenship:** Canada
**Resides in:** Milford, MI, U.S.A.
**Director since:** September 2016
**Common Shares:** 16,366
**Share Units:** 64,522

**Principal Occupation for Last 5 years:**

Vice President, Global Business and Product Development of Shaw Development LLC from March 2018 to present; Member and Principle, SRM Solutions, LLC since 2013; President of Qualitor Inc. from April 2016 to March 2017; Vice President of Business Development and Mergers and Acquisitions for Navistar Inc. from January 2015 to March 2016; Consultant to Navistar Inc. from October 2013 to December 2014; President of Weld Racing LLC from September 2010 to September 2013.

**Committee Membership:**

Audit Committee, Nominating and Corporate Governance Committee.

**Scott Mackie** (57) was appointed to Westport Fuel Systems Board of Directors in September 2016. Mr. Mackie is Vice President of Global Business and Product Development of Shaw Development LLC, and privately-held manufacturer of fluid systems for diesel vehicles and power units. Prior to joining Shaw Development LLC, Mr. Mackie served as Member and Principal of SRM Solutions, LLC, a consulting practice focused on acquisition support and strategic planning. Mr. Mackie previously was President of Qualitor Inc.'s International Brakes Industries division-a leading diversified supplier of safety and wear parts for the automotive aftermarket. Prior to International Brake, Mr. Mackie served as Vice President of Business Development and Mergers and Acquisitions for Navistar Inc. Prior to that, he was President and CEO of Weld Racing, a global leader in forged aluminum racing and street performance wheels. In addition, during a 30-year career with General Motors, Mr. Mackie held a number of senior executive leadership roles in North America and Europe including six years as general manager of ACDelco's global operations. Mr. Mackie holds a Bachelor of Science in Mechanical Engineering from General Motors Institute (Kettering) and a Master of Business Administration from The University of Chicago.

## Wade Nesmith — DIRECTOR



**Citizenship:** Canada
**Resides in:** Vancouver, BC, Canada
**Director since:** June 2017
**Common Shares:** 1,450
**Share Units:** 64,522

Principal Occupation for Last 5 years:

Partner, Creation Partners LLP from October 2018 to present. Chairman of Primero Mining Corp from 2012 to 2018.

Committee Membership:

Audit Committee, Nominating and Corporate Governance Committee.

**Wade Nesmith** (67) joined the Board of Directors in June 2017. Mr. Nesmith is currently a partner in Creation Partners LLP and acts as [chief executive officer, chief financial officer and] as a director of Creation Capital Corp., a TSXV listed company since October 2018. Mr. Nesmith founded Primero Mining Corp. in 2007 acted as its Chairman until its sale in May 2018. In addition, he served as a director of Silver Wheaton Corp. from 2004 to 2016. Mr. Nesmith joined Westport Innovations (now Westport Fuel Systems) as a founding director in 1996 and served as director to 2000 while also holding various positions with the company until 2003, including President, Western Europe and VP of Strategic Development. He was responsible for capital markets as well as all operations in Europe including OEM relationships. From 2004 to 2010, Mr. Nesmith was an associate counsel at Lang Michener LLP (now McMillan LLP), where he had also previously been counsel and partner. Mr. Nesmith has also been a director of Polymer Group, Inc., Broadpoint Securities and Oxford Automotive. He served as the Superintendent of Brokers for the Province of British Columbia from 1989 to 1992, and obtained his Bachelor of Law degree from York University's Osgoode Hall Law School in 1977.

## Rodney (Rod) Nunn — DIRECTOR



**Citizenship:** Canada

**Resides in:** Chatham, ON, Canada

**Director since:** March 2016

**Common Shares:** -

**Share Units:** 135,950

Principal Occupation for Last 5 years:

President and Chief Executive Officer of KSR International Co.

Committee Membership:

Human Resources and Compensation Committee, Nominating and Corporate Governance Committee.

**Rodney Nunn** (75), joined the Board of Directors in March 2016. Mr. Nunn served as President and Chief Executive Officer of KSR International Co. from 1976 to 2011 and from November 2015 until present. KSR is an industry leader in the design, engineering and manufacture of an array of automotive products, including sensors, electronic throttle controls, steering system control modules, MOSFET power modules and adjustable & fixed pedals. KSR's production facilities are strategically located globally on four continents. KSR is a vertically integrated manufacturing company located near its customers to provide quick response, cost containment and local expertise. Executive and engineering offices are headquartered in Ridgetown, Ontario (Canada) and sales are in Southfield, Michigan, USA. Rod graduated from Technical College in England in 1963 with a U.E.I. and City of Guilds Certificate in Industrial Engineering.

## Peter Yu — DIRECTOR



**Citizenship:** U.S.

**Resides in:** New York City, NY, U.S.A.

**Director since:** January 2016

**Common Shares:** -

**Share Units:** -

**Principal Occupation for Last 5 years:**

Founder and Managing Partner of Cartesian Capital Group since 2006.

**Peter Yu** (57), joined the Board of Directors in January 2016. Mr. Yu is Founder and Managing Partner of Cartesian, a global private equity firm with more than $2.5 billion under management. Prior to founding Cartesian, Mr. Yu founded and served as President and Chief Executive Officer of AIG Capital Partners. He built AIG Capital Partners into a leading global private equity firm with $4.5 billion under management. Over his career, Mr. Yu has initiated, negotiated and executed numerous innovative and successful investments across a wide range of industries and geographies. He has served as a director and advisor to more than two dozen industry-leading companies. Prior to founding AIG Capital Partners, Mr. Yu served President Bill Clinton as Director to the National Economic Council in the White House. In that capacity, he managed a number of domestic and international economic policy initiatives and priorities. Mr. Yu graduated *magna cum laude* from Harvard Law School, where he served as President of the Harvard Law Review. Mr. Yu served as a law clerk to Justice John Paul Stevens of the United States Supreme Court and to Chief Judge Patricia Wald of the U.S. Court of Appeals for the D.C. Circuit. Mr. Yu received his B.A. degree from the Woodrow Wilson School at Princeton University.

# Executive Officers Biographies

As of March 19, 2019 biographies for the Company's Executive Officers are as follows. For David M. Johnson, see information contained under the heading "Director Biographies".

## James (Jim) M. MacCallum — ACTING CHIEF FINANCIAL OFFICER



**Citizenship:** Canada

**Resides in:** West Vancouver, BC, Canada

**Westport Fuel Systems since:** August 2014

**Common Shares:** 2,869

**Share Units:** 37,500

**Principal Occupation for Last 5 years:**

Acting Chief Financial Officer since February 2019, Vice President, Finance and Corporate Controller of Westport Fuel Systems; Vice President, Finance for Amica Mature Lifestyles Inc.

**James (Jim) M. MacCallum** (49) was appointed acting Chief Financial Officer February 2019. Mr. MacCallum has been with Westport since August 2014 serving as Vice-President, Finance and Corporate Controller. In this role Mr. MacCallum led the corporate accounting and treasury functions. Prior to Westport, Mr. MacCallum held leadership roles at Amica Mature Lifestyles Inc., Absolute Software and Cisco Systems and was an audit manager with KPMG. He holds a BA in Economics from the University of British Columbia and completed the Advanced Management Program at Harvard Business School. Mr. MacCallum is a Chartered Professional Accountant and a Chartered Financial Analyst. Mr. MacCallum is a director of Music in the Morning and Co-Chair of the Finance Committee for the District of West Vancouver.

## James (Jim) Arthurs — EXECUTIVE VICE PRESIDENT, ELECTRONICS



**Citizenship:** Canada

**Resides in:** North Vancouver BC, Canada

**Westport Fuel Systems since:** May 2011

**Common Shares:** 138,221

**Share units:** -

**Principal Occupation for Last 5 years:**

Executive Vice President, Electronics of Westport Fuel Systems since November 2016; Executive Vice President, Heavy Duty Systems of Westport Fuel Systems since January 2014; President of CWI. from January 2012 to December 2013; Vice President, Cryogenic Systems of Westport Fuel Systems from May 2011 to December 2012; Managing Partner and Co-Founder of i3 Transition Partners LLP (2009 to 2011).

**Jim Arthurs** (60) is Executive Vice President at Westport Fuel Systems. Mr. Arthurs joined Westport Fuel Systems in 2011 and has overseen the development of Westport's heavy duty engine and fuel system technologies, including the High Pressure Direct Injection system. Mr. Arthurs also sits on the board of directors of Western Forest Products Inc., a TSX listed company. In November 2016, Jim took responsibility for the newly formed Electronics Group, with oversight of Electronic Control Unit hardware and software across Westport Fuel Systems. Jim is a Director of CWI, a joint venture company owned equally by Cummins Inc. and Westport Fuel Systems that designs, engineers and markets spark-ignited natural gas engines for medium- and heavy-duty transportation applications such as trucks and buses. Previously, Jim was President of CWI from 2012 to 2013 and led the development of the Cummins Westport ISX12 G natural gas engine. Prior to that, Jim was Vice President, Cryogenic Systems and Vice President, Operations for Westport. Prior to joining Westport, Jim was a Managing Partner and Co-Founder of i3 Transition Partners LLP, a management consulting firm that specialized in business assessments and helping companies plan for and implement strategic change. Over his career, Jim has held senior sales, operating and executive management positions at several companies including IBM and Weyerhaeuser. He is currently a member of the board of directors of Western Forest Products Inc., an integrated forest products company. Jim holds a BSc degree in Computer Science from the University of Calgary.

## Massimiliano Fissore

SENIOR VICE PRESIDENT, INDEPENDENT AFTERMARKET & DOEM



**Citizenship:** Italy

**Resides in:**
Cherasco, Italy

**Westport Fuel Systems since:**
June 2016

**Common Shares:**
-

**Share units:**
114,853

**Principal Occupation for Last 5 years:**

Sr. Vice President, Independent Aftermarket and DOEM since 2018; CEO of M.T.M Srl. since 2016; Managing Director of M.T.M Srl.; from July 2016 to August 2018; General Manager of M.T.M. Srl. from October 2014 to July 2016 ; General Manager of the CNG Refueling Division of M.T.M. Srl. from April 2010 to September 2014.

**Massimiliano Fissore** (47) is Senior Vice President, Independent Aftermarket & DOEM at Westport Fuel Systems. Mr. Fissore joined Westport Fuel Systems in 2016 as part of the Fuel System Solutions and Westport merger. Since 2016, Mr. Fissore has served as CEO of the M.T.M. Srl subsidiary, responsible for the full management of the different businesses and divisions, including the subsidiaries located in South America and Asia. Previously he served in the role of General Manager, M.T.M. Srl from October 2014 to July 2016. He has spent most of his career in the alternative fuel industry, developing liquid petroleum gas (LPG) and compressed natural gas (CNG) products, technologies, and markets. He has spent a significant amount of time with BRC Gas Equipment and Zavoli, which are well established brands now owned by Westport Fuel Systems. From 2010 to 2014, Mr. Fissore was General Manager of the CNG Refueling Division of M.T.M. Srl, responsible for the development of the business of CNG compressor and refueling equipment branded Cubogas. In 2007, Mr. Fissore joined Zavoli and became CEO of Zavoli from 2007 to 2010. In 2003, Mr. Fissore joined McCormick Mexico, a subsidiary of Argo Tractors-an Italian company that produces agricultural tractors-and became CEO of McCormick Mexico from 2003 to 2007. From 1997 to 2003, Mr. Fissore was CEO of BRC Argentina and WMTM Brazil. He has a law degree from the University of Turin in Italy and currently also serves as Chairman of M.T.M. Srl (a Westport Fuel Systems company).

# Former Directors and Officers

Nancy Gougarty served as Westport Fuel Systems' Chief Executive Officer and Director during 2018 and Ashoka Achuthan and Michael Willis served as Chief Financial Officer, during 2018.

1. Ashoka Achuthan resigned as the Company's Chief Financial Officer, effective June 11, 2018, Michael Willis was appointed Chief Financial Officer.
2. Nancy Gougarty retired from the Company as Chief Executive Officer effective as at January 15, 2019 and stepped down from the Board of Directors at that time. David M. Johnson was appointed new Chief Executive Officer and joined the Board of Directors. The Corporation entered into a retirement agreement dated January 14, 2019 with Ms. Gougarty in connection with her retirement as the Corporation's Chief Executive Officer.
3. Michael Willis resigned as Westport Fuel Systems' Chief Financial Officer effective as at February 4, 2019. James M. MacCallum was named acting Chief Financial Officer at that time.
4. Thomas Rippon retired from the organization as of December 31, 2018 and remains in an advisory role until the end of March 2019.

## Former Directors and Officers Biographies

### Nancy S. Gougarty — FORMER CHIEF EXECUTIVE OFFICER



**Citizenship:** U.S.

**Resides in:** Leesville, SC, U.S.A.

**Director since:** July 2016 to January 2019; and Feb. 2013 to July 2013.

**Common Shares:** 324,124

**Share Units:** 1,909,219

**Principal Occupation for Last 5 years:**

Chief Executive Officer of Westport Fuel Systems July of 2016 to January 2019; President and Chief Operating Officer of Westport from July 2013 to July 2016; Vice President for TRW Automotive Holdings Corp. from 2005 to 2012.

**Nancy S. Gougarty** (63), was appointed Chief Executive Officer of Westport Fuel Systems in July of 2016 and was a member of the Board of Directors until January 2019. Prior to her appointment, she was appointed President and Chief Operating Officer in July of 2013 and she served on the Board from February of 2013 to July of 2013. Ms. Gougarty served as the Vice President for TRW Automotive Holdings Corp. ("TRW") operations in the Asia-Pacific region from 2008 to 2012. Joining TRW in 2005, her previous positions included Vice President of Product Planning, Business Planning and Business Development, and Vice President of Asia Pacific Braking, Steering, Electronics and Modules for Asia Pacific. Based at the Asia-Pacific headquarters in Shanghai, China, Ms. Gougarty oversaw the operations of more than 30 plants in the region. She directed the development and implementation of strategic and operational plans and worked to enhance strategic relationships with customers and joint venture partners in the region. Ms. Gougarty's distinguished career began in 1978 when she started with General Motors Packard Electric Division as an industrial engineer. She later took on various roles in application engineering, finance, operations, and sales and engineering with increasing responsibility. In 1997, she was named Managing Director for GM's joint venture in Shanghai, followed by a series of appointments accountable for strategic growth in Asian countries. After the successful post as the Director for Delphi Packard, Asia-Pacific, Ms. Gougarty spent three years leading Delphi's largest account as Global Account Director GM, until becoming the Vice President for Delphi Automotive Systems, Japan and Korea. Ms. Gougarty was certified Six Sigma Green Belt. She holds an EMBA degree from Case Western Reserve University and a Bachelor of Science degree in Industrial Management from the University of Cincinnati. A community service advocate, she is a member of the board of TriMas Corporation and AB SKF.

## Ashoka Achuthan — FORMER CHIEF FINANCIAL OFFICER



**Citizenship:** U.S.

**Resides in:** Chicago, IL, U.S.A.

**Westport Fuel Systems since:** November 2013

**Common Shares:** 5,000

**Share Units:** 2,745

**Principal Occupation for Last 5 years:**

Chief Financial Officer of Westport Fuel Systems from June 2014 to June 2018; Executive Vice President, Finance Operations of Westport from November 2013 until June 2014; Chief Financial Officer of CODA Holdings Inc. from 2011 until 2013.

**Ashoka Achuthan** (63) was appointed Chief Financial Officer from June 2014 to June 2018. Mr. Achuthan has been with Westport since November 2013 as Executive Vice President, Finance Operations. In this role, he oversaw all operational finance activities within Westport, including financial management of ongoing business operations as well as investments; financial planning, forecasting and reporting and developing and tracking key performance metrics. Prior to joining Westport, he was CFO at CODA Holdings Inc. ("**CODA**"), a private company that designs and manufactures electric cars, between 2011 and 2013, where he held full responsibility for all financial management aspects of the company including the initial public offering filing, organizational readiness for vehicle launch, supply chain management, and development of the battery based power storage business. His career includes over 20 years with Siemens in Asia, Europe and North America. His last position at Siemens was Executive Vice President and CFO of Siemens VDO Automotive Inc. where he helped drive profitability and grow the business from $1.2 billion to $3.2 billion in revenues between 2000 and 2005. Ashoka has also held roles as CFO at Cooper Power Systems Inc. between 2005 and 2008, CFO at ATC Technologies Corp between 2008 and 2010, and the CFO at Key Plastics LLC in 2010. Ashoka earned a Bachelor of Science degree from the University of Bombay, an MBA from Case Western Reserve University, and is a Chartered Accountant.

## Michael J. Willis — FORMER CHIEF FINANCIAL OFFICER



**Citizenship:** Canada

**Resides in:** Vancouver, BC

**Westport Fuel Systems since:** June 2018

**Common Shares:** -

**Share Units:** -

**Principal Occupation for Last 5 years:**

Chief Financial Officer of Westport Fuel Systems from June 2018 to February 2019; Chief Financial Officer of Gevo, Inc. from 2012 to 2018; Executive Vice President of Corporate Development and Strategy of Gevo Inc. (2012)

**Michael J. Willis** (48) was appointed Chief Financial Officer June of 2018 and resigned in February 2019. Prior to joining Westport Fuel Systems, Mr. Willis served as CFO of Gevo, Inc., a Nasdaq-listed renewable chemical and advanced biofuels company, from 2013 to 2018. He joined Gevo in 2012 as Executive Vice President of Corporate Development and Strategy. Prior to Gevo, Mr. Willis served as Operating Principal at Virgin Green Fund, a growth equity fund focused on the renewable energy and resource efficiency sectors, from 2007 to 2013. From 2005 to 2007, Mr. Willis was part of the Virgin Group, initially joining as Investment Manager of Virgin Management Limited and later as Principal of Virgin Fuels. He worked in corporate development, finance, and strategy roles assisting several of Virgin's portfolio companies in executing their growth strategies and corporate finance transactions at senior management and board levels. Mr. Willis' career also covers private equity and investment banking roles in the United States and Canada, working with companies spanning the retail, consumer products, manufacturing, services and technology sectors. He holds an MBA from INSEAD in France and a Bachelor of Commerce from Queen's University in Canada.

| **Thomas G. Rippon** | FORMER CHIEF TECHNOLOGY OFFICER AND EXECUTIVE VICE PRESIDENT |
|---|---|



**Citizenship:**
Dual Canada/U.S.

**Resides in:**
White Rock,
BC, Canada

**Westport Fuel Systems since:**
September 2013

**Common Shares:**
113,635

**Share units:**
51,647

**Principal Occupation for Last 5 years:**

Chief Technology Officer and Executive Vice President, Engineering of Westport Fuel Systems from September 2016 to December 2018; Executive Vice President, Engineering of Westport Fuel Systems since October 2014; Vice President, Mining and Rail of Westport Fuel Systems from 2013-2014; Vice President, Engineering and Program Management, CODA Automotive, Inc.

**Thomas G. Rippon** (64) retired from his position of Chief Technology Officer and Executive Vice President, held from 2016 to December 2018. Mr. Rippon joined Westport Fuel Systems in September 2013 as Vice President, Mining and Rail. Mr. Rippon's experience includes an extensive tenure at GM in both North America and Asia. Mr. Rippon's career began in 1972 at GM on the assembly line, and from there he was successively promoted. From 2001 to 2011, Mr. Rippon held a number of executive roles responsible for powertrain activities, including building an engine plant capable of producing 350,000 engines per year. Mr. Rippon's last position at GM was Global Program Manager - Powertrain where he was responsible for overall program management of five different joint ventures located in China, Korea, India and Uzbekistan while overseeing more than $1 billion in capital investment. From January 2012 to August 2013, he held the roles of Vice President Engineering, Vice President, and Program Management Officer at CODA Automotive, where he had responsibility for program execution, standardizing process and procedures, and change management. Mr. Rippon is currently a member of the board of directors of CWI. He was active in his community and has served as a volunteer for organizations such as the American Women's Club, Boy Scouts of America, and YMCA.

# Shareholdings of Directors and Executive Officers

As of March 18, 2019, our Board members and executive officers as a group beneficially owned, directly or indirectly, 373,744 of our Common Shares, representing approximately 0.28% of the 133,491,669 Common Shares outstanding on such date.

# Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Other than as described below, none of the directors or executive officers is, as of the date of this AIF, or was within ten years before the date of this AIF, a director, CEO or CFO of any company (including Westport Fuel Systems) that: (i) was subject to a cease trade, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation (each, an "**Order**") for a period of more than 30 consecutive days that was issued while the director or executive officer was acting in the capacity as director, CEO or chief financial officer; or (ii) was subject to such an order that was issued after the director or executive officer ceased to be a director, CEO or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or chief financial officer.

Other than as described below, none of the directors or executive officers, or, to the Company's knowledge, shareholders holding a sufficient number of securities of the Company to materially affect the control of the Company, is, as of the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer or chief financial officer of any company (including Westport Fuel Systems) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

On May 1, 2013, CODA, a private company that designs and manufactures electric cars, filed a voluntary petition for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in the District of Delaware. Mr. Achuthan was the Chief Financial Officer of CODA between November 2011 and July 2013. CODA has since emerged from bankruptcy.

February 9, 2017, Home Capital Group Inc. (**Home Capital**") received an enforcement notice from Staff of the Ontario Securities Commission (**OSC**") relating to its disclosure in 2015. Ms. Eprile formerly chaired the board of Home Capital Group, having joined as a director in May of 2016. On April 19, 2017, the OSC issued a Statement of Allegations and Notice of Hearing against Home Capital. On June 14, 2017, the Company announced that it had reached two settlement agreements which together comprised a global settlement with the OSC and with respect to the Class Action. The settlements were subject to the approval of the OSC and the court.

None of the directors or executive officers, or, to the Company's knowledge, shareholders holding a sufficient number of securities of the Company to materially affect the control of the Company, has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

None of the directors or executive officers, or, to the Company's knowledge, shareholders holding a sufficient number of securities of the Company to materially affect the control of the Company, has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

# Conflict of Interests

Ashoka Achuthan, former Chief Financial Officer of Westport Fuel Systems, has been served on the board of directors of CWI with effect from January 1, 2014 and WWI from December 2013, however, he stepped down from those positions following his resignation in June 2018.

James (Jim) Arthurs, an Executive Vice President of Westport Fuel Systems, has been serving on the board of directors of CWI as a director since January 1, 2014. He had also served as the Chairman from January 1, 2015 to January 1, 2018 while remaining on the board of directors.

Bart van Aerle, an officer of Prins Autogassystemen B.V., a subsidiary of Westport Fuel Systems, has been serving on the board of directors of CWI since January 1, 2018.

James (Jim) Mancuso, a General Manager within Westport Fuel Systems, has been serving on the board of directors of CWI since November 2018.

James (Jim) MacCallum, an acting officer of Westport Fuel Systems, has been serving on the board of directors of CWI since February 2019.

In addition, on January 11, 2016, Pangaea Two Management, LP, Pangaea Two Acquisition Holdings XIV, LLC and Pangaea Two Acquisition Holdings Parallel XIV, LLC (the "**Pangaea Affiliates**") provided $17.5 million to Westport in exchange for a percentage of amounts payable until 2025 to Westport Fuel Systems on select HPDI and joint venture products. On April 20, 2016, the Pangaea Affiliates provided an additional $6.3 million to Westport Fuel Systems in exchange for a derivative economic interest in Westport Innovations (Hong Kong) Limited. On June 1, 2016, the Pangaea Affiliates provided $17.5 million to Westport Fuel Systems in exchange for a convertible promissory notes. Each of the Pangaea Two Management, LP, Pangaea Two Acquisition Holdings XIV, LLC and Pangaea Two Acquisition Holdings Parallel XIV, LLC is an affiliate of Cartesian, an entity for which Peter Yu serves as founder and Managing Partner.

Certain directors and officers of Westport Fuel Systems may currently, or in the future, also serve as directors and/or officers of other public companies that may be involved in the same industry as Westport Fuel Systems, and therefore it is possible that a conflict may arise between their duties as directors or officers of Westport Fuel Systems and their duties as directors and/or officers of such other companies. Such potential conflicts are described in the director and officer biographies included in this AIF, including that Mr. Yu is the Managing Partner of Cartesian, an entity which has a significant existing investment in the Company. Westport Fuel Systems and the directors attempt to minimize such conflicts. In the event that such a conflict of interest arises at a meeting of the Board, a director who has such a conflict will communicate such conflict to the Board and abstain from voting for or against the approval of such items of which they are conflicted. In appropriate cases, Westport Fuel Systems will establish a special committee of Independent Directors to review a matter in which directors, or Management, may have a conflict. In accordance with the Business Corporations Act (Alberta), the directors of Westport Fuel Systems are required to act honestly, in good faith and in the best interests of Westport Fuel Systems. In determining whether or not Westport Fuel Systems will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to Westport Fuel Systems, the degree of risk to which Westport Fuel Systems may be exposed, and its financial position at that time. Other than as indicated, Westport Fuel Systems has no other procedures or mechanisms to deal with conflicts of interest. Other than as described above, there are no known existing or potential material conflicts of interest between Westport Fuel Systems or any of its subsidiaries and any director or officer of Westport Fuel Systems or of any of its subsidiaries.

# Risk Factors

An investment in our business involves risk, and readers should carefully consider the risks described below and in our other filings on www.sedar.com. Our ability to generate revenue and profit from our technologies is dependent on a number of factors, and the risks identified below, if they were to occur, could have a material impact on our business, financial condition, liquidity, results of operations or prospects. While we have attempted to identify the primary known risks that are material to our business, the risks and uncertainties described below may not be the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently believe are immaterial may also adversely affect our business, financial condition, liquidity, results of operations or prospects.

## Risks Related to our Business

### A market for engines with our fuel systems may be limited or may take longer to develop than we anticipate or certain products may not achieve widespread adoption.

Engines with alternative fuel systems represent an emerging market, and we do not know whether end-users will ultimately want to use them or to pay for their initial incremental purchase price. The development of a mass market for our fuel systems may be affected by many factors, some of which are beyond our control, including: the emergence of newer, more competitive technologies and products; the future cost of natural gas and other fuels used by our systems; the future cost of diesel, gasoline and other alternative fuels that may be used by competitive technologies; the ability to successfully build the refuelling infrastructure necessary for our systems; regulatory requirements; availability of government incentives; customer perceptions of the safety of our products; and customer reluctance to try a new product. If a market fails to develop or develops more slowly than we anticipate, we may be unable to recover the losses we will have incurred in the development of our products and may never achieve profitability.

Our proprietary technologies have been demonstrated in heavy-duty trucks, medium-duty, light-duty vehicles and HHP applications. However, we do not know when or whether we will be successful in the commercialization of products for any of our target markets. There can be no assurance that engines using our direct injection technology will perform as well as we expect or that prototypes and commercial systems will be developed and sold in commercially viable numbers.

Many of our fuel systems presently have higher initial capital costs than the incumbent competing technologies, and manufacturing costs of some of our products at a large-scale commercial level have not been confirmed. If we are unable to produce fuel systems that are economically competitive, on a life-cycle cost basis, in terms of price, reliability and longevity, customers will be unlikely to buy products containing our fuel systems.

### Our growth is dependent on natural gas refuelling infrastructure, fuel price differentials and environmental regulations, policies and government incentives which may not persist or develop as we anticipate.

Natural gas must be carried on board in liquefied or compressed form, and there are few public or private refuelling stations available in many jurisdictions, including Canada and the U.S. There can be no assurance of the successful expansion of the availability of natural gas as a vehicle fuel or that companies will develop refuelling stations to meet projected demand. If customers are unable to obtain fuel conveniently and affordably, a mass market for vehicles powered by our technology is unlikely to develop.

The acceptance of natural gas-fuelled engines by customers depends in large part on the price differential between natural gas, diesel and gasoline fuels. Despite current oil price volatility tied to an overabundance of supply, natural gas and LPG has generally been, and currently is, less expensive than diesel fuel in many jurisdictions. This price differential is affected by many factors, including changes in the resource base for natural gas compared with crude oil, availability of shale gas, pipeline transportation capacity for natural gas, refining capacity for crude oil, exports for refined products and government excise and fuel tax policies. There can be no assurance that natural gas or LPG will remain less expensive than diesel and gasoline fuels. This may impact upon potential customers' decisions to adopt gaseous fuels as an energy solution in the short term.

Additionally, we currently benefit from, and hope to continue to benefit from, certain government environmental policies, mandates and regulations around the world, most significantly in the international automotive market and in the U.S. Examples of such regulations include those that provide economic incentives, subsidies, tax credits and other benefits to purchasers of low emission vehicles, restrict the sale of engines that do not meet emission standards, fine the sellers of non-compliant engines, tax the operators of diesel engines and require the use of more expensive ultra-low sulphur diesel fuel. There can be no assurance that these policies, mandates and regulations will be continued. Incumbent

industry participants with a vested interest in gasoline and diesel, many of which have substantially greater resources than we do, may invest significant time and money in an effort to influence environmental regulations in ways that delay or repeal requirements for clean vehicle emissions. If these are discontinued or if current requirements are relaxed, this may have a material impact on our competitive position.

## We continue to incur losses, require working capital and capital growth and may not be able to access the capital we need.

We have incurred substantial losses since our inception and continue to incur losses and experience negative cash flows. While we have undertaken significant efforts to reverse this, we cannot predict if or when we will operate profitably or generate positive cash flows or if we will be able to implement our business strategy successfully. Pursuing our strategy requires us to incur significant expenditures for research and product development, marketing, and general administrative activities. As a result, we need to continue to grow our revenues and gross margins to achieve and sustain profitability and positive operating cash flows, and we may need to raise additional capital.

Execution of our business plan and our commercial viability could be jeopardized if we are unable to raise additional funds for our commercialization plans, to fund working capital, research and development ("**R&D**") projects, sales, marketing and product development activities, and other business opportunities. We attempt to mitigate this risk by generating funds from a variety of sources including: through the sale of our commercial products, through the sale of non-core assets including long-term investments, through funding from government agencies, industry and business partners, and through the issuance of shares or debt in the public equity markets or through strategic investors. In addition, we try to maintain reserves of cash and short-term investments and seek to obtain funding commitments before we take on any significant incremental initiatives. There can be no assurance that we will be able to secure additional funding, or funding on terms acceptable to us, to pursue our commercialization plans.

## We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, Canada's Corruption of Foreign Public Officials Act, and similar foreign anti-corruption laws.

The *U.S. Foreign Corrupt Practices Act* ("**FCPA**"), Canada's *Corruption of Foreign Public Officials Act* ("**CFPOA**") and similar anti-corruption laws in other jurisdictions prohibit companies and their directors, officers, employees and agents from promising, offering or giving anything of value, including money, to foreign officials, including employees of government owned businesses, for purposes of corruptly influencing such officials in their official duties in order to assist the Company in obtaining or retaining business. During the last few years, the U.S. Department of Justice and the U.S. Securities and Exchange Commission ("**SEC**") and the Royal Canadian Mounted Police have brought an increasing number of FCPA and CFPOA enforcement cases, many resulting in very large fines and deferred criminal prosecutions. We operate in many countries which are viewed as high risk for the purposes FCPA and CFPOA compliance. Our Code of Conduct , Anti-Corruption and Prevention of Bribery Principles and related Anti-Corruption and Bribery policies mandate compliance with anti-corruption laws. We have instituted training programs for certain employees in various jurisdictions where we operate. Despite our training programs and compliance policies, there can be no assurance that all employees and third-party intermediaries (including our distributors and agents) will comply with anti-corruption laws. Any such violation could have a material adverse effect on our business. As part of our anti-corruption policies, in the event that we have reason to believe that our employees, agents, distributors or other third parties that transact Westport Fuel Systems business have or may have violated applicable anti-corruption laws, including the FCPA and CFPOA, we may investigate or have outside counsel or agents investigate the relevant facts and circumstances. We have incurred and in the future may incur additional compliance costs associated with the implementation of our FCPA and CFPOA compliance policies and training programs, which could have a material impact on our business. One such investigation by the SEC is currently ongoing. As the Corporation has previously disclosed, the Enforcement Division of the SEC has issued subpoenas to Westport Fuel Systems for information concerning its investment in Weichai Westport Inc. and the Corporation's compliance with the FCPA and securities laws related to disclosures in SEC filings in connection with the Westport Fuel Systems operations in China. The investigation being conducted by the SEC has required and will continue to require significant resources to be expended by the directors, officers and employees of the Corporation. The diversion of such resources could materially affect the ability of the Corporation to conduct its operations in the normal course of business. In any acquisition or joint venture we engage in, we expose ourselves to the possibility that the employees and agents of such businesses may not have conducted themselves in compliance with the anti-corruption laws. In response to increasing FCPA and CFPOA enforcement actions in the U.S. and Canada, we have sought to impose contractual provisions and undertake cost appropriate due diligence. We cannot provide assurance that we will always be protected from the consequences of acts which may have violated the FCPA or CFPOA. Violations of the FCPA or CFPOA may result in significant civil and criminal fines, as well as criminal convictions. Violations of the FCPA, CFPOA and other foreign anti-corruption laws, or allegations of such violations, could disrupt our business and cause us to suffer civil and criminal financial penalties and other sanctions, which could have a material adverse impact on our business, financial condition, and results of operations. See "Legal and Regulatory Proceedings".

## Economic Sanctions may Impact on the Business of Certain of our Foreign Subsidiaries and Joint Ventures.

Some of our foreign subsidiaries, joint ventures or future acquisitions may sell products to customers in countries that may be subject to sanctions and embargoes imposed by, including but not limited to, the U.S. and Canadian governments. Although these sanctions and embargoes may not prohibit those foreign subsidiaries and joint ventures from selling products and providing services in these countries, they may prohibit us and our domestic subsidiaries and joint ventures, as well as employees of our foreign subsidiaries and joint ventures who are U.S. or Canadian citizens, from participating in, approving or otherwise facilitating any aspect of the business activities in those countries. The constraints on our ability to have U.S. or Canadian persons, including our senior Management, provide managerial oversight and supervision over sales in embargoed countries may negatively affect the financial or operating performance of such business activities. We routinely monitor changes in economic sanctions laws and adapt our procedures to remain in compliance with such laws.

## We are dependent on relationships with strategic partners.

Execution of our current strategy is dependent on cooperation with strategic partners for technology development, manufacturing and distribution. To be commercially viable, our fuel systems must be integrated into engines, and our engines must be integrated into chassis manufactured by OEMs. We can offer no guarantee that existing technology agreements will be renewed or advanced into commercialization agreements or that our strategic partners will not seek to renegotiate or amend those agreements before or after a product has been commercialized. We can offer no guarantee that even if technology agreements do exist with our strategic partners that OEMs will manufacture engines with our fuel systems or chassis for our engines, or if they do manufacture such products, that customers will choose to purchase them. Any integration, design, manufacturing or marketing problems encountered by OEMs could adversely affect the market for our products and our financial results. In addition, there can be no assurance of the commercial success of any joint ventures in which we are, or will become, involved.

Any change in our relationships with our strategic partners, whether as a result of economic or competitive pressures or otherwise, including any decision by our strategic partners to reduce their commitment to our products and technology in favour of competing products or technologies, to change or seek to change the terms of our contractual relationships with them or to bring to an end our various alliances, could have a material adverse effect on our business and financial results.

In addition, disputes regarding the rights and obligations of the parties have in the past and may in the future arise under our agreements with our strategic partners. These and other possible disagreements have in the past and may in the future lead to the renegotiation or modification of such agreements, or could lead to the termination of such agreements or delays in collaborative research, development, supply, or commercialization of certain products, or could require or result in litigation or arbitration. Moreover, disagreements have in the past and may in the future arise with our strategic partners over rights to intellectual property. These kinds of disagreements could result in costly and time-consuming litigation.

Any such conflicts with our strategic partners could reduce our ability to obtain future collaboration agreements and could have a negative impact on our relationship with existing strategic partners.

## We are dependent on relationships with our suppliers.

While we have negotiated supply agreements with various manufacturers and have entered into strategic supply agreements with certain suppliers, certain of these manufacturers may presently be the sole supplier of key components for our products, and we are dependent on their ability to source materials, manage their capacity, workforce and schedules as well as their ability to ramp up capacity and maintain quality and cost to support our production requirements. For a number of reasons, including but not limited to shortages of parts, labour disruptions, lack of capacity and equipment failure, a supplier may fail to supply materials or components that meet our quality, quantity or cost requirements or to supply any at all. If we are not able to resolve these issues or obtain substitute sources for these materials or components in a timely manner or on terms acceptable to us, our ability to manufacture certain products may be harmed, and we may be subjected to cancellation of orders or penalties for failed or late deliveries, which could have a material adverse effect on our business and financial results. Our products also use steel and other materials that have global demand. The prices and quantities at which those supplies are available fluctuate and may increase significantly. Competitive pressure, however, may not allow us to increase the sales price of our products. Any such increases may therefore negatively affect our margins and financial condition. We mitigate these risks by seeking secondary suppliers, carrying inventory and locking in long-term pricing when possible. There are no guarantees, however, that we will be successful in securing alternative suppliers or that our inventory levels will be sufficient for our production requirements.

## We could be adversely affected by the operations of our joint ventures and joint venture partners.

We operate in many parts of the world that have experienced social unrest, political and economic instability and resulting governmental corruption. While we have policies in place to ensure adequate monitoring of our activities and compliance with Canadian, U.S. and local laws and regulations in the countries in which we operate, we also operate, and intend to operate in the future, through various joint venture arrangements. Our level of control over joint venture operations may be restricted or shared, and we may be unable to control the actions of joint venture partners or their employees. Despite our policies mandating compliance with Canadian, U.S. and local laws, we cannot assure you that our internal control policies and procedures will always protect us from reckless or negligent acts committed by our joint ventures or their employees or agents. Such employees or agents of the joint venture or joint venture partners may undertake actions that would result in a violation of law, including but not limited to, tax laws, customs laws, environmental laws, labour laws, permitting laws and regulations, industry laws or international anti-corruption and anti-bribery laws, including Canadian anti-corruption laws and the U.S. FCPA. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our business and operations. Geopolitical tensions may affect the performance of our joint ventures and operations in Asia.

## Our limited production trials, commercial launch activities and field tests could encounter problems.

We conduct limited production trials and field tests on a number of our products as part of our product development cycle, and we are working on scaling up our production capabilities. These trials, production readiness activities and field tests may encounter problems and delays for a number of reasons, including the failure of our technology, the failure of the technology of others, the failure to combine these technologies properly, and the failure to maintain and service the test prototypes properly. Some of these potential problems and delays are beyond our control. Any problem or perceived problem with our limited production trials and field tests could hurt our reputation and the reputation of our products and delay their commercial launch.

## We could become subject to product liability claims.

Our business exposes us to potential product liability claims that are inherent to natural gas, LPG and hydrogen and products that use these gases. Natural gas, LPG and hydrogen are flammable gases and are potentially dangerous products. Any accidents involving our products or other natural gas, LPG or hydrogen-based products could materially impede widespread market acceptance and demand for our engines and fuel systems. In addition, we may be subject to a claim by end-users or others alleging that they have suffered property damage, personal injury or death because our products did not perform adequately. Such a claim could be made whether or not our products perform adequately under the circumstances. From time to time, we may be subject to product liability claims in the ordinary course of business, and we carry a limited amount of product liability insurance for this purpose. However, our current insurance policies may not provide sufficient or any coverage for such claims, and we cannot predict whether we will be able to maintain our insurance coverage on commercially acceptable terms.

## Natural gas, LPG, hydrogen and products that use these gases entail inherent safety and environmental risks that may result in substantial liability to us.

Natural gas, LPG and hydrogen are flammable gases and are potentially hazardous products. Our operations, including our R&D and manufacturing processes, are subject to all of the risks and hazards inherent to natural gas, LPG and hydrogen and products that use these gases, including equipment defects, malfunctions and failures and natural disasters, which could result in uncontrollable flows of natural gas, fires, explosions and other damages. Although we believe that our procedures for using, handling, storing and disposing of natural gas, LPG, hydrogen and other hazardous materials comply with legally prescribed standards, we cannot completely eliminate the risk of contamination or injury resulting from natural gas, LPG, hydrogen and other hazardous materials and we may incur liability as a result of such contamination or injury. In the event of an accident, we could be held liable for damages or penalized with fines, and the liability could exceed our insurance and other resources, in which event Westport Fuel Systems could incur significant costs that could have a material adverse effect upon its financial condition.

## We could become liable for environmental damages resulting from our research, development or manufacturing activities.

The nature of our business and products exposes us to potential claims and liability for environmental damage, personal injury, loss of life, and damage to or destruction of property, including potentially for claims due to the release of methane and other GHG. Our business is subject to numerous laws and regulations that govern environmental protection and human health and safety. These laws and regulations have changed

frequently in the past and it is reasonable to expect additional and more stringent changes in the future. Our operations may not comply with future laws and regulations, and we may be required to make significant unanticipated capital and operating expenditures. If we fail to comply with applicable environmental laws and regulations, governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits, and private parties may seek damages from us. Under those circumstances, we might be required to curtail or cease operations, conduct site remediation or other corrective action, or pay substantial damage claims. In addition, depending on the nature of the claim, our current insurance policies may not provide sufficient or any coverage for such claims.

## We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success.

Failure to protect our existing and future intellectual property rights could seriously harm our business and prospects and may result in the loss of our ability to exclude others from practicing our technology or our own right to practice our technologies. If we do not adequately ensure our freedom to use certain technology, we may have to pay others for rights to use their intellectual property, pay damages for infringement or misappropriation and/or be enjoined from using such intellectual property. Our patents do not guarantee us the right to practice our technologies if other parties own intellectual property rights that we need in order to practice such technologies. Our patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular patent. As is the case in many other industries, the web of intellectual property ownership in our industry is complicated and, in some cases, it is difficult to define with precision where one property begins and another ends. In any case, there can be no assurance that:

(i) any of the rights we have under U.S. or foreign patents owned by us or other patents that third parties license to us will not be curtailed, for example, through invalidation, circumvention, challenge, being rendered unenforceable or by license to others;

(ii) we were the first inventors of inventions covered by our issued patents or pending applications or that we were the first to file patent applications for such inventions;

(iii) any of our pending or future patent applications will be issued with the breadth of claim coverage sought by us, or be issued at all;

(iv) our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technologies;

(v) any of our trade secrets will not be learned independently by our competitors; or

(vi) the steps we take to protect our intellectual property will be adequate. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in certain foreign countries.

We also seek to protect our proprietary intellectual property, including intellectual property that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with our strategic partners and employees. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach or that such persons or institutions will not assert rights to intellectual property arising out of these relationships.

Certain intellectual property has been licensed to us from third parties who may also license such intellectual property to others, including our competitors. If necessary or desirable, we may seek further licenses under the patents or other intellectual property rights of others. However, we can give no assurances that we will obtain such licenses or that the terms of any offered licenses will be acceptable to us. The failure to obtain or renew a license from a third party for intellectual property we use at present could cause us to incur substantial costs and to suspend the manufacture or shipment of products or our use of processes requiring such intellectual property.

## We could become engaged in intellectual property litigation or disputes that may negatively affect our business.

From time to time, claims have been made by third parties that the practice of our technology infringes upon patents owned by those third parties. Although we have seen no valid basis for any of these claims, as our business grows, parties may attempt to take advantage of that growth and assert similar claims and demands for compensation. Our response to such claims will be commensurate with the seriousness of the allegations, their potential effect on our business and the strength of our position. We will examine a range of options, from formal legal action to obtain a declaratory judgment of non-infringement, to the initiation of design changes. We intend to vigorously defend our intellectual property.

As a result, while we are not currently engaged in any material intellectual property litigation, we could become subject to lawsuits in which it is alleged that we have infringed the intellectual property rights of others or in which the scope, validity and enforceability of our intellectual property rights is challenged. In addition, we may commence lawsuits against others who we believe are infringing upon our rights. Our

involvement in intellectual property litigation or disputes, including any that may arise in respect of, including but not limited to our HPDI technology or LNG tanks, could be time consuming and result in significant expense to us, diversion of resources, and delays or stoppages in the development, production and sales of products or intellectual property, whether or not any claims have merit or such litigation or disputes are resolved in our favour. In the event of an adverse outcome as a defendant in any such litigation, we may, among other things, be required to:

- pay substantial damages;
- cease the development, manufacture, use, sale or importation of products that infringe upon other patented intellectual property;
- expend significant resources to develop or acquire non-infringing intellectual property;
- discontinue processes incorporating infringing technology; or
- obtain licenses to the infringing intellectual property.

Any such result could require the expenditure of substantial time and other resources and could have a material adverse effect on our business and financial results.

## We currently face, and will continue to face, significant competition.

Our products face, and will continue to face, significant competition, including from incumbent technologies, and in particular increased competition with respect to SI natural gas engine OEMs and aftermarket kit providers. As the market for natural gas engine products continues to grow this competition may increase. New developments in technology may negatively affect the development or sale of some or all of our products or make our products uncompetitive or obsolete. Other companies, many of which have substantially greater customer bases, businesses, and financial and other resources than us, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, certain of our products and technologies. In addition, the terms of some of our joint venture agreements allow for the potential for the introduction of competing products in certain markets by our joint venture partners.

Competition for our products may come from current power technologies, improvements to current power technologies and new alternative power technologies (such as fuel cells and electric), including other fuel systems and in particular increased competition with respect to SI natural gas engine OEMs, natural gas tanks and aftermarket kit providers. Each of our target markets is currently serviced by existing manufacturers with existing customers and suppliers using proven and widely accepted technologies. Many existing manufacturers have or had natural gas engine programs and could develop new engines without our help or components, using more conventional technologies or technologies from competitive companies. Additionally, there are competitors working on developing technologies such as cleaner diesel engines, bio-diesel, fuel cells, advanced batteries and hybrid battery/internal combustion engines, and new fuels in each of our targeted markets. Each of these competitors has the potential to capture market share in various markets, which could have a material adverse effect on our position in the industry and our financial results. For our products to be successful against competing technologies, especially diesel engines, they must offer advantages in one or more of these areas: regulated or un-regulated emissions performance, including CO2 reduction; fuel economy; fuel cost; engine performance; power density; engine and fuel system weight; and engine and fuel system price. There can be no assurance that our products will be able to offer advantages in all or any of these areas.

## Potential fluctuations in our financial results make financial forecasting difficult.

We expect our revenues and results of operations to continue to vary significantly from quarter to quarter. Sales and margins may be lower than anticipated due to timing of customer orders and deliveries, unexpected delays in our supply chain, general economic and market-related factors, product quality, performance and safety issues, and competitive factors. The current economic environment also makes projecting financial results more difficult. In addition, the continuance and timing of government funding of our R&D programs is difficult to predict and may cause quarter to quarter variations in financial results. In addition, due to our early stage of commercialization on some products, we cannot accurately predict our future revenues or results of operations or the timing of government funding on our current R&D programs. We are also subject to normal operating risks such as credit risks, foreign currency risks, and global and regional economic conditions. As a result, quarter-to-quarter comparisons of our revenues and results of operation may not be meaningful. It is likely that in one or more future quarters our results of operation will fall below the expectations of securities analysts and investors. If this happens, the trading price of our Common Shares might be materially and adversely affected.

## Sustained negative economic factors could negatively impact our business.

Global economic factors beyond our control such as sustained and far reaching negative economic factors, more restrictive access to credit markets, current state of the energy markets and low fuel price differential, or other broad economic issues may negatively affect the market, and reduce demand for our products as partners and potential customers defer replacing or expanding their fleets. Natural gas and oil prices are expected to remain volatile for the near future because of market uncertainties over the supply and the demand of this commodity due to the current state of the world economies, energy infrastructure and other factors. Our bad debt expense may increase, and we may need to assist potential customers with obtaining financing or government incentives to help customers fund their purchases of our products.

## We could lose or fail to attract the human capital necessary to run our business.

Our success depends in large part on our ability, and that of our affiliates, to attract and retain key management, engineering, scientific, manufacturing and operating human capital. As we develop additional capabilities, we may require more skilled employees. Given the highly specialized nature of our products, these employees must be highly skilled and have a sound understanding of our industry, business or technology. Recruiting employees for the alternative fuel industry is also highly competitive. Although to date we have been successful in recruiting and retaining qualified employees, there can be no assurance that we will continue to attract and retain the human capital needed for our business. The failure to attract or retain qualified employees could have a material adverse effect on our business.

## Warranty claims could diminish our margins.

There is a risk that the warranty accrual included in our cost of product revenue is not sufficient, and we may recognize additional expenses, including those related to litigation, as a result of warranty claims in excess of our current expectations. Such warranty claims may necessitate a re-design, re-specification, a change in manufacturing processes, and/or recall of our products, which may have an adverse impact on our finances and on existing or future sales. Although we attempt to mitigate against these risks through our sales and marketing initiatives and our product development, quality assurance, support and service programs, there can be no assurance that such initiatives and programs are adequate or that sales of our commercial products will continue to grow and contribute financially. Even in the absence of any warranty claims, a product deficiency such as a manufacturing defect or a safety issue could be identified, necessitating a product recall, which could itself have an adverse impact on our finances and on existing or future sales.

New products may have different performance characteristics from previous products. In addition, we have limited field experience with existing commercialized products, including but not limited to the Westport™ WiNG System, our first generation of Westport™ HPDI systems and Westport HPDI 2.0™ from which to make our warranty accrual estimates.

## We may have difficulty managing faster than anticipated product expansions.

As products are launched, sales may be more than we expect. During periods of quicker than anticipated expansion, we may have difficulty expanding the scope of our operations to match the increased demand. In addition, we may be required to place more reliance on our strategic partners and suppliers, some of whom may not be capable of meeting our production demands in terms of timing, quantity, quality or cost. Difficulties in effectively managing the budgeting, forecasting and other process control issues presented by any rapid expansion could harm our business, prospects, results of operations or financial condition.

## We may not realize the anticipated benefits from joint ventures, investments or acquisitions.

Our joint ventures, and any future joint venture, investment or acquisition, could expose us to certain liabilities, including those that we fail or are unable to identify during the investment or acquisition process. In addition, joint ventures and acquisitions often result in difficulties in integration, and, if such difficulties were to occur, they could adversely affect our results. In particular, achieving the full benefit of the Merger with Fuel Systems depends, in part, on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner. The integration process may also divert the attention of, and place significant demands on, our managerial resources, which may disrupt our current business operations. As a result, we may fail to meet our current product development and commercialization schedules. Additionally, we may not be able to find suitable joint venture partners, investments or acquisitions, which could adversely affect our business strategy.

## We are dependent on our relationship with Cummins for CWI profits and cash flows.

CWI purchases all of its current and foreseeable engine products from Cummins-affiliated plants and distributors. Although the factories operate with modern technology and experienced management, there can be no assurance that the factory and distribution systems will always be

able to perform on a timely and cost-effective basis. Any reduction in the manufacturing and distribution capabilities of Cummins-affiliated plants and distributors could have a material adverse effect on CWI's business and financial results.

Under the Amended JVA, while Cummins has been subject to exclusivity restrictions that generally limit Cummins' ability to compete against CWI in North America in respect of SI natural gas or propane products within the displacement range of the products covered by Amended JVA ("**CWI Products**"), as of February 2017, Cummins has been permitted to market and sell a SI natural gas or propane engine within the displacement range of the CWI Products in North America should they choose to develop one based on a new Cummins heavy duty engine platform and without CWI's assistance. In addition, the Amended JVA permits Cummins to develop, market and sell products that compete with CWI outside of North America. The introduction by Cummins of new products that compete with CWI could have a material adverse effect on CWI's sales of CWI Products and on CWI's financial results.

Under the Amended JVA, the market scope for sales of CWI Products by CWI is primarily limited to North America. Cummins has the sole right to sell CWI Products outside of North America, and the revenues from such sales (as well as the corresponding costs and liabilities) will be credited to CWI. There can be no assurance that Cummins will continue to pursue sales of the CWI Products outside of North America or that the pricing for such CWI Products will be set at levels that will allow such CWI Products to compete effectively in the applicable markets. In addition, the limitation of CWI's market scope primarily to North America subjects CWI to more concentrated market risk. Any decrease in demand within the North American market for the CWI Products, including as a result of the decrease in the cost of fuels that are alternatives to natural gas or conditions or events that impair or adversely affect the infrastructure for producing and transporting LNG could have a material adverse effect on CWI's business and financial results.

The Amended JVA provides that substantially all significant decisions with respect to CWI and its business must be unanimously approved by the CWI board of directors and, in some instances, the shareholders of CWI. Because the CWI board of directors is evenly divided between Westport and Cummins designees and each of Westport and Cummins have 50% ownership of the Common Shares of CWI, any material change in the nature or scope of CWI's business, requires each of Westport's and Cummins' approval. Failure or delay by Cummins or Westport and their respective designees to the CWI board of directors to approve any such matters could have a material adverse effect on CWI's business and financial results. In addition, the declaration and payment of any dividends by CWI requires unanimous approval of the CWI board of directors and is subject to the business judgment of the CWI board of directors, taking into account the factors specified in the Amended JVA. Failure or delay by CWI to pay dividends could have a material adverse effect on Westport's cash flows and liquidity.

The Amended JVA provides that upon a change of control of Westport, Cummins may elect to terminate the Amended JVA (in which case Cummins is obligated to repurchase Westport's shares of CWI at a price determined based on a formula in the Amended JVA) or continue the Amended JVA upon certain modified terms. These provisions may make it less likely that Westport will experience a change of control or may diminish any takeover premium that a third party would pay for its shares.

## We could be adversely affected by risks associated with acquisitions.

We have historically and may, in the future, seek to expand our business through acquisitions. Any such acquisitions will be in part dependent on Management's ability to identify, acquire and develop suitable acquisition targets in both new and existing markets. In certain circumstances, acceptable acquisition targets might not be available. Acquisitions involve a number of risks, including: (i) the possibility that we, as a successor owner, may be legally and financially responsible for liabilities of prior owners; (ii) the possibility that we may pay more than the acquired company or assets are worth; (iii) the additional expenses associated with completing an acquisition and amortizing any acquired intangible assets; (iv) the difficulty of integrating the operations and employees of an acquired business; (v) the challenge of implementing uniform standards, controls, procedures and policies throughout an acquired business; (vi) the inability to integrate, train, retain and motivate key employees of an acquired business; and (vii) the potential disruption of our ongoing business and the distraction of Management from our day-to-day operations. These risks and difficulties, if they materialize, could disrupt our ongoing business, distract Management, result in the loss of key human capital, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial performance

## If we do not properly manage foreign sales and operations, our business could suffer.

We expect that a substantial portion of our future revenues will be derived from sales outside of Canada, and we operate in jurisdictions where we may lack sufficient expertise, local knowledge or contacts. Establishment of an international market for our products may take longer and cost more to develop than we anticipate and is subject to inherent risks, including unexpected changes in government policies, trade barriers, difficulty in staffing and managing foreign operations, longer payment cycles, and foreign exchange controls that restrict or prohibit repatriation of funds. As a result, if we do not properly manage foreign sales and operations, our business could suffer.

## We have foreign currency risk.

Although we report in U.S. dollars, many of our operating expenses are in Canadian dollars and Euros. Foreign exchange gains and losses are included in results from operations. A decline in the U.S dollar relative to the Canadian dollar, or a decline in the Euro relative to the U.S. dollar could negatively impact margins and other financial results. We have not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations. In fiscal 2017, the U.S. dollar depreciated against the Canadian dollar and the Euro.

## We are at risk of cyber based attacks.

Westport Fuel Systems information technology systems serve an important role in the operation of its business. Westport Fuel Systems relies on various technologies to operate its production facilities, interact with customers, vendors and employees and to report on its business. Interruption, failure or unsuccessful implementation and integration of Westport Fuel Systems information technology systems could result in material and adverse impacts on the Company's financial condition, operations, sales, and reputation and could also result in damage to Company operations. Westport Fuel Systems information technology systems and networks could be interrupted or fail due to a variety of causes, such as natural disaster, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject Westport Fuel Systems to civil and criminal penalties, litigation or have a negative impact on the Company's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Company's cash flows and have a material adverse effect on its business, operations, financial condition and operational results. Although to date Westport Fuel Systems has not experienced any material losses relating to cyber risks, there can be no assurance that Westport Fuel Systems will not incur such losses in the future. Westport Fuel Systems risk and exposure cannot be fully mitigated due to the nature of these threats. Westport Fuel Systems Information Technology leadership continues to develop and enhance internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

# Risks Related to our Common Shares

## Our Common Share price may fluctuate.

The stock market in general, and the market prices of securities of technology companies in particular, can be extremely volatile, and fluctuations in our Common Share price may be unrelated to our operating performance. Our Common Share price has been and could in the future be subject to significant fluctuations in response to many factors, including: actual or anticipated variations in our results of operations; the addition or loss of customers; announcements of technological innovations, new products or services by us or our competitors; changes in financial estimates or recommendations by securities analysts; conditions or trends in our industry; our announcements of significant acquisitions, strategic relationships, joint ventures or capital commitments; additions or departures of key employees; general market conditions; and other events or factors, many of which may be beyond our control. Additionally, our Common Share price has historically been strongly correlated with the differential between the price of natural gas, diesel fuel and crude oil. The price of such commodities has been subject to significant volatility. See "MARKET FOR SECURITIES" for the 52-week trading price of our Common Shares.

## Litigation, including litigation due to Common Share price volatility or other factors, could cause us to incur substantial costs and divert our Management's time and attention.

From time to time, we may become involved in, or become liable for legal, contractual and other claims by various parties, including customers, suppliers, former employees, class action plaintiffs and others, including litigation related to the volatility of our Common Shares and investigations or reviews by regulatory bodies. On an ongoing basis, we attempt to assess the likelihood of any adverse judgments or outcomes to these proceedings or claims, although it is difficult to predict final outcomes with any degree of certainty. Except as disclosed from time to time in our financial statements, we do not believe that any of the proceedings or claims to which we are party will have a material adverse effect on our financial position; however, we cannot provide any assurance to this effect.

## We do not currently pay and may never pay any cash dividends on our Common Shares in the foreseeable future; therefore, our shareholders may not be able to receive a return on their Common Shares until they sell them.

We have never paid or declared any cash dividends on our Common Shares. We do not anticipate paying any cash dividends on our Common Shares in the foreseeable future because, among other reasons, our current credit facilities restrict our ability to pay dividends, and we currently intend to retain any future earnings to finance our business. The future payment of dividends will be dependent on factors such as cash on hand and achieving profitability, the financial requirements to fund growth, our general financial condition and other factors our Board may consider appropriate in the circumstances. Until we pay dividends, which we may never do, our shareholders will not be able to receive a return on their Common Shares unless they sell them.

## If we are characterized as a PFIC, U.S. holders may be subject to adverse U.S. federal income tax consequences.

Based in part on current operations and financial projections, we do not expect to be a PFIC for U.S. federal income tax purposes for our current taxable year or in the foreseeable future. However, we must make an annual determination as to whether we are a PFIC based on the types of income we earn and the types and value of our assets from time to time, all of which are subject to change. Therefore, we cannot assure you that we will not be a PFIC for our current taxable year or any future taxable year. A non-U.S. corporation generally will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The market value of our assets may be determined in large part by the market price of our Common Shares, which is likely to fluctuate. In addition, the composition of our income and assets will be affected by how, and how quickly, we use any cash that we raise. If we were to be treated as a PFIC for any taxable year during which you hold Common Shares, certain adverse U.S. federal income tax consequences could apply to U.S. holders.

## As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our U.S. shareholders.

We are a foreign private issuer under applicable U.S. federal securities laws and, therefore, we are not required to comply with all the periodic disclosure and current reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") and related rules and regulations. As a result, we do not file the same reports that a U.S. domestic issuer would file with the SEC, although we will be required to file with or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws. In addition, our officers, directors and principal shareholders are exempt from the reporting and "short swing" profit recovery provisions of Section 16 of the Exchange Act. Therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell our Common Shares as the reporting periods under the corresponding Canadian insider reporting requirements are longer. In addition, as a foreign private issuer, we are exempt from the proxy rules under the Exchange Act.

## We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses to us.

In order to maintain our current status as a foreign private issuer, a majority of our Common Shares must be either directly or indirectly owned by non-residents of the U.S. unless we also satisfy one of the additional requirements necessary to preserve this status. We may in the future lose our foreign private issuer status if a majority of our Common Shares are held in the U.S. and we fail to meet the additional requirements necessary to avoid loss of foreign private issuer status. The regulatory and compliance costs to us under U.S. federal securities laws as a U.S. domestic issuer may be significantly more than the costs we incur as a Canadian foreign private issuer eligible to use the multi-jurisdictional disclosure system ("**MJDS**"). If we are not a foreign private issuer, we would not be eligible to use the MJDS or other foreign issuer forms and would be required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. In addition, we may lose the ability to rely upon exemptions from corporate governance requirements of the NASDAQ Listing Rules that are available to foreign private issuers.

## U.S. investors may not be able to obtain enforcement of civil liabilities against us.

The enforcement by investors of civil liabilities under the U.S. federal or state securities laws may be affected adversely by the fact that we are governed by the *Business Corporations Act* (Alberta), a statute of the Province of Alberta, Canada, that the majority of our officers and directors and some of the experts named in this AIF, are residents of Canada or otherwise reside outside the U.S., and that all, or a substantial portion of their assets and a substantial portion of our assets, are located outside the U.S. It may not be possible for investors to effect service of process within the U.S. on certain of our directors and officers or the experts named in this AIF or enforce judgments obtained in the U.S. courts

against us, certain of our directors and officers or the experts named in this AIF based upon the civil liability provisions of U.S. federal securities laws or the securities laws of any state of the U.S.

There is some doubt as to whether a judgment of a U.S. court based solely upon the civil liability provisions of U.S. federal or state securities laws would be enforceable in Canada against us, our directors and officers or the experts named in this AIF. There is also doubt as to whether an original action could be brought in Canada against us or our directors and officers or the experts named in this AIF to enforce liabilities based solely upon U.S. federal or state securities laws.

# Audit Committee Matters

## Mandate

The mandate of the Audit Committee as prescribed by the Board is set out in the Audit Committee Charter, which is attached as Schedule "A".

## Composition

Each member of the Audit Committee is financially literate and has the ability to perform his or her responsibilities as a member on the Audit Committee based on his or her education and experience, as highlighted in the Director Biographies.

| Audit Committee Member | Independent |
|---|---|
| Michele Buchignani | Yes |
| Brenda Eprile | Yes |
| Tony Harris | Yes |
| Colin Johnston | Yes |
| Scott Mackie | Yes |
| Wade Nesmith | Yes |

## Reliance on Certain Exemptions

At no time since the commencement of Westport Fuel Systems most recently completed financial year has the Company relied on any exemption in Sections 2.4 (De Minimis Non-audit Services), 3.2 (Initial Public Offerings), 3.3(2) (Controlled Companies), 3.4 (Events Outside Control of Member), 3.5 (Death, Disability or Resignation of Audit Committee Member), 3.6 (Temporary Exemption for Limited and Exceptional Circumstances) or 3.8 (Acquisition of Financial Literacy) of National Instrument 52-110 *Audit Committees* ("**52-110**"), or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

## Audit Committee Oversight

At no time since the commencement of Westport Fuel Systems' most recent completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

## Pre-Approval of Policies and Procedures

The Audit Committee is mandated to review the provision of non-audit services and consider the effect of any such services on the independence of the external auditors.

# Non-Audit Services

The SEC rules on auditor independence (the "**Rules**") as they relate to public companies include prohibitions or restrictions on services that may be provided by auditors to their audit clients and require that all services provided to a listed entity audit client, including its subsidiaries, be pre-approved by the client's audit committee. In accordance with those Rules, the Audit Committee has approved, adopted and made effective the Preapproval Policy as part of the Audit Committee Charter. That policy requires that the Audit Committee approve annually the types of services management may engage the external auditor to perform and that the Audit Committee set a dollar limit per engagement and in aggregate that management may spend on non-audit services. Amounts outside of these services or authorized limits require explicit approval from the Audit Committee Chair.

# Principal Accountant Fees and Services

The following table shows the aggregate fees billed to the Company by KPMG LLP, in its capacity the Company's independent registered public accounting firm. The following tables are shown in Canadian dollars.

| PRINCIPAL ACCOUNTANT FEES & SERVICES in Canadian Dollars | | |
|---|---|---|
| | **12/31/2018** | **12/31/2017** |
| Audit Fees | $ 1,767,750 | $ 1,733,563 |
| Audit-Related Fees | — | — |
| Tax fees | 6,860 | 6,895 |
| All Other Fees | — | — |
| **Total** | **$ 1,774,610** | **$ 1,740,458** |

## Audit Fees

Audit fees represent the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and reviews of the Company's quarterly financial reporting, and other services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

## Audit-Related Fees

Audit-related fees represent the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant. Fees disclosed under this category are for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under the heading audit fees above.

## Tax Fees

Tax fees represent the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant KPMG LLP. Fees disclosed under this category are for professional services rendered for tax compliance, tax advice.

## All Other Fees

"Other Fees" represent the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant KPMG LLP, for which there were none. Fees to be disclosed under this category would be for products and services other than those described under the headings audit fees and tax fees above.

# Legal and Regulatory Proceedings

As disclosed in the Company's previous management discussion and analysis filings, on June 15, 2017, the Enforcement Division of the SEC issued a subpoena to Westport Fuel Systems for information concerning its investment in Weichai Westport Inc. and compliance with the FCPA and securities laws related to disclosure in SEC filings in connection with the Westport Fuel Systems operations in China. The SEC Enforcement Division issued follow up subpoenas on February 14, 2018, June 25, 2018, and August 2, 2018. The company has completed its response to those subpoenas. No new subpoenas have been received since August 2, 2018. Westport Fuel Systems is cooperating with these requests and cannot predict the duration, scope or outcome of the SEC's investigation. To date our management has devoted significant time and attention to these matters, and we may be required to devote even more time, attention and financial resources to these matters in the future. The SEC's investigation and our requirements in response thereto could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. While we cannot estimate our potential exposure, if any, in these matters at this time, we have already expended significant amounts investigating and responding to the subpoenas in respect of this investigation, including funding the expense of independent legal representation, and expect to continue to need to expend significant amounts to conclude the SEC investigation. During the

year ended December 31, 2018, we recorded expenses related to the SEC investigation of $10.0 million, net of expected insurance recoveries, and to date have recorded aggregate net expenses related to such investigation of $11.8 million. Although we maintain insurance that may cover some of these expenses, and we have given notice to our insurers of the matter, there is a risk that a substantial portion of the overall expenses and costs relating to such SEC investigation will not be covered by such policies. In the event of future proceedings arising out of the SEC investigation, to the extent covered, our ultimate liability may possibly exceed the available insurance.

# Interests of Management and Others in Material Transactions

Other than as described below or elsewhere in this AIF, no director or officer of Westport Fuel Systems, no person or company beneficially owning, or controlling or directing, directly or indirectly, more than ten percent (10%) of any class or series of the Company's outstanding voting securities, nor any associate or affiliate of such persons or companies, has had any material interest, direct or indirect, in any transaction within our three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Westport Fuel Systems.

# Transfer Agent and Registrar

Our transfer agent and registrar for our Common Shares is Computershare Trust Company of Canada at its principal offices in Vancouver, British Columbia, Calgary, Alberta and Toronto, Ontario. Our U.S. transfer agent is Computershare Trust Company, N.A. 350 Indiana Street, Suite 750, Golden, CO 80401.

# Material Contracts

## EDC Loan Agreement

Export Development Canada ("**EDC**") is Canada's export credit agency, providing financing, insurance, bonding, trade knowledge and connections to support Canadian companies. In order to bolster liquidity and support the Westport HPDI 2.0™ program launch and commercialization, Westport Fuel Systems entered into a $20 million secured term loan agreement on December 20, 2017 with Export Development Canada. The secured term loan matures on December 31, 2021 with quarterly principal repayments which increase annually. There is an initial interest rate of 9% plus fees, with the rate reducing to 6% upon achieving certain milestones. The loan is initially secured by the pledge of shares in certain Westport Fuel Systems subsidiaries which will be released when Westport Fuel Systems is able to pledge the assets related to the program to EDC. The facility limits Westport Fuel Systems ability to incur additional indebtedness, encumber assets and pay dividends. Westport Fuel Systems has agreed to use certain amounts received pursuant to the CWI joint venture to prepay the EDC facility. A copy of the EDC Loan Agreement is available on SEDAR at http://www.sedar.com.

## Cartesian

Mr. Peter Yu, a director of Westport Fuel Systems, is the founder and managing partner of Cartesian. On January 11, 2016, Cartesian provided $17.5 million in capital to Westport in exchange for a percentage of amounts received by Westport on select HPDI and joint venture income through 2025. On April 20, 2016, Westport announced that it had sold a derivative economic interest in Westport HK to Cartesian for an up-front payment of $6.3 million plus a potential future payment based on Cartesian's return on investment.Westport received an additional $17.5 million from Cartesian in consideration for the issuance by Westport Fuel Systems of convertible notes (the **"Convertible Notes"**) to Cartesian upon completion of the Merger with Fuel Systems. The Convertible Notes bear interest at 9% and have a five-year term. The Convertible Notes are convertible into Common Shares by dividing the principal and interest outstanding by a valuation price of $2.31. A copy of the Cartesian Agreement is available on SEDAR at http://www.sedar.com.

## Amended and Restated Joint Venture Agreement

Effective February 19, 2012, Cummins and Westport entered into the Amended JVA for the CWI joint venture. The Amended JVA provides for, among other things, clarification concerning the scope of products within CWI and revised certain economic terms of the prior joint venture agreement and Westport agreed in the Amended JVA to focus CWI's future product development investments on North American markets including engines for on-road applications between the displacement range of 5.9 litres through 12 litres, and to have these engines manufactured in Cummins North American plants.

The Amended JVA defines CWI's market as sales of CWI Products manufactured in the U.S.A, Canada and/or Mexico for use in on-road vehicles in such countries as well as continuation of CWI's business with respect to the local production of CWI Products in India and/or China for those local markets for up to three years following the effective date of the Amended JVA.

During the term of the Amended JVA, Cummins has the sole right to sell and export all CWI Products outside of North America. CWI Products sold outside of North America will be sold by Cummins as Cummins branded products. CWI will be credited the revenue and charged for the cost of revenue and other related costs for CWI Products from 5.9 up to 10 litres regardless of where they are sold in the world or how they are branded. Revenue on the sale of the 11.9 litre CWI Product in North America and in Australia will be credited to CWI, subject to CWI being charged for the cost of revenue and other related costs. Cummins will retain all revenue and be responsible for the cost of revenue and other related costs for sales of the 11.9 litre CWI Product outside of North America and Australia.

Under the terms of the Amended JVA, Westport and Cummins agree not to sell on-highway natural gas or propane engines within the market scope except as provided by the Amended JVA. Cummins has also agreed not to market or sell a SI natural gas engine of 13 litres or less that is a derivative of the ISX12 G platform, or any SI natural gas or propane engine that falls within the displacement range of the CWI Products in North America. However, after the first five years of the Amended JVA term, Cummins may produce and sell a SI natural gas or propane engine for the North American market that falls within the displacement range of the CWI Products if done without any assistance from CWI, if such engine is based on an entirely new Cummins heavy-duty engine platform not in production in North America on the effective date and provided that Cummins pays to CWI a specified royalty on the net revenue of each

such engine sold.

Under the Amended JVA, in the event CWI's annual revenue exceeds certain baseline revenue levels, Westport and Cummins are entitled to receive a performance bonus (the "**Performance Bonus**"). If and when achieved in any year, the Performance Bonus will be calculated as a percentage of CWI's net income based on the amount by which CWI's actual annual revenue exceeds its baseline revenue level for such year and the applicable party's share of the Performance Bonus (75% in the case of Westport; 25% in the case of Cummins). Net income remaining

after payment of the Performance Bonus will be shared equally between Westport and Cummins, with dividends paid on a quarterly basis as approved by the CWI board of directors after considering CWI's business outlook, cash position and future liabilities.

The Amended JVA will continue in full force and effect until the earlier of (a) December 31, 2021, or (b) termination prior to such date in accordance with the terms of the Amended JVA. The Amended JVA will be subject to termination prior to December 31, 2021 under certain circumstances and events described in the Amended JVA, including upon a change of control of either Cummins or Westport.

In the event of a change of control of Westport, Cummins may elect to terminate the Amended JVA in which case Cummins is obligated to repurchase Westport's shares of CWI at a price determined based on a formula in the Amended JVA, or in lieu of exercising its termination right, Cummins may elect to continue the Amended JVA upon certain modified terms, including that: ownership of CWI will be adjusted so that Cummins owns 50.1% and Westport owns 49.9% of CWI; no Performance Bonus will be payable for any periods following such election; Cummins will thereafter have the ongoing right to nominate the President; and Westport will have no access or license to any CWI intellectual property developed after the date of the change of control.

Pursuant to the Amended JVA, certain actions require unanimous approval of CWI's board of directors and/or shareholders, including the declaration or payment of any dividends or any other distributions by CWI, material changes to CWI's business and the addition of new products to CWI's business. See "Risk Factors - We are dependent on our relationship with Cummins for CWI profits and cash flows."

A copy of the Amended JVA is available on SEDAR at http://www.sedar.com. See also "CUMMINS WESTPORT INC. JOINT VENTURE" and "RISK FACTORS" in this AIF for a description of the Amended JVA.

# Interests of Experts

KPMG LLP, our independent registered public accountants, have audited our consolidated financial statements for the year ended December 31, 2018. As at the date hereof, KPMG LLP has confirmed that it is independent with respect to Westport Fuel Systems within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia and also that they are independent registered public accountants with respect to Westport Fuel Systems under all relevant U.S. professional and regulatory standards.

# Additional Information

Additional information, including information as to directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our most recent Management Information Circular, which is available on SEDAR at www.sedar.com.

Additional financial information is contained in our financial statements and Management's Discussion & Analysis for the year ended December 31, 2018, which are incorporated herein by reference and form an integral part of this AIF. Additional information relating to Westport Fuel Systems may be found on SEDAR at: www.sedar.com.

# Schedule "A": Audit Committee Charter

## Purpose

The Audit Committee (the "**Committee**") is a standing committee of the Board of Directors (the "Board") of Westport Fuel Systems Inc. ("**Westport Fuel Systems**"), established to assist the Board in fulfilling its oversight responsibilities with respect to:

- the integrity of financial statements, management's discussion and analysis ("**MD&A**") and other information provided to shareholders and others;
- the adequacy and effectiveness of the system of internal controls, implemented and maintained by Westport Fuel Systems management ("**Management**");
- the understanding of risks, specifically around financial reporting;
- the promotion of legal and ethical conduct and compliance with legal and regulatory requirements;
- the independence and qualifications of the external auditors; and
- the performance of Westport Fuel Systems internal audit function and external auditors.

## Authority

The Committee has unrestricted access to Westport Fuel Systems personnel and documents and to its external auditors and will be provided with the resources necessary to carry out its responsibilities. The Committee shall have the authority to authorize investigations into any matter within the Committee's scope of responsibility and is empowered, if it deems it necessary, to retain independent counsel and other professional advisors at Westport Fuel Systems expense. The Committee shall set the compensation, and oversee the work, of any such outside counsel and other advisors retained by the Committee.

The Committee shall have sole authority to recommend to the Board the appointment, termination and compensation of the external auditors who shall report directly to the Committee. The Committee is entitled to appropriate funding, with respect to compensation set and determined solely by the Committee, for the payment of compensation to independent external auditors, for the payment of compensation to any external advisors retained by the Committee and for any expenses necessary for the Committee to carry out its duties.

## Limitations of the Audit Committee's Role

While the Committee has the responsibilities and powers set forth in this Audit Committee Charter (this "Charter"), it is not the duty of the Committee to plan or conduct audits or to determine that Westport Fuel Systems financial statements are complete, accurate and in accordance with generally accepted accounting principles. The external auditor is responsible for planning and conducting audits. Management is responsible for preparing complete, accurate financial statements in accordance with generally accepted accounting principles.

## Composition

The Committee shall consist, at a minimum, of three members of the Board each of whom shall be affirmatively determined to be financially literate by the Board, one of whom shall be designated the Chair (the "**Committee Chair**"), as annually appointed by the Independent Directors (as defined in the Charter of the Board) (the "**Independent Directors**"). The Committee shall be composed solely of Independent Directors, at least ¼ of which are resident Canadians. Unless approved by the Board Chair, no Director may serve on the Committee if, including the membership on the Committee, they sit on more than three public company audit committees. No member of the Committee shall have participated in the preparation of Westport Fuel Systems or any of its subsidiaries' financial statements at any point during the last three years. Each of the Directors on the Committee shall possess a basic level of "financial literacy", and at least one member should qualify as a "financial expert", as defined by Item 407(d)(5) of Regulation S-K, and be financially sophisticated as described in Section 5605(c)(2)(A) of the NASDAQ Manual. The Board shall give consideration to the periodic rotation of Committee membership as well as the Committee Chair (as part of the annual committee chair appointment process or at such other times as the Chair, or Lead Director, as applicable, sees fit).

# Meetings

Regular meetings of the Committee shall be held at least four times per year at such times and places as it deems necessary to fulfill its responsibilities. The meetings will be scheduled to permit timely review of the interim and annual financial statements, as well as Westport Fuel Systems other financial disclosures and related compliance matters. Additional meetings may be called as often as the Committee deems necessary. A quorum of two members of the Committee, one of whom must be the Committee Chair, unless he or she has designated another member to act as Committee Chair, is required for each meeting. If a quorum is present at a meeting, a majority of the members of the Committee in attendance at such meeting is required to approve any matter decided by the Committee at such meeting. Matters may be decided outside of a meeting by the unanimous written consent of all members of the Committee. The Committee is governed by all other procedural rules regarding meetings, actions without meetings, notice and waiver of notice as are applicable to the Board.

The Committee Chair shall, in consultation with the Board Chair or the Lead Director, as applicable, Management and the internal and external auditors, set the Committee meeting agendas. Committee members may recommend agenda items subject to approval by the Committee Chair. The Committee shall meet in executive session with Management, the external auditors, and as a Committee to discuss any matters that the Committee or each of these groups believes should be discussed. The Committee and the Corporate Counsel of Westport Fuel Systems shall also meet in executive session to review legal matters that, in the Corporate Counsel's or the Committee's opinion, may have a material impact on the financial statements. In addition to the above scheduled meetings, any member of the Committee, the Chairman or Lead Director, as applicable, or the auditors may, subject to required notice, call a meeting of the Committee at any time.

Committee minutes shall be prepared and subsequently approved for all meetings. Copies of such minutes shall be filed with the Corporate Secretary of Westport Fuel Systems, or the equivalent position if applicable, and available to all Board members.

# The Committee is charged with the following specific responsibilities:

## 1. The Committee's Relationship With the External Auditors

The Committee is responsible for recommending to the Board:

- the selection of an independent, registered, external auditor for the purpose of auditing Westport Fuel Systems annual financial statements, books, records, accounts and internal controls over financial reporting;
- the retention of such external auditor;
- the compensation of the external auditor; and
- the selection, retention, compensation and oversight of any other registered public accounting firm engaged for the purpose of preparing or issuing audit reports or performing any other audit, review, or attest services for Westport Fuel Systems.

The Committee shall evaluate, at least on annual basis, the qualifications, performance and independence of the external auditors. The Committee is responsible for ensuring that it receives from the external auditor a formal written statement delineating all relationships between the external auditor and Westport Fuel Systems and Westport Fuel Systems subsidiaries, consistent with the standards described in Section 5605(c)(1)(B) of the NASDAQ Manual, and is responsible for actively engaging in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor and for taking, or recommending that the Board take, appropriate action to oversee the independence of the external auditor.

With regard to overseeing the work of external auditors, the Committee is responsible for the following activities:

- approving the audit scope and engagement fees;
- reviewing the results of their work;
- pre-approving any non-audit services or delegating such authority to the Committee Chair;
- establishing policies and procedures for the Committee's pre-approval of permitted services on an on-going basis;
- evaluating their performance; and
- resolving any disagreements between Management and external auditors regarding financial reporting.

Westport Fuel Systems external auditors shall report directly to the Committee. The Committee shall review with the external auditors, on at least an annual basis, (a) the external auditors' internal quality-control procedures, (b) any material issues raised by the most recent internal quality control review, peer review, the Canadian Public Accountability Board or the Public Company Accounting Oversight Board, or any publicly available report by any governmental or professional authorities within the preceding five years respecting one or more audits carried out by the firm, (c) any steps taken to deal with any such issues and (d) all relationships between the external auditors and Westport Fuel Systems or any of Westport Fuel Systems subsidiaries. The Committee shall evaluate the qualifications, performance and independence of the external auditors, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of Management and internal auditors. The Committee shall present its conclusions with respect to the independent auditors to the Board.

The Committee shall review with the external auditors matters relating to the conduct of the audit, including (a) the proposed scope of their examination with emphasis on accounting and financial areas where the Committee, the external auditors or Management believe special attention should be directed; (b) the results of their audit, including their audit findings report and resulting letter, if any, of recommendations for Management; (c) their evaluation of the adequacy and effectiveness of Westport Fuel Systems internal controls over financial reporting; (d) significant areas of disagreement, if any, with Management; (e) cooperation received from Management in the conduct of the audit; (f) significant accounting, reporting, regulatory or industry developments affecting Westport Fuel Systems; and (g) significant changes to Westport Fuel Systems auditing and accounting principles, policies, controls, procedures and practices proposed or contemplated by the external auditors or Management.

The Committee shall discuss with the external auditors and Management (a) all critical accounting policies and practices to be used in an audit; (b) any issues and disclosure requirements regarding (1) the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies, (2) any off-balance sheet arrangements and (3) significant business risks or exposures and Management's assessment of the steps taken to monitor, control and minimize such risk; (c) other material written communications between the auditors and Management; and (d) any other matters required to be discussed by Public Company Accounting Oversight Board Auditing Standards No. 1301, Communications with Audit Committees.

The Committee shall monitor the audit partners' rotation required by law.

## 2. Oversight of Risk Management Processes

Risk management is an important part of maintaining a sound system of internal control. As part of the risk management oversight responsibility of the Board and as delegated to the Committee by the Board, the Committee shall be responsible for assessing the range of risks and making recommendations as required to the Board regarding appropriate responsibilities and delegations for the identification, monitoring and management of these risks. In this respect, the Committee shall:

- have the primary oversight role with respect to identifying and monitoring the management of principal financial risks that could impact the financial reporting of Westport Fuel Systems; and
- assess, as part of its oversight of the system of internal controls, the effectiveness of the overall process for identifying principal business risks and provide its view to the Board.

## 3. Oversight of Internal Control

The Committee shall have the responsibility to review and monitor that Management has designed and implemented an effective system of internal control over financial reporting and to provide any recommendations with respect to such systems to the Board.

Management shall be required to provide the Committee, at least annually, a report on internal controls, including reasonable assurance that such controls are adequate to facilitate reliable and timely financial information. The Committee shall also review and follow-up on any areas of internal control weakness identified by the external auditors with the auditors and Management.

The Corporate Counsel of Westport Fuel Systems shall advise the Committee and the Board with respect to Westport Fuel Systems policies and procedures regarding compliance with applicable laws and regulations and with Westport Fuel Systems Code of Conduct and Employee Handbook. Such advisement shall also include the policies and procedures relating to Section 5 of this Charter pertaining to any subsidiaries controlled by Westport Fuel Systems.

The Committee shall also review and approve Westport Fuel Systems policy regarding the hiring of partners and employees and former partners and employees of its present and former external auditors.

## 4. Oversight of Continuous Disclosure Reporting

Prior to any disclosure, the Committee shall review the following:

- the draft or final quarterly and annual financial statements, MD&A and earnings press releases to ensure that all disclosures are in compliance with regulatory requirements, public financing documents or prospectuses; and
- other draft timely disclosure documents containing financial information that would likely be material to either the quarterly or annual financial statements.

The Committee shall recommend to the Board the approval of the final annual financial statements and related MD&A.

In each instance where a draft is reviewed, the CFO of Westport Fuel Systems shall affirm, in writing or via E-mail, to Committee members that no significant changes have been made to the draft other than those specifically agreed to by the Committee for inclusion or such draft shall be re-circulated to the Committee.

In discharging its responsibilities, the Committee will review:

- all critical accounting policies and practices used or to be used by Westport Fuel Systems, and changes in the selection and application of accounting principles;
- significant financial reporting issues that have arisen in connection with the preparation of such audited financial statements;
- analyses prepared by Management, and/or the external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and
- the effect of emerging regulatory and accounting initiatives.

The Committee shall review and discuss with the external auditor any audit problems or difficulties and Management's response thereto. This review shall include any difficulties encountered by the auditor in the course of performing its audit work, including any restrictions on the scope of its activities or its access to information and any significant disagreements with Management.

The Committee shall also establish a process to receive, retain and treat complaints received by Westport Fuel Systems and the related companies referred to in Section 5 of this Charter regarding accounting, internal controls or auditing matters and establish procedures for the confidential, anonymous submission by Westport Fuel Systems employees of questionable accounting and auditing matters. In this regard, the Committee shall have responsibility for the implementation and periodic review and amendment of Westport Fuel Systems whistleblower policy. This process and the referenced whistleblower policy will be reviewed annually.

Lastly, the Committee shall ensure that Management has developed and implemented appropriate policies regarding continuous disclosure and that there is compliance with filing requirements and prompt reporting to all investors of material events impacting Westport Fuel Systems.

## 5. Related Companies Financial Results

The audited consolidated financial statements of Westport Fuel Systems may include the results of other companies, in whole or in part, in which Westport Fuel Systems maintains an equity interest. In addition, an investor company may include the disclosure of Westport Fuel Systems results or the results of a joint venture. The Committee shall establish a coordination and communications framework with the accountants, auditors and audit committees of these companies. The Committee shall satisfy itself that Westport Fuel Systems consolidated financial statements accurately reflect the results of all companies included, regardless of whether these companies were audited by different external auditors.

## 6. Related Party Transactions

The Committee shall review, approve, or ratify, any transaction between Westport and any related person (as defined in Item 404 of Regulation S-K under the Securities Act of 1933, as amended) on an ongoing basis.

## 7. Internal Audit Oversight and Responsibilities

The Committee shall:

- review and approve Westport Fuel Systems internal audit department's annual audit plan and all major changes in the plan;
- review and discuss with the internal auditors the scope, progress and results of executing the internal audit plan;
- receive reports on the status of significant findings, recommendations and Management's responses;
- review the reporting relationship, activities, staffing, organizational structure and credentials of the Internal Audit Department;
- review and concur in the appointment, replacement, reassignment, or dismissal of the Internal Audit Director who shall have direct access to the Committee; and
- review the annual performance of the internal audit function.

## 8. Approval of Audit and Permitted Non-Audit Services Provided by the External Auditors

Over the course of any year there will be two levels of approvals that will be provided. The first is the existing annual Committee approval of the audit engagement and identifiable permitted non-audit services for the coming year. The second is in-year Committee pre-approvals of proposed audit and permitted non-audit services as they arise.

Any proposed audit and permitted non-audit services to be provided by the external auditors to Westport Fuel Systems or its subsidiaries must receive prior approval from the Committee. The Chief Financial Officer of Westport Fuel Systems, or his delegate, shall act as the primary contact to receive and assess any proposed engagements from the external auditors. The Committee shall not approve any non-audit services to be provided by the external auditors to Westport Fuel Systems where either: (i) the sum of non-audit fees are expected to exceed the sum of audit fees, audit-related fees and tax compliance/preparation fees; or (ii) the sum of audit fees and audit-related fees is expected to total less than 50% of Westport's overall fees payable to Westport Fuel Systems external auditor (excluding fees resulting from one time transactions).

The Committee is also authorized to approve non-audit services that may be provided by a party that is not the external auditors. Examples may be a quarterly review or consulting advice relating to the quarterly financial statements (which the Committee may approve without committing Westport Fuel Systems to have a quarterly review of the financial statements on an ongoing basis), tax advice and tax consulting services, or any other consulting services that the Committee determines that it will obtain from any party that is not the external auditors.

In the majority of such instances, proposals may be received and considered by the Chair (or such other member of the Committee who may be delegated authority to approve audit and permitted non-audit services), for approval of the proposal on behalf of the Committee. The Chair will then inform the Committee of any approvals granted at the next scheduled meeting.

## 9. Other Responsibilities

A. **Review of Charter.** The Committee shall review and reassess the adequacy of this Charter at least annually and recommend to the Board any amendments or modifications to its Charter that the Committee deems appropriate. The Committee shall also prepare and disclose a summary of its mandate to shareholders.

B. **Annual Performance Evaluation.** At least annually, as part of the Board self-assessment process, the Committee shall evaluate its own performance and report the results of such evaluation to the Nominating and Corporate Governance Committee.

C. **Annual Communication Regarding Significant Disagreements.** The Committee shall annually inform the external auditors and Management that they should promptly contact the Committee or its Chairman about any significant issue or disagreement related to the system of internal controls and financial reporting.

D. **Annual Review of Transactions Involving Directors and Officers.** The Committee shall annually review a summary of the Directors' and Executive Officers' travel and entertainment expenses, related party transactions and any conflicts of interest.

# Schedule "B": Forward-Looking Information

Certain statements contained in this Annual Information Form ("**AIF**") and in certain documents incorporated by reference in this AIF, constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", "project" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. In particular, this AIF contains forward-looking statements pertaining to the following:

- Westport Fuel Systems Inc. High Pressure Direct Injection 2.0 ("Westport HPDI 2.0™) providing original equipment manufacturers ("**OEMs**") with vertically integrated natural gas solutions with attractive price, performance and fuel economy (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY" , "BUSINESS OVERVIEW - OPERATING BUSINESS UNITS - CORPORATE AND TECHNOLOGY INVESTMENTS" and "PRODUCTS - WESTPORT HPDI 2.0™);
- Westport HPDI 2.0™ providing integration into OEM operations and providing an attractive way to reach scalable volume deliveries (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY", "BUSINESS OVERVIEW - OPERATING BUSINESS UNITS - CORPORATE AND TECHNOLOGY INVESTMENTS", and "RISK FACTORS");
- the future demand for Cummins Westport Inc. ("**CWI**") products and Westport Fuel Systems Inc. products, increasing penetration within our existing markets and expansion of those markets geographically, and continuing growth in the transportation sector and in the natural gas engine market (set out, for example, under the heading "GENERAL DEVELOPMENTS - STRATEGY");
- our ability to successfully launch new technology and market initiatives and integrate our products into existing engine OEM products, including: (set out, for example, under the headings "GENERAL DEVELOPMENTS - THE WORLD OF WESTPORT FUEL SYSTEMS", "GENERAL DEVELOPMENTS - STRATEGY", "BUSINESS OVERVIEW - OPERATING BUSINESS UNITS", and "RISK FACTORS");
- the manufacture of Westport HPDI 2.0™ system components (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY", "BUSINESS OVERVIEW - OPERATING BUSINESS UNITS - CORPORATE AND TECHNOLOGY INVESTMENTS");
- CWI's focus on sales in North America with engines manufactured in Rocky Mount, North Carolina and Jamestown, New York (set out, for example under the heading "BUSINESS OVERVIEW - OPERATING BUSINESS UNITS - CORPORATE AND TECHNOLOGY INVESTMENTS - CUMMINS WESTPORT JOINT VENTURE");
- our ability to expand, exploit and protect our intellectual property (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY", "BUSINESS OVERVIEW - INTELLECTUAL PROPERTY", and "RISK FACTORS", particularly under the subheadings, "We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success" and "We could become engaged in intellectual property litigation or disputes that may negatively affect our business");
- our capital expenditure and investment programs (set out, for example, under the heading, "RISK FACTORS", particularly under the subheadings "We may not realize the anticipated benefits from joint ventures, investments or acquisitions" and "We could be adversely affected by risks associated with acquisitions");
- the future desirability and use of alternative fuel sources within the transportation industry and commodity prices and the fuel price differential between natural gas and diesel (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY" and "RISK FACTORS", particularly under the subheadings "Sustained negative economic factors could negatively impact our business" and "Fuel price differentials are hard to predict and may be less favourable in the future");
- ongoing relationships between us and our business partners and the results of our development programs with such partners (set out, for example, under the heading "BUSINESS OVERVIEW - OPERATING BUSINESS UNITS - CORPORATE AND TECHNOLOGY INVESTMENTS", we make statements throughout these sections regarding such relationships, and under the heading "RISK FACTORS", particularly under the subheading "We are dependent on relationships with strategic partners", and future development program expectations under the heading "BUSINESS OVERVIEW - OPERATING BUSINESS UNITS- CORPORATE AND TECHNOLOGY INVESTMENTS");
- potential disputes regarding the rights and obligations of the parties and which may in the future arise under our agreements with our strategic partners (set out, for example, under the heading "RISK FACTORS", particularly under the subheading "We are dependent on relationships with strategic partners",
- our ability to continue to compete with our competitors and their technologies, and the capital and operating costs of vehicles using our technologies relative to competing technologies (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY",

"BUSINESS OVERVIEW - COMPETITIVE CONDITIONS" and "RISK FACTORS", particularly, under the subheading "We currently face, and will continue to face, significant competition");

- continuing growth in the transportation sector and in the natural gas engine market (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY" and "RISK FACTORS", particularly under the subheading "A market for engines with our fuel systems may be limited or may take longer to develop than we anticipate");
- profit margins and production costs of engines incorporating our technologies (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY" and "RISK FACTORS", particularly under the subheadings "Warranty claims could diminish our margins" and "We have foreign currency risk");
- the further development of infrastructure supporting the application of natural gas as an alternative fuel (set out, for example, under the headings, "GENERAL DEVELOPMENTS - STRATEGY" and "RISK FACTORS");
- increasing penetration of our technologies in key markets within the transportation sector and in key geographic markets (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY" and "RISK FACTORS");
- increasingly stringent environmental and emissions regulations in the future (set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY" and "RISK FACTORS");
- our ability to attract and retain employees (as set out, for example, under the heading "HUMAN RESOURCES AND POLICIES" and "RISK FACTORS", particularly under the subheading "We could lose or fail to attract the human capital necessary to run our business");
- demand for engines incorporating our technologies (as set out, for example, under the headings "GENERAL DEVELOPMENTS - STRATEGY" and "RISK FACTORS", particularly under the subheading, "A market for engines with our fuel systems may be limited or may take longer to develop than we anticipate");
- the timing of commissioning of liquefied natural gas ("**LNG**") refuelling stations (as set out, for example, under the heading "RISK FACTORS");
- our estimates and assumptions used in our accounting policies, accruals, including warranty accruals, and financial condition, and our adoption, timing and ability to meet certain accounting standards (as set out, for example, "RISK FACTORS", particularly under "Warranty claims could diminish our margins" and in Schedule "A" entitled "AUDIT COMMITTEE CHARTER" and in our quarterly and annual financial statements);
- the ability of our products to adapt to the use of renewable natural gas (**RNG**") and manufactured fuels, including hydrogen, as fuels and our ability to offer and develop related technologies (as set out, for example, under the heading "GENERAL DEVELOPMENTS - STRATEGY" and " PRODUCTS OEM");
- our future growth and the expected changes to the transportation sector (as set out, for example, under the headings "GENERAL DEVELOPMENTS - THE WORLD OF WESTPORT FUEL SYSTEMS", "GENERAL DEVELOPMENTS - STRATEGY", "GENERAL DEVELOPMENTS - MARKET OVERVIEW" and "BUSINESS OVERVIEW - COMPETITIVE CONDITIONS");
- our future growth and expected changes to the transportation sector as set out, for example, under the heading "GENERAL DEVELOPMENTS - STRATEGY";
- our ability to predict if or when we will operate profitably or generate positive cash flows as set out for example, under the heading "We have incurred and continue to incur losses".
- our compliance with environmental regulations and regulatory policies and our ongoing assessments of targets for improving our commitment to environmental and social responsibilities (as set out, for example, under the headings "BUSINESS OVERVIEW - SOCIAL AND ENVIRONMENTAL POLICIES" and "RISK FACTORS", particularly, under the subheading, "We could become liable for environmental damages resulting from our research, development or manufacturing activities");
- the strategy of our Transportation segment and resulting growth in market share (as set out, for example, under the heading "GENERAL DEVELOPMENTS - THE WORLD OF WESTPORT FUEL SYSTEMS");
- the expansion of existing relationships with truck and engine OEM (as set out, for example, under the heading "GENERAL DEVELOPMENTS - STRATEGY");

- expansion of alternative fuel product offerings to develop and supply high pressure components to OEM partners (as set out, for example, under the heading BUSINESS OVERVIEW - OPERATING BUSINESS UNITS");
- expected fluctuations in our revenues and results of operations (as set out, for example, under the heading "RISK FACTORS", particularly under the subheading "Potential fluctuations in our financial results make financial forecasting difficult").

Such statements reflect Westport Fuel Systems management's **("Management"**) current views with respect to future events and are subject to certain risks and uncertainties and are based upon a number of factors and assumptions. Actual results may differ materially from those expressed in the foregoing forward-looking statements due to a number of uncertainties and risks, including the risks described in this AIF and in the documents incorporated by reference into this AIF and other unforeseen risks. Such risks, uncertainties, factors and assumptions include, without limitation:

- market acceptance of our products (as set out, for example, under "RISK FACTORS", particularly, under the subheadings "Sustained negative economic factors could negatively impact our business" and "Certain of our products may not achieve widespread adoption");
- product development delays and delays in contractual commitments (as set out, for example, under "RISK FACTORS", particularly, under the subheadings "We are dependent on relationships with strategic partners", "We are dependent on relationships with our suppliers" and "Our limited production trials, commercial launch activities and field tests could encounter problems");
- changing environmental regulations (as set out, for example, under "RISK FACTORS", particularly, under the subheading "Changes in environmental and regulatory policies could hurt the market for our products");
- the ability to attract and retain business partners (as set out, for example, under the heading "RISK FACTORS", particularly under the subheadings "We are dependent on relationships with strategic partners" and "We are dependent on our relationship with Cummins for CWI profits and cash flows");
- the success of our business partners and OEM with whom we partner (as set out, for example, under the heading "RISK FACTORS", in particular under the subheading "We are dependent on relationships with strategic partners");
- future levels of government funding and incentives (as set out, for example, under the heading "RISK FACTORS", particularly, under the subheadings "We may be unable to raise additional capital", "Potential fluctuations in our financial results make financial forecasting difficult", "Business benefits from availability of government incentives - United States" and "Business benefits from availability of government incentives - The rest of the world");
- competition from other technologies (as set out, for example, under the heading, "RISK FACTORS", particularly under the subheading "We currently face, and will continue to face, significant competition");
- price differential between compressed natural gas **("CNG")**, LNG and liquid petroleum gas **("LPG"**) relative to petroleum-based fuels (as set out, for example, under the heading "RISK FACTORS", in particular under the subheading "Fuel price differentials are hard to predict and may be less favourable in the future");
- limitations on our ability to protect our intellectual property (as set out, for example, under the heading "RISK FACTORS", in particular under the subheading "We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success");
- potential claims or disputes in respect of our intellectual property (as set out, for example, under the heading "RISK FACTORS", in particular under the subheadings "We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success" and "We could become engaged in intellectual property litigation or disputes that may negatively affect our business");limitations in our ability to successfully integrate acquired businesses (as set out, for example, under the heading "RISK FACTORS", in particular under the subheadings "We may not realize the anticipated benefits from joint ventures, investments or acquisitions" and "We could be adversely affected by risks associated with acquisitions");
- limitations in the development of natural gas refuelling infrastructure (as set out, for example, under the heading "RISK FACTORS", in particular under the subheading "Our growth is dependent on natural gas refuelling infrastructure that may not be built and commissioned");
- the ability to provide the capital required for research, product development, operations and marketing (as set out, for example, under the heading "RISK FACTORS");
- there could be unforeseen claims made against us (as set out, for example, under the heading "RISK FACTORS", particularly under the subheadings "We could become subject to product liability claims", "We could become liable for environmental damages resulting from

our research, development or manufacturing activities", "We could become engaged in intellectual property litigation or disputes that may negatively affect our business" and "Natural gas, LPG, hydrogen and products that use these gases entail inherent safety and environmental risks that may result in substantial liability to us");

- our international business operations could expose us to factors beyond our control such as currency exchange rates, changes in government policy, trade barriers, trade embargoes, and delays in the development of international markets for our products (as set out, for example, under the heading "RISK FACTORS", particularly under the subheadings "We have foreign currency risk", "If we do not properly manage foreign sales and operations, our business could suffer", "We could be adversely affected by the operations of our joint ventures and joint venture partners", "We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, Canada's Corruption of Foreign Public Officials Act, and similar foreign anti-bribery laws" and "Economic Sanctions may Impact on the Business of Certain of our Foreign Subsidiaries and Joint Ventures");
- other risks relating to our common shares ("**Common Shares**") including the ability of the Board to issue preferred shares at its discretion discussed in more detail in this AIF under the heading "Description of Capital Structure", under the heading "RISK FACTORS" particularly under the subheadings "Our Common Share price may fluctuate", "We do not currently intend to pay any cash dividends on our Common Shares in the foreseeable future; therefore, our shareholders may not be able to receive a return on their Common Shares until they sell them", "If we are characterized as a passive foreign investment company (**"PFIC"**) United States (**"U.S"**). holders may be subject to adverse U.S. federal income tax consequences", "As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our U.S. shareholders", "We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses to us," and "U.S. investors may not be able to obtain enforcement of civil liabilities against us" and;
- risk of conflict related to directors and officers of Westport Fuel Systems who may currently, or in the future, also serve as directors and/or officers of other public companies that may be involved in the same industry as Westport Fuel Systems, as discussed in more detail in this AIF under the heading "Conflict of Interests"

You should not rely on any forward-looking statements. Any forward-looking statement is made only as of the date of this AIF. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. The forward-looking statements in this AIF are expressly qualified by this cautionary statement.

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

# WESTPORT FUEL SYSTEMS INC.

For the years ended December 31, 2018, 2017 and 2016

**KPMG LLP**
PO Box 10426 777 Dunsmuir Street
Vancouver, BC V7Y 1K3
Canada

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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. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, 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, 2018 and 2017, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2018, 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, 2018, 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 19, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Change in Accounting Principle*

As discussed in note 4 (a) to the consolidated financial statements, the Company has changed its accounting policies for revenue as of January 1, 2018 due to the adoption of ASC 606 - Revenue from Contracts with Customers.

*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.

**/s/ KPMG LLP**

Chartered Professional Accountants

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

Vancouver, Canada
March 19, 2019

**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 (the Company) internal control over financial reporting as of December 31, 2018, 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, 2018, 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, 2018 and 2017, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated March 19, 2019 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 Annual 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.

/**s**/ **KPMG LLP**

Chartered Professional Accountants
Vancouver, Canada
March 19, 2019

# WESTPORT FUEL SYSTEMS INC.

Consolidated Balance Sheets

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

December 31, 2018 and 2017

| | December 31, 2018 | December 31, 2017 (Adjusted, note 6) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (including $5,095 restricted cash, note 3(c) and 14(a)) | $ 61,119 | $ 71,842 |
| Accounts receivable (note 7) | 55,442 | 61,900 |
| Inventories (note 8) | 46,011 | 45,737 |
| Prepaid expenses | 4,835 | 4,726 |
| Current assets held for sale (note 6) | 1,676 | 16,992 |
| **Total current assets** | 169,083 | 201,197 |
| Long-term investments (note 9) | 8,818 | 9,302 |
| Property, plant and equipment (note 10) | 63,431 | 69,804 |
| Intangible assets (note 11) | 16,829 | 20,943 |
| Deferred income tax assets (note 18(b)) | 1,664 | 1,848 |
| Goodwill (note 12) | 3,170 | 3,324 |
| Other long-term assets | 6,933 | 7,204 |
| **Total assets** | $ 269,928 | $ 313,622 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 13) | $ 82,851 | $ 86,225 |
| Current portion of long-term debt (note 14) | 10,327 | 8,993 |
| Current portion of long-term royalty payable (note 15) | 6,091 | 2,390 |
| Warranty liability (note 16) | 2,800 | 3,529 |
| Current liabilities held for sale (note 6) | 3,870 | 19,141 |
| **Total current liabilities** | 105,939 | 120,278 |
| Long-term debt (note 14) | 44,983 | 45,429 |
| Long-term royalty payable (note 15) | 14,844 | 16,641 |
| Warranty liability (note 16) | 2,141 | 2,772 |
| Deferred income tax liabilities (note 18(b)) | 4,229 | 4,616 |
| Other long-term liabilities | 7,116 | 5,854 |
| **Total long-term liabilities** | 179,252 | 195,590 |
| Shareholders' equity: | | |
| Share capital (Unlimited common and preferred shares, no par value)(note 17): | | |
| 133,380,899 (2017 - 131,279,709) common shares issued | 1,087,068 | 1,078,280 |
| Other equity instruments | 12,948 | 16,247 |
| Additional paid in capital | 10,079 | 10,079 |
| Accumulated deficit | (998,361) | (966,869) |
| Accumulated other comprehensive loss | (21,058) | (19,705) |
| **Total shareholders' equity** | 90,676 | 118,032 |
| **Total liabilities and shareholders' equity** | $ 269,928 | $ 313,622 |

Commitments and contingencies (note 20)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board **Brenda J. Eprile** Director **Colin Johnston** 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, 2018, 2017 and 2016

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 (Adjusted, note 6) | 2016 (Adjusted, note 6) |
| Revenue | $ 270,283 | $ 229,833 | $ 167,181 |
| Cost of revenue and expenses: | | | |
| Cost of revenue | 206,059 | 169,552 | 133,055 |
| Research and development | 30,619 | 50,133 | 55,452 |
| General and administrative | 51,075 | 47,399 | 44,777 |
| Sales and marketing | 15,923 | 15,817 | 18,184 |
| Restructuring costs | 808 | 1,682 | 19,000 |
| Foreign exchange loss | 8,957 | 562 | 6,565 |
| Depreciation and amortization (notes 10 and 11) | 8,824 | 9,826 | 11,244 |
| Impairments on long lived assets, net (note 10) | 736 | 1,550 | 4,843 |
| | 323,001 | 296,521 | 293,120 |
| Loss from continuing operations | (52,718) | (66,688) | (125,939) |
| Income from investments accounted for by the equity method | 22,728 | 12,514 | 5,838 |
| Interest on long-term debt and accretion on royalty payable | (9,133) | (14,487) | (10,773) |
| Bargain purchase gain from acquisition (note 5) | — | — | 35,808 |
| Interest and other income (expense), net of bank charges | 465 | 1,377 | (1,656) |
| Loss from continuing operations before income taxes | (38,658) | (67,284) | (96,722) |
| | | | |
| Income tax expense (recovery) (note 18): | | | |
| Current | 3,950 | (2,780) | 1,610 |
| Deferred | (1,838) | (1,644) | 2,340 |
| | 2,112 | (4,424) | 3,950 |
| | | | |
| Net loss from continuing operations | (40,770) | (62,860) | (100,672) |
| Net income from discontinued operations (note 6) | 9,278 | 52,881 | 3,099 |
| Net loss for the year | (31,492) | (9,979) | (97,573) |
| Other comprehensive income (loss): | | | |
| Cumulative translation adjustment | (1,353) | 11,382 | 1,295 |
| Comprehensive gain (loss) | $ (32,845) | $ 1,403 | $ (96,278) |
| Income (loss) per share: | | | |
| From continuing operations - basic and diluted | $ (0.31) | $ (0.52) | $ (1.10) |
| From discontinued operations - basic and diluted | $ 0.07 | $ 0.44 | $ 0.03 |
| Net loss per share | $ (0.24) | $ (0.08) | $ (1.07) |
| Weighted average common shares outstanding: | | | |
| Basic and diluted | 132,371,396 | 119,558,566 | 91,028,504 |

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, 2018, 2017 and 2016

| | Common shares outstanding | Share capital | Other equity instruments | Additional paid in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| January 1, 2016 | 64,380,819 | $ 937,029 | $ 16,460 | $ 9,837 | $ (859,317) | $ (32,382) | $ 71,627 |
| Issuance of common shares on exercise of share units | 845,491 | 6,639 | (6,639) | — | — | — | — |
| Issuance of common shares in connection with acquisition | 44,882,782 | 98,742 | 655 | — | — | — | 99,397 |
| Beneficial conversion feature on convertible debt | — | — | — | 242 | — | — | 242 |
| Stock-based compensation | — | — | 10,450 | — | — | — | 10,450 |
| Net loss for the year | — | — | — | — | (97,573) | — | (97,573) |
| Other comprehensive income | — | — | — | — | — | 1,295 | 1,295 |
| December 31, 2016 | 110,109,092 | 1,042,410 | 20,926 | 10,079 | (956,890) | (31,087) | 85,438 |
| Issuance of common shares on exercise of share units | 2,045,617 | 9,917 | (9,917) | — | — | — | — |
| Issuance of common shares on public offering, net of costs incurred | 19,125,000 | 25,953 | — | — | — | — | 25,953 |
| Stock-based compensation | — | — | 5,238 | — | — | — | 5,238 |
| Net loss for the year | — | — | — | — | (9,979) | — | (9,979) |
| Other comprehensive income | — | — | — | — | — | 11,382 | 11,382 |
| December 31, 2017 | 131,279,709 | 1,078,280 | 16,247 | 10,079 | (966,869) | (19,705) | 118,032 |
| Issuance of common shares on exercise of share units | 2,101,190 | 8,788 | (8,788) | — | — | — | — |
| Stock-based compensation | — | — | 5,489 | — | — | — | 5,489 |
| Net loss for the year | — | — | — | — | (31,492) | — | (31,492) |
| Other comprehensive loss | — | — | — | — | — | (1,353) | (1,353) |
| December 31, 2018 | 133,380,899 | $ 1,087,068 | $ 12,948 | $ 10,079 | $ (998,361) | $ (21,058) | $ 90,676 |

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, 2018, 2017 and 2016

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 (Adjusted, note 6) | 2016 (Adjusted, note 6) |
| Cash flows from (used in) operating activities: | | | |
| Net loss for the year from continuing operations | $ (40,770) | $ (62,860) | $ (100,672) |
| Items not involving cash: | | | |
| Depreciation and amortization | 16,510 | 14,741 | 15,322 |
| Stock-based compensation expense | 3,040 | 6,961 | 10,450 |
| Unrealized foreign exchange loss | 8,957 | 562 | 6,565 |
| Deferred income tax (recovery) expense | (1,838) | (1,644) | 2,340 |
| Income from investments accounted for by the equity method | (22,728) | (12,514) | (5,838) |
| Accretion of long-term debt and long-term royalty payable | 9,133 | 10,071 | 4,945 |
| Impairments on long lived assets, net | 736 | 1,550 | 4,843 |
| Inventory write-downs to net realizable value | 162 | 1,111 | 6,591 |
| Bargain purchase gain from acquisition | — | — | (35,808) |
| Change in fair value of derivative liability and bad debt expense | (433) | 1,397 | 1,670 |
| Restructuring obligations | — | (14,187) | 14,123 |
| Changes in non-cash operating working capital: | | | |
| Accounts receivable | 3,512 | 2,605 | (4,930) |
| Inventories | (78) | 4,565 | 31,352 |
| Prepaid expenses | (170) | (93) | 952 |
| Accounts payable and accrued liabilities | (1,367) | 6,755 | (22,836) |
| Deferred revenue | (851) | (2,143) | (4,974) |
| Warranty liability | (1,252) | (6,330) | (5,855) |
| Net cash used in operating activities of continuing operations | (27,437) | (49,453) | (81,760) |
| Net cash from (used in) operating activities of discontinued operations | (1,435) | 7,920 | 2,439 |
| Cash flows from (used in) investing activities: | | | |
| Purchase of property, plant and equipment | (10,273) | (25,288) | (8,654) |
| Acquisitions, net of acquired cash (note 5) | — | — | 45,344 |
| Proceeds on sale of assets and investments | — | (85) | 26,334 |
| Dividends received from joint ventures | 23,191 | 16,633 | 13,398 |
| Proceeds received from holdbacks | 6,968 | — | — |
| Net cash from (used in) investing activities of continuing operations | 19,886 | (8,740) | 76,422 |
| Net cash from investing activities of discontinued operations | 14,050 | 77,148 | — |
| Cash flows from (used in) financing activities: | | | |
| Drawings on operating lines of credit and long-term facilities | 12,612 | 42,641 | 9,184 |
| Repayment of operating lines of credit and long-term facilities | (15,616) | (71,387) | (12,789) |
| Proceeds from share issuance, net | — | 25,953 | — |
| Repayment of royalty payable | (3,009) | (11,467) | — |
| Issuance of convertible debt and royalty payable | — | — | 35,000 |
| Long-term asset securing debt | (2,129) | — | — |
| Net cash from (used in) financing activities of continuing operations | (8,142) | (14,260) | 31,395 |
| Effect of foreign exchange on cash and cash equivalents | (7,645) | 4,246 | 4,570 |
| Increase (decrease) in cash and cash equivalents | (10,723) | 16,861 | 33,066 |
| Cash and cash equivalents, beginning of year | 71,842 | 60,905 | 27,839 |
| Cash and cash equivalents, end of year | 61,119 | 77,766 | 60,905 |
| Less: cash and cash equivalents from discontinued operations, end of year | — | 5,924 | — |
| Cash and cash equivalents from continuing operations, end of year | $ 61,119 | $ 71,842 | $ 60,905 |

See accompanying notes to consolidated financial statements.

# WESTPORT FUEL SYSTEMS INC.

Consolidated Statements of Cash Flows (continued)
(Expressed in thousands of United States dollars)

December 31, 2018, 2017 and 2016

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Supplementary information: | | | |
| Interest paid | $ 4,039 | $ 4,416 | $ 4,339 |
| Taxes paid, net of refunds | 540 | 722 | 2,479 |
| Non-cash transactions: | | | |
| Shares issued for acquisitions | — | — | 98,742 |

See accompanying notes to consolidated financial statements.

**1. Company organization and operations:**

Westport Fuel Systems Inc. (the “Company”) was incorporated under the Business Corporations Act (Alberta) on March 20, 1995. The Company engineers, manufactures and supplies alternative fuel systems and components for use in transportation applications on a global basis. The Company's components and systems control the pressure and flow of gaseous alternative fuels, such as propane and natural gas used in internal combustion engines.

**2. Liquidity and going concern:**

In connection with preparing the consolidated financial statements for each annual and interim reporting period management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that the 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 that have not been fully implemented as of the date that the consolidated 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 consolidated financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been approved before the date that the consolidated financial statements are issued.

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

At December 31, 2018, the Company's net working capital was $63,144 (2017 - $80,919) including cash and cash equivalents of $61,119 (2017 - $71,842), and its long-term debt, including the royalty payable, was $76,245, of which $16,418 matures in 2019. The Company has incurred a loss from continuing operations of $40,770 (2017 - $62,860) and negative cash flows from continuing operating activities of $27,437 (2017 - $49,453) for the year ended December 31 ,2018, and has accumulated a deficit of $998,361 since inception.

The Company continues to work towards its goals of increasing revenues and reducing expenditures, which has improved results from operations and operating cash flows in 2017 and 2018, and this improvement in operating results is expected to continue in 2019. In particular, the commercial launch of Westport HPDI 2.0™ in 2018 has allowed the Company to significantly reduce engineering and development spend and the associated capital expenditures on this product and this reduction has improved current and forecasted future cash flows. In addition, while the legal fees related to the Securities and Exchange Commission ("SEC") investigation that began in 2017 (see note 20(b)) increased significantly in 2018, we anticipate these legal expenditures to decrease in 2019. However, since the possible outcomes of this proceeding remain uncertain at this time, it is also necessary to acknowledge that any final determination that the Company’s operations or activities are not, or were not, in compliance with the Foreign Corrupt Practices Act ("FCPA") and/or other U.S. securities laws could result in significant civil and criminal financial penalties and other sanctions, which could have a material adverse impact on our financial condition. Lastly, the Company continues to examine non-core assets to determine whether it is in the best interest of the Company to monetize assets or to continue to hold and invest in these assets. Connected with this activity of assessing its non-core assets, on July 25, 2018 the Company closed the sale of its CNG Compressor business announced in the second quarter of 2018, which resulted in gross proceeds of approximately $14,729.

**2. Liquidity and going concern (continued):**

Based on currently known conditions and events, management believes that the cash on hand at December 31, 2018 and the improvements to the operations expected for 2019 will provide the cash flow necessary to fund operations over the period from March 2019 to March 31, 2020. The ability of the Company to continue as a going concern beyond one year will be dependent on the Company's ability to generate positive results from operations and cash flows. If, as a result of future events, the Company
was to determine it was no longer able to continue as a going concern, significant adjustments would be required to the carrying value of its assets and liabilities in the consolidated financial statements and the adjustments could be material.

**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 of America (“U.S. GAAP”).

Cartesian Capital Group is a global private equity firm based in New York that has investments in the Company. Various Cartesian entities are associated with these investments including Pangaea Two Management, LP; Pangaea Two Acquisition Holdings XIV, LLC; Pangaea Two Acquisition Holdings Parallel XIV, LLC. Collectively, these entities will be referred to as “Cartesian”. In addition, Peter Yu, the founder and managing partner of Cartesian, was elected as a Director of the Company in January 2016. See notes 9(b), 14(c) and 15 for additional details of Cartesian’s investments in the Company.

(b) Foreign currency translation:

The Company’s functional currency is in the Canadian dollar and its reporting currency for its consolidated financial statement presentation is the United States dollar. The functional currencies for the Company's subsidiaries include the following: United States, Canadian ("CDN") and Australian dollars, Euro, Argentina Peso, Chinese Renminbi (“RMB”), Swedish Krona, and Indian Rupee. The Company translates assets and liabilities of non-U.S. dollar functional currency operations using the period end exchange rates, shareholders’ equity balances using historical exchange rates, and revenues and expenses using the monthly average rate for the period with the resulting exchange differences recognized in other comprehensive income.

Transactions that are denominated in currencies other than the functional currency of the Company’s operations or its subsidiaries are translated at the rate 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 rate in effect on the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate. All foreign exchange gains and losses are recognized in the statement of operations, except for the translation gains and losses arising from available-for-sale instruments, which are recorded through other comprehensive income until realized through disposal or impairment.

As at June 30, 2018, the Company concluded that Argentina's economy is highly inflationary. As a result, the Company remeasured the financial statements of the Argentinian subsidiary in the Company's reporting currency beginning July 1, 2018.

**3. Significant accounting policies (continued):**

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

| | Year end exchange rate as at: | | Average for the year ended: | | |
|---|---|---|---|---|---|
| | December 31, 2018 | December 31, 2017 | December 31, 2018 | December 31, 2017 | December 31, 2016 |
| Canadian dollar | 0.73 | 0.80 | 0.77 | 0.77 | 0.76 |
| Australian dollar | 0.70 | 0.78 | 0.75 | 0.77 | 0.74 |
| Euro | 1.14 | 1.20 | 1.18 | 1.13 | 1.11 |
| Argentina Peso | 0.03 | 0.06 | 0.04 | 0.06 | 0.07 |
| RMB | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Swedish Krona | 0.11 | 0.12 | 0.12 | 0.12 | 0.12 |
| Indian Rupee | 0.0143 | 0.0157 | 0.0156 | 0.0154 | 0.0150 |

(c) Cash and cash equivalents:

Cash and cash equivalents includes cash, term deposits, bankers acceptances and guaranteed investment certificates with maturities of ninety days or less when acquired. Cash equivalents are considered as held for trading and recorded at fair value with changes in fair value recognized in the consolidated statements of operations. The $5,095 of restricted cash forms part of the security for the Export Development Canada ("EDC") loan (note 14(a)).

(d) Accounts receivable, net:

Accounts receivable are measured at amortized cost. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Past due balances over 90 days are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

(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. Cost is determined based on the lower of weighted average cost or first-in, first-out. 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, noncancelable, 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.

**3. Significant accounting policies (continued):**

(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 | 15 years |
| Computer equipment and software | Straight-line | 3 years |
| Furniture and fixtures | Straight-line | 5 years |
| Machinery and equipment | Straight-line | 8 – 10 years |
| Leasehold improvements | Straight-line | Lease term |

Depreciation expense on equipment used in the production and manufacturing process is included in cost of sales. All other depreciation is included in the depreciation and amortization expense line on the statement of operations.

(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 and long-term debt 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 government 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.

**3. Significant accounting policies (continued):**

(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. 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 November 30. 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.

(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 engine 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.

**3. Significant accounting policies (continued):**

(n) Revenue recognition:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, a new accounting standard related to revenue recognition. ASC 606 supersedes nearly all U.S. GAAP on revenue recognition and eliminated industry-specific guidance. The underlying principle of ASC 606 is to recognize revenue when a customer obtains control of promised goods or services at an amount that reflects the consideration that is expected to be received in exchange for those goods or services. At the beginning of the first quarter of 2018, the Company adopted ASC 606 using the modified retrospective method. There was no material financial impact to our adoption of ASC 606.

The Company generates revenues primarily from product sales. Product revenues are derived from standard product sales contracts and from long-term fixed price contracts. Under ASC 606, revenue is recognized 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.

(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 the 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.

**4. Accounting changes:**

(a) New accounting pronouncements adopted in 2018:

*Revenue:*

In May 2014, FASB issued Accounting Standards Updates ("ASU") 2014-09, *Revenue From Contracts With Customers* (“Topic 606”). The Company adopted this standard on January 1, 2018, using the modified retrospective method. The adoption of this standard did not result in any impact on previously reported amounts. In accordance with the standard, additional disclosures have been provided in note 3(n).

*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments:*

In August 2016, the FASB issued ASU 2016-15, which provides cash flow classification guidance on eight specific cash flow issues to reduce diversity in practice for which authoritative guidance did not previously exist. The Company adopted this standard on January 1, 2018 with no material impact to the Company's financial statements.

(b) New accounting pronouncement to be adopted in 2019:

*Leases (Topic 842):*

In February 2016, the FASB issued ASU 2016-02, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, and interim periods with early adoption permitted. The Company's future minimum lease payments at December 31, 2018 under operating leases are disclosed in note 21(a). The Company is finalizing its implementation of this new standard and will use the modified retrospective method as at January 1, 2019. The Company's significant leases relate to its leasing of operating premises.

**5. Business combinations:**

Merger with Fuel Systems:

On June 1, 2016 ("the acquisition date"), the Company completed a merger with Fuel Systems Solutions, Inc. ("Fuel Systems"). Fuel Systems shareholders received 2.4755 Westport common shares for each share of Fuel Systems common stock owned. The Company issued 44,882,782 common shares to former Fuel Systems shareholders and 653,532 restricted stock units. The Company determined the purchase price using the Nasdaq closing share price on the acquisition date at $2.20 per share, which resulted in total purchase consideration of $99,397. The Company incurred total acquisition related costs of $9,890 in 2015 and 2016, which were expensed as incurred.

This 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 equity issued by $35,808. The Company believes it was able to acquire the assets of Fuel Systems for less than their fair value due to the weakness in the alternative fuel sector.

**6. Sale of assets:**

The Company completed the sale of its CNG Compressor business on July 25, 2018 for gross proceeds of $14,729 and recorded a net gain of $9,910. The assets and liabilities of the CNG Compressor business were accounted for as held for sale effective from the second quarter of 2018. The comparative balances of the CNG Compressor business were also reclassified as at December 31, 2017, with an impact to the following balance sheet accounts: accounts receivable, inventories, property, plant and equipment, accounts payable and accrued liabilities, warranty liability and other long-term liabilities. The notes for these account balances have been adjusted for these reclassifications in these financial statements.

During the second quarter of 2017, substantially all of the former Industrial business segment was sold resulting in a gain of $58,310.

As discussed in note 15, 15% of the net consideration received on these asset sales was paid or will be payable against the royalty payable due to Cartesian.

The carrying amount of the major classes of assets and liabilities for the held-for-sale for both the CNG Compressor business and Industrial business segment at December 31, 2018 and December 31, 2017 are shown below:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash | $ — | $ 5,924 |
| Accounts receivable | 1,676 | 5,267 |
| Inventories | — | 5,006 |
| Property, plant, and equipment | — | 795 |
| Total assets classified as held for sale | $ 1,676 | $ 16,992 |
| | | |
| Accounts payable and accrued liabilities | $ 57 | $ 12,597 |
| Restructuring obligations | 467 | — |
| Income taxes payable | 2,054 | 3,448 |
| Other current liabilities | — | 1,462 |
| Deferred income tax liabilities and other liabilities | 1,292 | 1,634 |
| Total liabilities classified as held for sale | $ 3,870 | $ 19,141 |

**6. Sale of assets (continued):**

The following table presents the combined financial results of the CNG Compressor business and Industrial business segments which are included in net income from discontinued operations for the years ended December 31, 2018, 2017 and 2016:

| | December 31, 2018 | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Revenue | $ 8,837 | $ 46,268 | $ 57,715 |
| | | | |
| Cost of revenue | 7,548 | 34,647 | 43,495 |
| Research and development | 603 | 2,972 | 3,960 |
| General and administrative | 1,083 | 5,027 | 3,429 |
| Sales and marketing | 575 | 2,713 | 2,765 |
| | 9,809 | 45,359 | 53,649 |
| Operating income (loss) from discontinued operations | (972) | 909 | 4,066 |
| | | | |
| Restructuring costs | 1,268 | — | — |
| Net gain on sale of assets | (10,710) | (58,310) | — |
| Other expenses (recovery) | — | 220 | (93) |
| Income from discontinued operations before income tax | 8,470 | 58,999 | 4,159 |
| Income tax expense (recovery) | (808) | 6,118 | 1,060 |
| Net income from discontinued operations | $ 9,278 | $ 52,881 | $ 3,099 |

On January 1, 2018, the Company exited the portion of the facility related to the discontinued Industrial business segment and recorded a $1,268 lease-exit restructuring obligation. The lease terminates in August of 2019. During the second quarter of 2018, the Company adjusted a provision related to the Industrial business segment and recorded an additional gain of $800.

**7. Accounts receivable:**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Customer trade receivables | $ 50,867 | $ 51,719 |
| Holdback receivables | — | 6,750 |
| Other receivables | 6,775 | 4,337 |
| Income tax receivable | 717 | 1,232 |
| Due from related parties (note 19) | 122 | 156 |
| Allowance for doubtful accounts | (3,039) | (2,294) |
| | $ 55,442 | $ 61,900 |

**8. Inventories:**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Purchased parts and materials | $ 31,735 | $ 32,352 |
| Work-in-process | 2,297 | 2,187 |
| Finished goods | 11,367 | 10,505 |
| Inventory on consignment | 612 | 693 |
| | $ 46,011 | $ 45,737 |

**8. Inventories (continued):**

During the year ended December 31, 2018, the Company recorded write-downs to net realizable value of approximately $162 (year ended December 31, 2017 - $1,111; year ended December 31, 2016 - $6,591).

**9. Long-term investments:**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cummins Westport Inc. (a) | $ 6,309 | $ 6,799 |
| Weichai Westport Inc. (b) | 1,824 | 1,824 |
| Other equity accounted investees | 685 | 679 |
| | $ 8,818 | $ 9,302 |

(a) Cummins Westport Inc.:

The Company entered into a joint venture with Cummins Inc. ("Cummins") on March 7, 2001. The joint venture term is scheduled to end on December 31, 2021 and can be terminated under certain circumstances before the end of the term, including in the event of a material breach of the agreement by, or in the event of a change of control of, one of the parties.

On February 20, 2012, the joint venture agreement ("JVA") was amended and restated to provide for, among other things, clarification concerning the scope of products within CWI. In addition, the parties revised certain economic terms of the JVA. Prior to February 20, 2012, the Company and Cummins shared equally in the profits and losses of CWI. Under the amended JVA, profits and losses are shared equally up to an established revenue baseline, then any excess profit will be allocated 75% to the Company and 25% to Cummins.

The Company has determined that CWI is a VIE. Cummins and Westport each own 50% of the common shares of CWI and have equal representation on the Board of Directors. No one shareholder has the unilateral power to govern CWI. The Board of Directors has power over the operating decisions and to direct other activities of CWI that most significantly impact CWI's economic performance as set forth in the governing documents. As decision-making at the Board of Directors' level requires unanimous approval, this power is shared. Accordingly neither party is the primary beneficiary.

The Company recognized its share of CWI's income and received dividends as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Investment income under the equity method | $ 22,701 | $ 12,482 | $ 5,606 |
| Dividends received | 23,191 | 16,633 | 10,198 |

The Company has not historically provided and does not intend to provide financial or other support to CWI that the Company is not contractually required to provide. As at December 31, 2018, the Company has a related party accounts receivable balance of $122 (2017 - $150) due from CWI. During the year ended December 31, 2018, total sales to CWI were $1,855 (2017 - $2,721; 2016 - $2,744).

The carrying amount and maximum exposure to losses relating to CWI were as follows:

| | Balance at December 31, 2018 | | Balance at December 31, 2017 | |
|---|---|---|---|---|
| | Carrying amount | Maximum exposure to loss | Carrying amount | Maximum exposure to loss |
| Equity method investment in CWI | $ 6,309 | $ 6,309 | $ 6,799 | $ 6,799 |
| Accounts receivable due from CWI | 122 | 122 | 150 | 150 |

**9. Long-term investments (continued):**

(a) Cummins Westport Inc. (continued):

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Current assets: | | |
| Cash and short-term investments | $ 85,812 | $ 91,720 |
| Accounts receivable | 2,336 | 10,925 |
| Other current assets | 120 | — |
| Long-term assets: | | |
| Property, plant and equipment | 934 | 1,245 |
| Deferred income tax assets | 22,851 | 28,096 |
| Total assets | $ 112,053 | $ 131,986 |
| Current liabilities: | | |
| Current portion of warranty liability | $ 19,829 | $ 25,866 |
| Current portion of deferred revenue | 21,299 | 22,157 |
| Accounts payable and accrued liabilities | 4,348 | 12,603 |
| | 45,476 | 60,626 |
| Long-term liabilities: | | |
| Warranty liability | 22,995 | 16,253 |
| Deferred revenue | 27,009 | 38,321 |
| Other long-term liabilities | 3,943 | 3,175 |
| | 53,947 | 57,749 |
| Total liabilities | $ 99,423 | $ 118,375 |

**9. Long-term investments (continued):**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Product revenue | $ 227,408 | $ 235,220 | $ 205,235 |
| Parts revenue | 91,997 | 82,077 | 71,230 |
| | 319,405 | 317,297 | 276,465 |
| Cost of revenue and expenses: | | | |
| Cost of product and parts revenue | 228,452 | 207,840 | 199,317 |
| Research and development | 18,000 | 30,733 | 36,066 |
| General and administrative | 1,474 | 1,113 | 1,136 |
| Sales and marketing | 15,350 | 19,675 | 23,047 |
| Foreign exchange loss | 12 | 51 | 8 |
| Bank charges, interest and other | 706 | 609 | 695 |
| | 263,994 | 260,021 | 260,269 |
| Income from operations | 55,411 | 57,276 | 16,196 |
| Interest and investment income | 1,939 | 982 | 552 |
| Income before income taxes | 57,350 | 58,258 | 16,748 |
| Income tax expense: | | | |
| Current | 8,397 | 16,068 | 4,680 |
| Deferred (1) | 3,552 | 17,226 | 856 |
| | 11,949 | 33,294 | 5,536 |
| Income for the year | $ 45,401 | $ 24,964 | $ 11,212 |

(1) As a result of the U.S. tax reform substantially enacted in the fourth quarter of 2017, CWI recorded a deferred tax expense of $13,423 in 2017 arising from related adjustments to deferred income tax assets.

**9. Long-term investments (continued):**

(b) Weichai Westport Inc.:

The Company, indirectly through its wholly-owned subsidiary, Westport Innovations (Hong Kong) Limited ("Westport HK"), is currently the registered holder of a 23.33% equity interest in Weichai Westport Inc. ("WWI"). Previously, the Company held a 35% indirect equity interest in WWI. However, in April 2016, the Company sold to Cartesian entities a derivative economic interest granting it the right to receive an amount of future income received by Westport HK from WWI equivalent to having an 18.78% equity interest in WWI and concurrently granted a Cartesian entity an option to acquire all of the equity securities of Westport HK for a nominal amount. The Company retained the right to transfer any equity interest held by Westport HK in WWI that was in excess of an 18.78% interest in the event that such option was exercised. Then in August 2016, the Company sold an aggregate 11.67% equity interest in the WWI joint venture for gross proceeds of $7,372 (RMB 48,185) to Weichai Holding Group Co., Ltd. (to which the Company sold a 6.42% equity interest) and Guanya (Shanghai) Private Equity Partnership (Limited Partnership) ("Guanya") (to which the Company sold a 5.25% equity interest). Public disclosures of this transaction made by the Company prior to the third quarter of 2018 filing of our financial statements referred to Guanya as either "an additional undisclosed purchaser" or, inadvertently, as "Weichai Power Co., Ltd.", which was not a party to the transaction but instead was a limited partner of Guanya. The Company's 23.33% equity interest in WWI remains held by the Company's subsidiary, Westport HK. As a result of such transactions, the Company's residual 23.33% equity interest in WWI currently corresponds to an economic interest in WWI equivalent to just 4.55%.

On August 28, 2018, the Company entered into definitive development and supply agreements with WWI to develop, market, and commercialize a heavy-duty, natural gas engine featuring the Westport HPDI 2.0™ technology, based on one of Weichai Power Co. Ltd.'s ("Weichai Power") heavy-duty engine platforms. Under the new development program, the Company will support the adaptation of the Westport HPDI 2.0™ technology onto one of Weichai Power's heavy-duty engine platforms.

**10. Property, plant and equipment:**

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

| December 31, 2017 | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Land and buildings | $ 4,947 | $ 1,412 | $ 3,535 |
| Computer equipment and software | 7,742 | 7,438 | 304 |
| Furniture and fixtures | 5,322 | 3,585 | 1,737 |
| Machinery and equipment | 90,570 | 33,007 | 57,563 |
| Leasehold improvements | 14,261 | 7,596 | 6,665 |
| | $ 122,842 | $ 53,038 | $ 69,804 |

During the year ended December 31, 2018, the Company recorded an impairment charge of $736 (year ended December 31, 2017 - $1,550; year ended December 31, 2016 - $2,708). The impairment resulted primarily from the write-down of tooling equipment and was recorded in the Transportation segment.

The Company has significant investments in property, plant and equipment related to its Westport HPDI 2.0™ business. The HPDI business is at 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 2018 levels, are expected, allowing the HPDI 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.

Total depreciation expense for the year ended December 31, 2018 was $13,090 (year ended December 31, 2017 - $11,289; year ended December 31, 2016 - $12,305). The amount of depreciation expense included in cost of sales for the year ended December 31, 2018 was $7,685 (year ended December 31, 2017 - $4,915; year ended December 31, 2016 - $4,266).

**11. Intangible assets:**

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

| December 31, 2017 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Patents and trademarks | $ 22,031 | $ 6,995 | $ 15,036 |
| Technology | 5,400 | 4,059 | 1,341 |
| Customer contracts | 12,964 | 8,404 | 4,560 |
| Other intangibles | 351 | 345 | 6 |
| Total | $ 40,746 | $ 19,803 | $ 20,943 |

Based on revenues and operating results, the Company concluded that there were no impairment indicators as of November 30, 2018 related to the intangible assets. Therefore, no impairment on intangible assets was recorded as at December 31, 2018.

During the year ended December 31, 2018, amortization of $3,420 (year ended December 31, 2017 - $3,452; year ended December 31, 2016 - $3,059) was recognized in the statement of operations.

**12. Goodwill:**

A continuity of goodwill is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance, beginning of year | $ 3,324 | $ 2,923 |
| Impact of foreign exchange changes | (154) | 401 |
| Balance, end of year | $ 3,170 | $ 3,324 |

The Company completed its annual assessment at November 30, 2018 and concluded that the remaining goodwill of $3,170 related to the Netherlands reporting unit under the Transportation business segment was not impaired.

**13. Accounts payable and accrued liabilities:**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Trade accounts payable | $ 59,970 | $ 56,309 |
| Accrued payroll | 13,723 | 16,292 |
| Accrued interest | 1,568 | 1,567 |
| Taxes payable | 2,244 | 511 |
| Deferred revenue | 996 | 1,398 |
| Restructuring obligation | — | 2,969 |
| Other payables | 4,350 | 7,179 |
| | $ 82,851 | $ 86,225 |

**14. Long-term debt:**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Term loan facilities, net of debt issuance costs (a) | 24,023 | 18,987 |
| Senior financing (b) | 8,645 | 10,901 |
| Convertible debt (c) | 17,382 | 17,335 |
| Other bank financing (d) | 3,744 | 6,562 |
| Capital lease obligations (e) | 1,516 | 637 |
| Balance, end of period | $ 55,310 | $ 54,422 |
| Current portion | (10,327) | (8,993) |
| Long-term portion | $ 44,983 | $ 45,429 |

(a) On December 20, 2017, the Company entered into a loan agreement with EDC for a $20,000 non-revolving term facility. The loan bears interest at 9% plus monitoring fees, payable quarterly, as well as quarterly principal repayments. The Company incurred debt issuance costs of $1,013 related to the this loan, which reduced the carrying value to $18,987 at December 31, 2017. These costs are amortized over the term of this loan using the effective interest rate method. As at December 31, 2018, the amount outstanding for this loan was $16,860, net of issuance costs.

The loan is secured by share pledges over Westport Power, Inc., Fuel Systems Solutions, Inc., and MTM S.r.L. and 85% of the proceeds received from the holdback related to the sale of a portion of the Industrial business segment (as discussed in note 6). As at December 31, 2018, this holdback security of $5,095 is held as restricted cash. On March 1, 2019, as a result of achieving certain milestones, the restricted cash was released and the interest rate on the loan was reduced to 6%.

On October 9, 2018, the Company entered into a Euro denominated loan agreement with UniCredit S.p.A. ("UniCredit"). The loan bears interest at the 3-month Euribor plus 2.3% and interest is paid quarterly. As at December 31, 2018, the amount outstanding for this loan was $7,163 and was secured by a pledge of $2,129, with these restricted funds being recorded in other long-term assets.

(b) The senior financing facility was renewed on March 24, 2017. The loan bears interest at the 6-month Euribor plus 3.3% and can increase or decrease by 30 basis points based on an annual leverage ratio calculation. Interest is paid semi-annually. The Company has pledged its interest in EMER S.p.A. as a general guarantee for its senior revolving financing.

(c) In January 2016, the Company entered into a financing agreement ("Tranche 2 Financing") with Cartesian. As part of the agreement, on June 1, 2016, convertible debt was issued in exchange for 9.0% convertible unsecured notes due June 1, 2021, which are convertible into common shares of the Company in whole or in part, at Cartesian's option, at any time following the twelve month anniversary of the closing at a conversion price of $2.17 per share. Interest is payable annually in arrears on December 31 of each year during the term. The convertible debt is held by a related party as Peter Yu, founder and managing partner of Cartesian, became a member of the Board of Directors of the Company in January 2016. Cartesian is secured by an interest in the Company's HPDI 2.0 intellectual property and a priority interest in the Company's CWI joint venture interest.

(d) Other bank financing consists of various secured and unsecured bank financing arrangements that carry rates of interest ranging from 0.75% to 3.8% and have various maturities out to 2022. Security includes a building owned by the Company in the Netherlands and certain accounts receivable in one of our Italian subsidiaries.

(e) The Company has capital lease obligations that have terms of three to four years at interest rates ranging from 1.3% to 12.0% (2017 - 3.1% to 12.0%).

Throughout the entire term of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2018, the Company is in compliance with all covenants under the financing arrangements.

**14. Long-term debt (continued):**

The principal repayment schedule of the long-term debt is as follows for the years ending December 31:

| | Term loan facilities | Senior financing | Convertible debt | Other bank financing | Capital lease obligations | Total |
|---|---|---|---|---|---|---|
| 2019 | $ 5,234 | $ 1,880 | $ — | $ 2,714 | $ 499 | $ 10,327 |
| 2020 | 7,166 | 2,009 | — | 344 | 475 | 9,994 |
| 2021 | 8,785 | 2,254 | 17,382 | 343 | 418 | 29,182 |
| 2022 | 1,419 | 2,502 | — | 343 | 124 | 4,388 |
| 2023 and thereafter | 1,419 | — | — | — | — | 1,419 |
| | $ 24,023 | $ 8,645 | $ 17,382 | $ 3,744 | $ 1,516 | $ 55,310 |

**15. Long-term royalty payable:**

In January 2016, the Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided $17,500 in cash (the “Tranche 1 Financing”). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments based on the greater of (i) a percentage of amounts received by the Company on select HPDI systems and CWI joint venture income through 2025 and (ii) stated fixed amounts per annum (subject to adjustment for asset sales). The carrying value is being accreted to the expected redemption value using the effective interest method, which is approximately 23% per annum. Cartesian's debt is secured by an interest in the Company's HPDI intellectual property and a priority interest in the Company's CWI joint venture interest.

In January 2017, the Company and Cartesian signed a Consent Agreement which allows the Company to sell certain assets in exchange for prepayment of the Cartesian royalty: Cartesian will be paid 15% of the net proceeds from these asset sales to a maximum of $15,000, with this payment being allocated on a non-discounted basis to future years' minimum payments.

The Company's divestiture of the Industrial business segment during 2017 and the CNG Compressor business in 2018 resulted in royalty prepayments of $9,435 in 2017 and $1,045 in 2018. Due to the early extinguishment of a portion of the royalty payable, the Company recorded an additional finance charge of $5,236 in 2017 and $778 in 2018.

As of December 31, 2018, the total royalty prepayments paid or payable to Cartesian as a result of the Consent Agreement, including the prepayment arising from the sale of the CNG Compressor business to be made in 2019, was $12,204.

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance, beginning of year | $ 19,031 | $ 21,562 |
| Accretion expense | 4,135 | 3,168 |
| Repayment | (3,009) | (10,935) |
| Additional finance charge from prepayment | 778 | 5,236 |
| Balance, end of year | 20,935 | 19,031 |
| Current portion | (6,091) | (2,390) |
| Long-term portion | $ 14,844 | $ 16,641 |

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

| | |
|---|---|
| 2019 | $ 6,091 |
| 2020 | 5,926 |
| 2021 | 7,258 |
| 2022 | 5,065 |
| 2023 | 1,162 |
| 2024 and thereafter | 6,758 |
| | $ 32,260 |

**16. Warranty liability:**

A continuity of the warranty liability is as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Balance, beginning of year | $ 6,301 | $ 11,612 | $ 13,991 |
| Warranty assumed on acquisition | — | — | 2,454 |
| Warranty claims | (2,787) | (2,627) | (7,684) |
| Warranty accruals | 2,112 | 1,232 | 1,493 |
| Change in estimate | (1,443) | (2,949) | — |
| Impact of foreign exchange changes | 758 | (967) | 1,358 |
| Balance, end of year | 4,941 | 6,301 | 11,612 |
| Less: Current portion | (2,800) | (3,529) | (5,499) |
| Long-term portion | $ 2,141 | $ 2,772 | $ 6,113 |

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

During the year ended December 31, 2018, the Company issued 2,101,190 common shares upon exercises of share units (year ended December 31, 2017 – 2,045,617 common shares). The Company issues shares from treasury to satisfy share unit exercises.

During the year ended December 31, 2017, the Company issued 19,125,000 common shares at $1.50 per share, for gross proceeds of $28,688. Transaction costs of $2,735 were incurred for net proceeds of $25,953.

(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, 2018, the Company recognized $3,040 (year ended December 31, 2017 - $6,961; year ended December 31, 2016 – $10,450) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of December 31, 2018, December 31, 2017 and December 31, 2016 are as follows:

| | December 31, 2018 | | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|---|
| | Number of units | Weighted average grant date fair value (CDN $) | Number of units | Weighted average grant date fair value (CDN $) | Number of units | Weighted average grant date fair value (CDN $) |
| Outstanding, beginning of year | 4,509,990 | $ 6.00 | 6,664,591 | $ 6.75 | 9,657,921 | $ 7.62 |
| Granted | 1,009,230 | 3.50 | 993,659 | 2.18 | 684,402 | 2.90 |
| Exercised/vested | (2,101,190) | 5.44 | (2,045,617) | 6.31 | (845,491) | 10.26 |
| Forfeited/expired | (750,627) | 3.61 | (1,102,643) | 6.51 | (2,832,241) | 6.60 |
| Outstanding, end of year | 2,667,403 | $ 4.41 | 4,509,990 | $ 6.00 | 6,664,591 | $ 6.75 |
| Units outstanding and exercisable, end of year | 2,076,684 | $ 4.66 | 636,073 | $ 5.38 | 1,891,008 | $ 7.77 |

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

During 2018, 1,009,230 (2017 - 993,659) restricted share units ("RSUs") were granted to directors, executives and employees. Values of RSU awards are generally determined based on the fair market value of the underlying common share on the date of grant. RSUs typically vest over a three year period so the actual value received by the individual depends on the share price on the day such RSUs are settled for common shares, not the date of grant.

As at December 31, 2018, $2,074 of compensation expense related to Units has yet to be recognized in results from operations and will be recognized over a weighted average period of approximately 1 and a half years.

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units at December 31, 2018 and 2017 are as follows:

| | December 31, 2018 CDN$ | December 31, 2017 CDN$ |
|---|---|---|
| Share units: | | |
| Outstanding | $ 4,828 | $ 21,332 |
| Exercisable | 3,759 | 3,009 |

(c) Stock-based compensation:

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

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Research and development | $ 778 | $ 1,182 | $ 6,010 |
| General and administrative | 1,952 | 5,450 | 2,334 |
| Sales and marketing | 310 | 329 | 2,106 |
| | $ 3,040 | $ 6,961 | $ 10,450 |

During the first quarter of 2018, the Performance Stock Units ("PSUs") that had been conditionally approved were finalized and granted. As a result, the stock-based compensation of $2,449 related to 730,000 PSUs was reclassified from a liability to shareholders' equity.

**18. 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, 2018 (year ended December 31, 2017 – 26%; year ended December 31, 2016 – 26%) as follows:

| | 2018 | 2017 (Adjusted, Note 6) | 2016 (Adjusted, Note 6) |
|---|---|---|---|
| Loss before income taxes | $ (38,658) | $ (67,284) | $ (96,722) |
| Expected income tax recovery | (10,438) | (17,494) | (25,148) |
| Increase (reduction) in income taxes resulting from: | | | |
| Non-deductible stock-based compensation | 433 | 786 | 2,176 |
| Other permanent differences | 3,762 | 3,624 | 5,875 |
| Withholding taxes | 657 | 444 | 1,109 |
| Change in enacted tax rates | 135 | 22,960 | — |
| Foreign tax rate differences, foreign exchange and other adjustments | 1,585 | 138 | (4,560) |
| Non-taxable income from equity investment | (6,834) | (3,245) | 925 |
| Change in valuation allowance | 12,812 | (11,637) | 32,583 |
| Change in uncertain tax position | — | — | 301 |
| Bargain purchase gain | — | — | (9,311) |
| Income tax expense (recovery) | $ 2,112 | $ (4,424) | $ 3,950 |

**18. Income taxes (continued):**

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred income tax assets: | | |
| Net loss carry forwards | $ 197,585 | $ 189,627 |
| Intangible assets | 5,655 | 6,502 |
| Property, plant and equipment | 12,799 | 13,046 |
| Warranty liability | 3,251 | 3,290 |
| Foreign tax credits | 620 | 5,241 |
| Inventory | 4,223 | 4,668 |
| Research and development | 5,961 | 5,795 |
| Other | 11,135 | 13,190 |
| Total gross deferred income tax assets | 241,229 | 241,359 |
| Valuation allowance | (239,565) | (239,511) |
| Total deferred income tax assets | 1,664 | 1,848 |
| Deferred income tax liabilities: | | |
| Intangible assets | (2,456) | (4,062) |
| Property, plant and equipment | (106) | (231) |
| Other | (1,667) | (323) |
| Total deferred income tax liabilities | (4,229) | (4,616) |
| Total net deferred income tax liabilities | $ (2,565) | $ (2,768) |
| Allocated as follows: | | |
| Deferred income tax assets | $ 1,664 | $ 1,848 |
| Deferred income tax liabilities | (4,229) | (4,616) |
| Total net deferred income tax liabilities | $ (2,565) | $ (2,768) |

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 18(f).

**18. Income taxes (continued):**

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

| | Net income (loss) before income taxes | Income tax expense (recovery) | | |
|---|---|---|---|---|
| | | Current | Deferred | Total |
| Year ended December 31, 2018 | | | | |
| Canada | $ (61,933) | 214 | — | $ 214 |
| United States | 17,161 | 803 | — | 803 |
| Italy | 7,445 | 1,741 | (1,188) | 553 |
| Other | (1,331) | 1,192 | (650) | 542 |
| | $ (38,658) | $ 3,950 | $ (1,838) | $ 2,112 |
| Year ended December 31, 2017 | | | | |
| Canada | $ (61,458) | $ (3,737) | $ (17) | $ (3,754) |
| United States | 3,023 | 17 | — | 17 |
| Italy | 679 | 493 | (1,470) | (977) |
| Other | (9,528) | 447 | (157) | 290 |
| | $ (67,284) | $ (2,780) | $ (1,644) | $ (4,424) |
| Year ended December 31, 2016 | | | | |
| Canada | $ (104,060) | $ 56 | $ 120 | $ 176 |
| United States | 14,926 | 7 | — | 7 |
| Italy | (5,601) | 192 | 1,440 | 1,632 |
| Other | (1,987) | 1,355 | 780 | 2,135 |
| | $ (96,722) | $ 1,610 | $ 2,340 | $ 3,950 |

**18. Income taxes (continued):**

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

| | 2019 | 2020 | 2021 | 2022 and later | Total |
|---|---|---|---|---|---|
| Canada | $ — | $ — | $ — | $ 518,969 | $ 518,969 |
| Italy | — | — | — | 2,976 | 2,976 |
| United States | — | — | — | 103,673 | 103,673 |
| Sweden | — | — | — | 19,155 | 19,155 |
| Other | 4,668 | 4,039 | 4,131 | 14,009 | 26,847 |
| Total | $ 4,668 | $ 4,039 | $ 4,131 | $ 658,782 | $ 671,620 |

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, 2018, the total amount of the Company's uncertain tax benefits was $4,704 (year ended December 31, 2017 - $4,345). 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 2015 to 2018 taxation years remain open to examination by the Internal Revenue Service and the 2013 to 2018 taxation years remain open to examination by the Italian Revenue Agency, and various years remain open in the other foreign jurisdictions.

**19. Related party transactions:**

The Company's related parties are CWI, Cartesian, directors, officers and shareholders which own greater than 10% of the Company's shares.

(a) Pursuant to the amended and restated Joint Venture Agreement, Westport engages in transactions with CWI (see note 9(a)). Amounts receivable relate to costs incurred by the Company on behalf of CWI. The amounts are generally reimbursed by CWI to the Company in the month following the month in which the payable is incurred.

(b) Other transactions with related parties:

Peter Yu, founder and managing partner of Cartesian, was elected as a Director of the Company in January 2016 in connection with the convertible debt (note 14(c)) and royalty payable (note 15), which are related party balances. The Company made an interest payment on the convertible debt of $1,575 in 2018 (2017 - $919) to Cartesian. In addition, the Company made a payment of $3,009 (2017 - $10,935) to Cartesian relating to the royalty payable during the year ended December 31, 2018 and has continued to accrue interest in accordance with the terms of the agreements. In addition, fees of $250 (2017 - $250) were paid to Cartesian during the year ended December 31, 2018.

**20. Commitments and contingencies:**

(a) Contractual commitments

The Company has obligations under operating lease arrangements that require the following minimum annual payments during the respective fiscal years:

| | | |
|---|---|---|
| 2019 | $ | 3,594 |
| 2020 | | 2,545 |
| 2021 | | 903 |
| 2022 | | 762 |
| 2023 | | 452 |
| Thereafter | | — |
| | $ | 8,256 |

For the year ended December 31, 2018, the Company incurred operating lease expense of $3,269 (year ended December 31, 2017 - $4,782; year ended December 31, 2016 - $5,675).

The Company is a party to a variety of agreements in the ordinary course of business under which it is obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts for sale of the Company's product to customers where the Company provides indemnification against losses arising from matters such as product liabilities. The potential impact on the Company's financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, the Company has not incurred significant costs related to these types of indemnifications.

(b) Contingencies

As disclosed in the Company's previously filed interim financial statements and management's discussion and analysis, on June 15, 2017, the Enforcement Division of the SEC issued a subpoena to the Company for information concerning its investment in WWI and compliance with the FCPA and securities laws related to disclosure in SEC filings in connection with the Company's operations in China. The SEC Enforcement Division issued follow up subpoenas on February 14, 2018, June 25, 2018, and August 2, 2018. The Company has completed its response to those subpoenas. No new subpoenas have been received since August 2, 2018. Westport Fuel Systems is cooperating with these requests and cannot predict the duration, scope or outcome of the SEC's investigation. To date our management has devoted significant time and attention to these matters, and we may be required to devote even more time, attention and financial resources to these matters in the future. The SEC's investigation and our requirements in response thereto could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. While we cannot estimate our potential exposure, if any, in these matters at this time, we have already expended significant amounts investigating and responding to the subpoenas in respect of this investigation, including funding the expense of independent legal representation, and expect to continue to need to expend significant amounts to conclude the SEC investigation. During the year ended December 31, 2018, the Company recorded expenses related to the SEC investigation of $9,977, net of insurance recoveries, and to date has recorded aggregate net expenses related to such investigation of $11,794. Although the Company maintains insurance that may cover some of these expenses, and has given notice to the insurers of the matter, there is a risk that a substantial portion of the overall expenses and costs relating to such SEC investigation will not be covered by such policies. In the event of future proceedings arising out of the SEC investigation, to the extent covered, our ultimate liability may possibly exceed the available insurance.

The Company is also engaged in certain legal actions and tax audits in the ordinary course of business and believes that, based on the information currently available, the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

**21. Segment information:**

Effective January 2018, commensurate with the commercial launch of Westport HPDI 2.0™, the Company restructured its business segments to allow for further integration of product offerings. Accordingly, from that date, the Westport HPDI 2.0™ product line and all other technology related activities previously reported under the Corporate & Technology segment have been combined with the previously reported Automotive business segment and renamed Transportation.

Under the organization structure in effect from January 2018, the Company manages and reports the results of its business through three segments: Transportation, the CWI Joint Venture, and Corporate. This reflects the manner in which operating decisions and the assessment of business performance is currently managed by the Chief Operating Decision Maker ("CODM"). All comparative figures presented have been revised to reflect this change.

The financial information for the Company's business segments evaluated by the CODM includes the results of CWI as if they were consolidated, which is consistent with the way the Company manages its business segments. As CWI is accounted for under the equity method of accounting, an adjustment is reflected in the tables below to reconcile the segment measures to the Company's consolidated measures.

**Transportation Business Segment**

Westport Fuel Systems' Transportation group designs, manufactures, and sells alternative fuel systems and components for transportation applications. The Company's diverse product offerings are sold under established global brands and include a broad range of alternative fuels which have environmental and economic advantages including: liquefied petroleum gas ("LPG"), compressed natural gas ("CNG"), liquefied natural gas ("LNG"), renewable natural gas ("RNG"), and hydrogen. The Company supplies its products and services through a global network of distributors and original equipment manufacturers ("OEMs") and delayed OEMs ("DOEMs") in more than 70 countries. Today, our products and services are available for passenger cars, light-, medium- and heavy-duty trucks, high horsepower, cryogenics, and hydrogen applications.

The Transportation segment includes the independent aftermarket ("IAM"), OEMs and DOEMs, the Westport HPDI 2.0™ product line, electronics, current and advanced research and development programs, supply chain, and product planning activities.

An agreement to sell the CNG Compressor business was announced during the second quarter of 2018 and closed in the third quarter of 2018, and as a result, the revenues and expenses related to this business were reclassified to discontinued operations with effect from the second quarter of 2018 and all comparative figures presented have been revised to reflect this reclassification.

**Cummins Westport Inc. ("CWI") Joint Venture**

CWI serves the medium- and heavy-duty on-highway engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty truck and transit bus industries.

All CWI natural gas engines are dedicated 100% natural gas engines. The fuel for CWI engines can be carried in tanks on the vehicle as CNG or LNG. All engines are also capable of operating on RNG.

CWI is a Delaware corporation owned 50% by Westport Power Inc., a wholly-owned subsidiary of Westport Fuel Systems, and 50% by Cummins. The board of directors of CWI is comprised of three representatives from each of Westport Fuel Systems and Cummins. On February 19, 2012, Westport Fuel Systems, Cummins and CWI entered into a Second Amended and Restated Joint Venture Agreement governing the operations of CWI which amended the focus of CWI's future product development investments to North American markets, including engines for on-road applications between the displacement range of 5.9 litres through 12 litres, and to have these engines manufactured in Cummins' North American plants.

**21. Segment information (continued):**

The purpose of the joint venture is to engage in the business of developing, marketing and selling spark-ignited natural gas or propane engines for on-highway use. CWI utilizes Cummins' supply chain, back office systems and distribution and sales networks. The joint venture term is scheduled to end on December 31, 2021.

**Corporate Business Segment**

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

**Weichai Westport Inc. ("WWI")**

The Company has not considered WWI a business segment since March 31, 2016 due to the Company's reduced interest pursuant to a sale to the Cartesian Entities as discussed in note 9(b).

Financial information by business segment as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Revenue:** | | | |
| Transportation | $ 270,283 | $ 229,833 | $ 167,181 |
| CWI | 319,405 | 317,297 | 276,465 |
| WWI | — | — | 29,931 |
| Total segment revenues | $ 589,688 | $ 547,130 | $ 473,577 |
| Less: equity investees' revenue | (319,405) | (317,297) | (306,396) |
| Consolidated revenue from continuing operations | $ 270,283 | $ 229,833 | $ 167,181 |
| Consolidated revenue from discontinuing operations | $ 8,837 | $ 46,268 | $ 57,715 |

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Operating income (loss):** | | | |
| Transportation | $ (10,706) | $ (40,638) | $ (63,608) |
| CWI | 55,411 | 57,276 | 29,782 |
| Corporate | (31,511) | (22,256) | (31,923) |
| Restructuring costs | (808) | (1,682) | (19,000) |
| Foreign exchange loss | (8,957) | (562) | (6,565) |
| Impairments on long lived assets, net (note 10) | (736) | (1,550) | (4,843) |
| WWI | — | — | 718 |
| Total segment operating income (loss) | 2,693 | (9,412) | (95,439) |
| Less: equity investees' operating income | (55,411) | (57,276) | (30,500) |
| Consolidated loss from continuing operations | $ (52,718) | $ (66,688) | $ (125,939) |
| Consolidated income (loss) from discontinued operations | $ (972) | $ 909 | $ 4,066 |

**21. Segment information (continued):**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Total additions to long-lived assets, excluding business combinations: | | | |
| Transportation | $ 10,062 | $ 25,177 | $ 8,181 |
| Corporate | 211 | 111 | 473 |
| | $ 10,273 | $ 25,288 | $ 8,654 |

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide it by geographical regions. Product and service and other revenues are attributable to geographical regions based on location of the Company's customers and presented as a percentage of the Company's product and service revenues are as follows:

| | % of total product revenue and service and other revenue | | |
|---|---|---|---|
| | Years ended December 31, | | |
| | 2018 | 2017 | 2016 |
| Europe | 62% | 60% | 63% |
| Americas | 18% | 20% | 23% |
| Asia | 10% | 12% | 12% |
| Others | 10% | 8% | 2% |

As at December 31, 2018, total goodwill of $ 3,170 (December 31, 2017 - $3,324) was allocated to the Automotive segment.

As at December 31, 2018, total long-term investments of $8,269 (December 31, 2017 - $8,756) were allocated to the Corporate segment and $549 (December 31, 2017 - $546) to the Transportation segment.

Total assets are allocated as follows :

| | Total assets by operating segment | |
|---|---|---|
| | Years ended December 31 | |
| | 2018 | 2017 |
| Transportation | $ 236,340 | $ 254,037 |
| Corporate | 31,912 | 42,593 |
| CWI | 112,053 | 131,986 |
| | $ 380,305 | $ 428,616 |
| Add: assets held for sale | 1,676 | 16,992 |
| Less: equity investee's total assets | (112,053) | (131,986) |
| Total consolidated assets | $ 269,928 | $ 313,622 |

**21. Segment information (continued):**

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

Long-lived assets information by geographic area:

| December 31, 2018 | Property, plant and equipment | Intangible assets and goodwill | Total |
|---|---|---|---|
| Italy | $ 23,470 | $ 16,067 | $ 39,537 |
| Canada | 35,089 | 237 | 35,326 |
| United States | 1,210 | — | 1,210 |
| Rest of Europe | 2,870 | 3,695 | 6,565 |
| Asia Pacific | 1,726 | — | 1,726 |
| | 64,365 | 19,999 | 84,364 |
| Less: equity investee's long lived assets | (934) | — | (934) |
| Total consolidated long-lived assets | $ 63,431 | $ 19,999 | $ 83,430 |

| December 31, 2017 (Adjusted, note 6) | Property, plant and equipment | Intangible assets and goodwill | Total |
|---|---|---|---|
| Italy | $ 24,660 | $ 19,476 | $ 44,136 |
| Canada | 39,732 | 317 | 40,049 |
| United States | 1,587 | — | 1,587 |
| Rest of Europe | 2,859 | 4,474 | 7,333 |
| Asia Pacific | 2,211 | — | 2,211 |
| | 71,049 | 24,267 | 95,316 |
| Less: equity investee's long lived assets | (1,245) | — | (1,245) |
| Total consolidated long-lived assets | $ 69,804 | $ 24,267 | $ 94,071 |

**22. Financial Instruments:**

(a) Financial risk management:

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

(b) 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 sustained losses and negative cash flows from operations since inception. At December 31, 2018, the Company has $61,119 of cash, cash equivalents and short-term investments, including of $5,095 restricted cash (see note 3(c)).

The following are the contractual maturities of financial obligations as at December 31, 2018:

| | Carrying amount | Contractual cash flows | < 1 year | 1-3 years | 4-5 years | >5 years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 82,851 | $ 82,851 | $ 82,851 | $ — | $ — | $ — |
| Term loan facilities (note 14 (a)) | 24,023 | 28,794 | 7,561 | 18,340 | 2,893 | — |
| Senior revolving financing (note 14 (b)) | 8,645 | 10,027 | 2,161 | 4,918 | 2,948 | — |
| Convertible debt (note 14 (c)) | 17,382 | 21,302 | 1,575 | 19,727 | — | — |
| Other bank financing (note 14 (d)) | 3,744 | 3,751 | 2,714 | 694 | 343 | — |
| Capital lease obligations (note 14 (e)) | 1,516 | 1,566 | 495 | 917 | 154 | — |
| Long-term royalty payable (note 15) | 20,935 | 32,260 | 6,091 | 13,184 | 6,227 | 6,758 |
| Operating lease commitments (note 20(a)) | — | 8,256 | 3,594 | 3,448 | 1,214 | — |
| | $ 159,096 | $ 188,807 | $ 107,042 | $ 61,228 | $ 13,779 | $ 6,758 |

(c) 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 consulting with its current bank and investment advisors and investing primarily in liquid short-term paper issued by Schedule 1 Canadian banks, R1 rated companies and governments. 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, 2018, 87% (December 31, 2017 - 80%) of accounts receivable relates to customer receivables, and 13% (December 31, 2017 - 20%) 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. The Company reviews its customer receivable accounts and regularly recognizes an allowance for doubtful receivables as soon as the account is determined not to be fully collectible. Estimates for allowance for doubtful debts are determined on a customer-by-customer evaluation of collectability at each balance sheet reporting date, taking into consideration past due amounts and any available relevant information on the customers' liquidity and financial position.

(d) 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 United States dollar and the Euro. 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.

**22. Financial Instruments (continued):**

The Company's functional currency is the Canadian dollar. The U.S. dollar amount of financial instruments subject to exposure to foreign currency risk reflected in the consolidated balance sheet at December 31, 2018 is as follows:

| | US Dollars |
|---|---|
| Cash and cash equivalents | $ 8,973 |
| Accounts receivable | 1,229 |
| Accounts payable | 5,519 |
| Long-term debt, including current portion | 34,243 |
| Long-term royalty payable, including current portion | 20,935 |

(e) 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 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, 2018 had increased or decreased by 50 basis points, with all other variables held constant, net loss for the year ended December 31, 2018 would have increased or decreased by $92.

**22. Financial Instruments (continued):**

(f) 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 our interest in CWI, WWI and other investments. CWI is accounted for using the equity method. WWI and other investments are accounted for at fair value.

The carrying value of the EDC loan included in the long-term debt (note 14(a)) approximates its fair value as the loan was executed shortly before the 2017 year end. The UniCredit term loan facility was executed in October 2018 and the interest rates on debt is floating, therefore, the carrying amount as at December 31, 2018 of this loan approximates its fair value. The carrying value reported in the balance sheet for the senior financing (note 14(b)) approximates its fair value as at December 31, 2018, as the interest rates on the debt is floating and therefore approximate the market rates of interest.

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

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

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

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

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, 2018, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

## BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Fuel Systems Inc. ("Westport Fuel Systems", the "Company", "we", "us", "our") is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2018. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated as of March 19, 2019.

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

## FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the orders or demand for our products, our investments, cash and capital requirements, the intentions of partners and potential customers, the performance of our products, our future market opportunities, availability of funding and funding requirements, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, timing of when we will adopt or meet certain accounting and regulatory standards and the alignment of our business segments. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward looking statements. These risks include risks related to revenue growth, operating results, liquidity, industry and products, general economy, conditions of the capital and debt markets, government or accounting policies and regulations, regulatory investigations, 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, price differential between natural gas and liquefied petroleum gas, unforeseen claims, exposure to factors beyond our control as well as the additional factors referenced in our AIF. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements except as required by applicable legislation.

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

**BUSINESS OVERVIEW AND GENERAL DEVELOPMENTS**

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

Westport Fuel Systems is well positioned to increase revenues and market share as new stringent environmental regulations mandating greenhouse gas emission reductions have been introduced in key markets around the world. We are leveraging our market-ready products and customer base to capitalize on these opportunities. In addition to our operational competency in well-established transportation markets, our development of new technologies provides us a technology leadership position which is expected to drive future growth. Westport Fuel Systems has a track record of innovation, specialized engineering capabilities, and a deep patent portfolio resulting in a strong intellectual property position.

The majority of our revenues in 2018 were generated through the following businesses:

- Independent aftermarket (“IAM”): we sell systems and components, primarily through a global network of distributors and across a wide range of brands, that are used to enable passenger cars to use LPG or CNG fuels in addition to gasoline.
- DOEM: we directly or indirectly convert new passenger cars for OEMs or importers, to address local market needs when a global LPG or CNG bi-fuel vehicle platform is not available.
- Light-duty OEM: we sell components to OEMs that are used to manufacture new, direct off the assembly line LPG or CNG-fueled vehicles.

During 2017, we reached a significant milestone with the shipment of the first commercial Westport High Pressure Direct Injection 2.0 ("Westport HPDI 2.0™" or "HPDI") components to our European OEM launch partner. Our fully integrated Westport HPDI 2.0™ system matches the power, torque, and fuel economy benefits found in traditional compression ignition engines using only diesel fuel but powered primarily by natural gas, resulting in reduced greenhouse gas emissions, and the capability to cost-effectively run on renewable fuels. In 2018, our European OEM launch partner commercially launched heavy duty trucks incorporating HPDI 2.0™ technology, and these truck models are available and on the road in Europe today.

During 2018, Westport entered into definitive development and supply agreements with Weichai Westport Inc. (" **WWI**") to develop, market, and commercialize a heavy-duty, natural gas engine featuring the Westport HPDI 2.0™ technology, based on one of Weichai Power Co., Ltd.'s ("Weichai Power") heavy-duty engine platforms. The new natural gas engine will be certified to meet China VI emissions standards and is expected to be launched in late 2019. WWI has committed to purchase Westport HPDI 2.0™ system components required for a minimum of 18,000 Westport HPDI 2.0™ engines between the launch date and the end of 2023 (see Operating Segments of this MD&A for additional details on WWI). The HPDI business is still at the early stages of commercial development, and, as a result, is currently generating losses. Meaningful increases in component sales, compared to 2018 levels, are expected to be required for the HPDI business to benefit from economies of scale and become profitable. We anticipate growth in volumes in 2019 and future years through sales to our initial launch partner, our supply arrangement with WWI, and the possibility of additional OEMs entering into supply agreements for our HPDI technology.

Revenues for the year ended December 31, 2018 increased by 18% to $270.3 million from $229.8 million in 2017, resulting from strength in our independent aftermarket and light-duty OEM businesses, the first full year of HPDI 2.0 component sales to a large European truck OEM, and the stronger Euro. Our HPDI revenues were relatively low during 2018, as expected during the first full year of commercial sales, however based on orders to date and forecasts from our launch partner, as well as the expected launch of sales to WWI in 2019, we expect a significant increase in 2019.

Westport Fuel Systems recorded a net loss from continuing operations of $40.8 million for the year ended December 31, 2018 compared to a net loss from continuing operations of $62.9 million for the year ended December 31, 2017. The decrease in the

loss from continuing operations is a result of higher gross margin, lower research and development expenses, stronger contribution from Cummins Westport Inc. ("CWI"), our 50:50 joint venture with Cummins, Inc. ("Cummins"), and lower interest expense, offset partially by higher legal costs and foreign exchange losses.

Westport Fuel Systems earned a positive $9.7 million Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA" see Non-GAAP Measures section in this MD&A) during the year ended December 31, 2018 as compared to a loss of $19.7 million for the year ended December 31, 2017. The factors noted above were key contributors to the improvement in Adjusted EBITDA.

We continue to co-operate with the SEC's investigation that commenced in June 2017 regarding our investment in Weichai Westport Inc. and compliance with the FCPA and securities law related to disclosures in SEC filings. Legal costs increased significantly during 2018 and has been a significant use of cash. See the Regulatory Compliance section for additional details.

**LIQUIDITY AND GOING CONCERN**

In connection with preparing financial statements for each annual and interim reporting period management of the Company is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that the Company will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the financial statements are issued. When substantial doubt exists, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been approved before the date that the financial statements are issued.

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

At December 31, 2018, the Company's net working capital was $63.1 million including cash and cash equivalents of $61.1 million, and its long-term debt, including the royalty payable, was $76.2 million, of which $16.4 million matures in 2019. The Company has incurred a loss from continuing operations of $40.8 million and negative cash flows from continuing operating activities of $27.4 million for the year ended December 31, 2018, and has accumulated a deficit of $998.4 million since inception.

The Company continues to work towards its goals of increasing revenues and reducing expenditures, which has improved results from operations and operating cash flows in 2017 and 2018, and this improvement in operating results is expected to continue in 2019. In particular, the commercial launch of Westport HPDI 2.0™ in 2018 has allowed the Company to significantly reduce engineering and development spend and the associated capital expenditures on this product and this reduction has improved current and forecasted future cash flows. In addition, while the legal fees related to the SEC investigation that began in 2017 (see note 20(b)) increased significantly in 2018, we anticipate these legal expenditures to decrease in 2019. However, since the possible outcomes of this proceeding remain uncertain at this time, it is also necessary to acknowledge that any final determination that the Company's operations or activities are not, or were not, in compliance with the FCPA and/or other U.S. securities laws could result in significant civil and criminal financial penalties and other sanctions, which could have a material adverse impact on our financial condition. Lastly, the Company continues to examine non-core assets to determine whether it is in the best interest of the Company to monetize assets or to continue to hold and invest in these assets. Connected with this activity of assessing its non-core assets, on July 25, 2018 the Company closed the sale of its CNG Compressor business announced in the second quarter of 2018, which resulted in gross proceeds of approximately $14.7 million.

Based on currently known conditions and events, management believes that the cash on hand at December 31, 2018 and the improvements to the operations expected in 2019 will provide the cash flow necessary to fund operations over the next year to March 31, 2020. The ability of the Company to continue as a going concern beyond one year will be dependent on the Company's

ability to generate positive results from operations and cash flows. If, as a result of future events, the Company was to determine it was no longer able to continue as a going concern, significant adjustments would be required to the carrying value of its assets and liabilities in the accompanying financial statements and the adjustments could be material.

**OPERATING SEGMENTS**

Effective January 2018, commensurate with the commercial launch of Westport HPDI 2.0™, the Company restructured its business segments to allow for further integration of product offerings. Accordingly, from that date, the Westport HPDI 2.0™ product line and all other technology related activities previously reported under the Corporate & Technology segment have been combined with the Automotive business segment and renamed Transportation.

Under the new organization structure, the Company manages and reports the results of its business through three segments: Transportation, the CWI Joint Venture, and Corporate. This change reflects the manner in which operating decisions and the assessment of business performance is currently managed by the Chief Operating Decision Maker ("CODM"). All comparative figures presented have been revised to reflect this change.

The financial information for the Company's business segments evaluated by the CODM includes the results of CWI as if they were consolidated, which is consistent with the way the Company manages its business segments. As CWI is accounted for under the equity method of accounting, an adjustment is reflected in the tables below to reconcile the segment measures to the Company's consolidated measures.

**Transportation Business Segment**

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

The Transportation group includes the IAM, OEM and DOEM programs, the Westport HPDI 2.0™ product line, electronics, current and advanced research and development programs, supply chain, and product planning activities.

An agreement to sell the CNG Compressor business was announced during the second quarter of 2018 and closed in the third quarter of 2018, and as a result, the revenues and expenses related to this business have been recorded in discontinued operations for the current and prior years.

**Cummins Westport Inc. ("CWI") Joint Venture**

CWI serves the medium- and heavy-duty on-highway engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty truck and transit bus industries.

All CWI natural gas engines are dedicated 100% natural gas engines. The fuel for CWI engines can be carried in tanks on the vehicle as CNG or LNG. All engines are also capable of operating on RNG.

CWI is a Delaware corporation owned 50% by Westport Power Inc., a wholly-owned subsidiary of Westport Fuel Systems, and 50% by Cummins. The board of directors of CWI is comprised of three representatives from each of Westport Fuel Systems and Cummins. On February 19, 2012, Westport Fuel Systems, Cummins and CWI entered into a Second Amended and Restated Joint Venture Agreement governing the operations of CWI which amended the focus of CWI's future product development investments to North American markets, including engines for on-road applications between the displacement range of 5.9 litres through 12 litres, and to have these engines manufactured in Cummins' North American plants.

The purpose of the joint venture is to engage in the business of developing, marketing and selling spark-ignited natural gas or propane engines for on-highway use. CWI utilizes Cummins' supply chain, back office systems and distribution and sales networks. The joint venture term is scheduled to end on December 31, 2021.

**Corporate Business Segment**

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

**Weichai Westport Inc. ("WWI")**

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 Weichai Westport Inc. ("**WWI**"). Previously, the Company held a 35% indirect equity interest in WWI. However, in April 2016 the company sold to Pangaea Two Acquisition Holdings XIV, LLC and Pangaea Two Acquisition Holdings Parallel XIV, LLC (collectively, the " **Cartesian Entities**") a derivative economic interest granting the Cartesian Entities 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 Pangaea Two Management, LP (an additional entity related to the Cartesian Entities) 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. Then in August of 2016 the Company sold an aggregate 11.67% equity interest in the WWI joint venture for gross proceeds of 48.2 million RMB (approximately US$7.2 million) to Weichai Holding Group Co., Ltd. (to which the Company sold a 6.42% equity interest) and Guanya (Shanghai) Private Equity Partnership (Limited Partnership) ("**Guanya**") (to which the Company sold a 5.25% equity interest). Public disclosures of this transaction made by the Company prior to our Q3 2018 MD&A filing, referred to Guanya as either "an additional undisclosed purchaser" or, inadvertently, as "Weichai Power Co., Ltd.", which was not a party to the transaction but instead was a limited partner of Guanya. The Company's 23.33% equity interest in WWI remains held by the Company's subsidiary, Westport HK. As a result of such transactions, the Company's residual 23.33% equity interest in WWI currently corresponds to an economic interest in WWI equivalent to just 4.55%.

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

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

**SELECTED ANNUAL FINANCIAL INFORMATION**

The following table sets forth a summary of our financial results for 2018, 2017 and 2016. The 2016 results include seven months results from Fuel Systems Solutions, Inc. ("Fuel Systems") as a result of the merger effective June 1, 2016.

**Selected Consolidated Statements of Operations Data**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | (Note 1) | (Adjusted, note 1 and 2) | (Adjusted, note 1, 2 and 3) |
| *(expressed in millions of United States dollars, except for per share amounts and shares outstanding)* | | | |
| Revenue | $ 270.3 | $ 229.8 | $ 167.2 |
| Gross margin | 64.2 | 60.3 | 34.1 |
| *GM %* | 23.8% | 26.2% | 20.4% |
| Net loss from continuing operations (note 3) | (40.8) | (62.9) | (100.7) |
| Net income from discontinued operations (note 1 and 2) | 9.3 | 52.9 | 3.1 |
| Net loss for the year | (31.5) | (10.0) | (97.6) |
| Net loss per share from continuing operations - basic and diluted | (0.31) | (0.52) | (1.10) |
| Net loss per share | (0.24) | (0.08) | (1.07) |
| Weighted average basic and diluted shares outstanding | 132,371,396 | 119,558,566 | 91,028,504 |

**(1)** **2018:** with effect from the second quarter of 2018, the CNG Compressor business was reclassified retrospectively as discontinued operations and in the third quarter of 2018, it was sold and generated a net gain on sale of $9.9 million, which was recorded in discontinued operations.

**(2)** **2017:** the year ended December 31, 2017 included a $54.9 million gain on sale of substantially all of the former Industrial business unit, which was recorded in discontinued operations. See note 6 in the consolidated financial statements.

**(3)** **2016:** the comparative 2016 period data include revenue from Fuel Systems' business for the seven-month period following the June 1, 2016 acquisition, a bargain purchase gain of $35.8 million, and a $19.0 million restructuring provision recorded for severance and facility closures. These items were recorded in net loss from continuing operations.

The following table sets forth a summary of our financial position as at December 31, 2018 and December 31, 2017:

**Selected Balance Sheet Data**

| | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| *(expressed in millions of United States dollars)* | | |
| Cash and cash equivalents | $ 61.1 | $ 71.8 |
| Total assets | 269.9 | 313.6 |
| Debt, including current portion | 55.3 | 54.4 |
| Royalty payable, including current portion | 20.9 | 19.0 |
| Total liabilities | 179.3 | 195.6 |
| Shareholder's equity | 90.7 | 118.0 |

**Selected CWI Statements of Operations Data**

We account for CWI using the equity method of accounting. However, due to its significance to our operating results, we disclose its assets, liabilities and income statement in notes 9(a) and 21 of our consolidated financial statements and discuss revenue and gross margins in this MD&A. The following table sets forth a summary of the financial results of CWI for 2018, 2017 and 2016.

| | Years ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| *(expressed in millions of United States dollars)* | | | |
| Total revenue | $ 319.4 | $ 317.3 | $ 276.5 |
| Gross margin | 91.0 | 109.5 | 77.1 |
| *GM %* | 28.5% | 34.5% | 27.9% |
| Net income before income taxes | 57.4 | 58.3 | 16.7 |
| Net income attributable to the Company (1) | 22.7 | 12.5 | 5.6 |

(1) As a result of the U.S. tax reform substantially enacted in the fourth quarter of 2017, CWI recorded a deferred tax expense of $13.4 million in 2017. The net income attributable to the Company has increased in 2018 as a result of the lower tax rates in the U.S.

**RESULTS FROM OPERATIONS**

The following tables summarize results by segment for 2018, 2017 and 2016.

The 2017 and 2016 comparative periods have been revised to reflect the change in business segments previously discussed in the Operating Segments section and to reflect the reclassification of the CNG Compressor business to discontinued operations.

**Revenue 2018/2017**

Total consolidated revenues increased by $40.5 million, or 18% from $229.8 million for the year ended December 31, 2017 to $270.3 million during the year ended December 31, 2018.

The following table summarizes revenues by segment for the year ended December 31, 2018 compared to the year ended December 31, 2017:

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| Transportation (consolidated) | $ 270.3 | $ 229.8 | $ 40.5 | 18% |
| CWI (non-consolidated) | 319.4 | 317.3 | 2.1 | 1% |

**Transportation** revenue for the year ended December 31, 2018 was $270.3 million compared with $229.8 million for the year ended December 31, 2017. The increase in revenue was primarily due to strong demand for our aftermarket products, strength in our light- and medium-duty OEM business and sales from our newly released Westport HPDI 2.0™ product. In addition, the Euro strengthened versus U.S. dollar approximately 5% during 2018 which resulted in an increase in U.S. dollar dominated revenues.

**CWI** revenue for the year ended December 31, 2018 was $319.4 million compared with $317.3 million for the year ended December 31, 2017. Unit sales for the year ended December 31, 2018 were 7,393 compared to 7,955 for the year ended December 31, 2017. The decrease in unit sales in the year ended December 31, 2018 is mainly due to certain pre-buy activities in the fourth quarter of 2017 in advance of the 2018 on-board diagnostic compliant engines.

Within total CWI revenue, parts revenue for the year ended December 31, 2018 was $92.0 million compared to $82.1 million for the year ended December 31, 2017. The increase in parts revenue is mainly due to the cumulative increase in the natural gas engine population in service, which offsets the decrease in units sold during the year ended December 31, 2018 compared to the prior year.

**Gross Margin 2018/2017**

Total consolidated gross margin increased by $3.9 million, or 6% from $60.3 million in 2017 to $64.2 million in 2018.

The following table presents gross margin by segment for 2018 compared to 2017:

*(expressed in millions of U.S. dollars)*

| | Year ended December 31, 2018 | % of Revenue | Year ended December 31, 2017 | % of Revenue | Change $ | Change % |
|---|---|---|---|---|---|---|
| Transportation (consolidated) | $ 64.2 | 24% | $ 60.3 | 26% | $ 3.9 | 6 % |
| CWI (non-consolidated) | 91.0 | 28% | 109.5 | 35% | (18.5) | (17)% |

**Transportation** gross margin increased by $3.9 million to $64.2 million, for the year ended December 31, 2018, compared to $60.3 million for the year ended December 31, 2017. The increase in gross margin is due to higher sales from our aftermarket and light- and medium-duty OEM, and DOEM businesses. Gross margin percentage decreased from 26% for the year ended December 31, 2017 to 24% for the year ended December 31, 2018 mainly because of low unit sales of the Westport HPDI 2.0™ business and lower service revenue.

**CWI** gross margin decreased by $18.5 million to $91.0 million, or 28% of revenue from $109.5 million or 35% of revenue in the prior year. The decrease in gross margin and gross margin percentage in 2018 is due to product mix and higher warranty adjustments.
There was a negative warranty adjustment of $1.1 million for the year ended December 31, 2018 compared to a positive warranty adjustment of $9.9 million for the year ended December 31, 2017. Excluding the warranty adjustments, the gross margin percentage in 2018 would have been consistent with 2017.

**Research and Development Expenses 2018/2017**

The following table presents details of research and development ("R&D") expense by segment, excluding equity investees, for 2018 compared to 2017:

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, 2018 | 2017 | Change $ | Change % |
|---|---|---|---|---|
| Transportation | $ 29.6 | $ 48.4 | $ (18.8) | (39)% |
| Corporate | 1.0 | 1.7 | (0.7) | (41)% |
| **Total research and development** | $ 30.6 | $ 50.1 | $ (19.5) | (39)% |

**Transportation** R&D expenses for the year ended December 31, 2018 were $29.6 million compared with $48.4 million for the year ended December 31, 2017. For the year ended December 31, 2017, the decrease of $18.8 million during the year ended December 31, 2018 was due to the completion of various R&D programs as the Company launched its Westport HPDI 2.0™ product in the fourth quarter of 2017.

**Corporate** R&D expenses for the year ended December 31, 2018 were $1.0 million compared with $1.7 million for the year ended December 31, 2017. Corporate R&D expenses relate to costs associated with protecting the Company's intellectual property; in particular, the costs associated with patenting our innovations and registering our trademarks, and maintaining our patent and trademark portfolios.

**Sales and Marketing, General and Administrative Expenses 2018/2017**

The following table presents details of sales and marketing, general and administrative ("SG&A") expense by segment, excluding equity investees, for 2018 compared to 2017:

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, | | Change | |
|---|---|---|---|---|
| | 2018 | 2017 | $ | % |
| Transportation | $ 36.8 | $ 43.4 | $ (6.6) | (15)% |
| Corporate | 30.2 | 19.8 | 10.4 | 53 % |
| Total SG&A | $ 67.0 | $ 63.2 | $ 3.8 | 6 % |

**Transportation SG&A** expenses for the year ended December 31, 2018 were $36.8 million compared to $43.4 million for the year ended December 31, 2017. SG&A expenses decreased mainly due to restructuring activities that took place during 2017 that resulted in lower SG&A expenses in 2018.

**Corporate SG&A** expenses for the year ended December 31, 2018 were $30.2 million compared to $19.8 million for the year ended December 31, 2017. The increase is largely due to legal costs related to the ongoing SEC investigation of $10.0 million incurred during the year ended December 31, 2018, net of expected insurance recoveries, compared to $1.8 million for the year ended December 31, 2017.

***Items Affecting Comparability of Results from 2016 to 2017***

(1) The year ended December 31, 2016 includes only seven months of Fuel Systems' results from the June 1, 2016 acquisition and this is reported in the Transportation segment in the tables below.

(2) WWI results are only included in total segment revenue for the three months ended March 31, 2016, as WWI has no longer been considered an operating segment in subsequent periods as previously noted.

**Revenues 2017/2016**

Total segment revenues increased $73.5 million, or 16% from $473.6 million in 2016 to $547.1 million in 2017.

The following table summarizes total revenue by segment for the year ended December 31, 2017 compared to the year ended December 31, 2016:

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, | | Change | |
|---|---|---|---|---|
| | **2017** | **2016** | **$** | **%** |
| Transportation | $ 229.8 | $ 167.2 | $ 62.6 | 37 % |
| CWI | 317.3 | 276.5 | 40.8 | 15 % |
| WWI | — | 29.9 | (29.9) | (100)% |
| Total segment revenues | $ 547.1 | $ 473.6 | $ 73.5 | 16 % |
| Less: Equity investees' revenues | 317.3 | 306.4 | 10.9 | 4 % |
| Total consolidated revenues | $ 229.8 | $ 167.2 | $ 62.6 | 37 % |

**Transportation** revenue for the year ended December 31, 2017 was $229.8 million compared to $167.2 million for 2016. The increase in revenue was primarily due to the consolidation of Fuel Systems for twelve months as opposed to seven months in 2016. Strong sales in the European aftermarket business and a 2% increase in the Euro also contributed to the year over year revenue increase.

**CWI** revenue for the year ended December 31, 2017 was $317.3 million compared with $276.5 million for the year ended December 31, 2016. Unit sales for the year ended December 31, 2017 were 7,955 compared to 7,232 for the year ended December 31, 2016. The increase in revenue was primarily due to the increase in units sold and an increase in parts revenue attributed to the increase in the natural gas engine population in service.

**Gross Margin 2017/2016**

Total consolidated gross margin increased by $26.2 million or 77% from $34.1 million in 2016 to $60.3 million in 2017.

The following table presents gross margin by segment for 2017 compared to 2016:

*(expressed in millions of U.S. dollars)*

| | Year Ended December 31, 2017 | % of Revenue | Year Ended December 31, 2016 | % of Revenue | Change $ | Change % |
|---|---|---|---|---|---|---|
| Transportation | $ 60.3 | 26% | $ 34.1 | 20% | $ 26.2 | 77 % |
| CWI | 109.5 | 35% | 77.1 | 28% | 32.4 | 42 % |
| WWI | — | —% | 3.0 | 10% | (3.0) | (100)% |
| Total segment gross margin | $ 169.8 | 31% | $ 114.2 | 24% | $ 55.6 | 49 % |
| Less: equity investees' gross margin | 109.5 | 35% | 80.1 | 26% | 29.4 | 37 % |
| Total consolidated gross margin | $ 60.3 | 26% | $ 34.1 | 20% | $ 26.2 | 77 % |

**Transportation** gross margin increased by $26.2 million to $60.3 million, or 26% of revenue, for the year ended December 31, 2017 compared to $34.1 million or 20% of revenue for the year ended December 31, 2016. Gross margins increased due to higher revenues, lower obsolescence charges, an acquisition-related adjustment in the prior year and cost reductions resulting from the restructuring activities beginning in the third quarter of 2016.

**CWI** gross margin increased by $32.4 million to $109.5 million, or 35% of revenue from $77.1 million or 28% of revenue in the prior year. The increase in gross margin and gross margin percentage is driven by higher revenues, a favorable parts revenue mix compared to the prior year. In addition, there was a positive warranty adjustment of $9.9 million for the year ended December 31, 2017 compared to a negative warranty adjustment of $0.6 million for the year ended December 31, 2016.

**Research and Development Expenses 2017/2016**

The following table presents details of research and development ("R&D") expense by segment, excluding equity investees, for 2017 compared to 2016:

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | $ | % |
| Transportation | $ 48.4 | $ 52.7 | $ (4.3) | (8)% |
| Corporate | 1.7 | 2.7 | (1.0) | (37)% |
| **Total research and development** | $ 50.1 | $ 55.4 | $ (5.3) | (10)% |

**Transportation** R&D expenses for the year ended December 31, 2017 decreased by $4.3 million, compared to $52.7 million for the year ended December 31, 2016. For the year ended December 31, 2016, total Transportation R&D expenses only includes Fuel Systems expenditures for the seven month period since the June 1, 2016 acquisition. Overall, R&D expenses decreased due to restructuring activities taken in 2016 with the closure of the Australian office and reduction of workforce in the US automotive business, offset by slightly higher charges due to the strength of the Euro compared to the US dollar.

**Corporate** R&D expenses year ended December 31, 2017 were $1.7 million compared to $2.7 million for the year ended December 31, 2016. R&D expenses decreased due to a reduction in headcount in Vancouver due to restructuring activities beginning in third quarter of 2016.

**Sales and Marketing, General and Administrative Expenses 2017/2016**

The following table presents details of Sales and Marketing, General and Administrative ("SG&A") expense by segment, excluding equity investees, for 2017 compared to 2016:

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | $ | % |
| Transportation | $ 43.4 | $ 34.0 | $ 9.4 | 28 % |
| Corporate | 19.8 | 29.0 | (9.2) | (32)% |
| Total SG&A | $ 63.2 | $ 63.0 | $ 0.2 | 0.3 % |

**Transportation** SG&A expenses for the year ended December 31, 2017 were $43.4 million compared to $34.0 million for the year ended December 31, 2016. For the year ended December 31, 2016, total Transportation SG&A expenses only includes expenditures associated with the Fuel Systems acquisition for the seven month period since June 1, 2016. SG&A expense also increased in the year ended December 31, 2017 due to the strong Euro as compared to the prior year and an increase to the bonus accrual.

**Corporate SG&A** expenses for the year ended December 31, 2017 were $19.8 million compared with $29.0 million for the year ended December 31, 2016. The decrease is due to merger related costs associated with the Fuel Systems acquisition in 2016 which did not occur in 2017 and lower salary expense due to restructuring activities that took place in 2016. The decrease was offset by an increase to the bonus accrual and a stronger Canadian dollar as compared to the prior year.

***Other significant expense and income items for 2018, 2017 and 2016***

**Restructuring** expenses recognized for the year ended December 31, 2018 were $0.8 million compared to $1.7 million for the year ended December 31, 2017. Restructuring costs incurred in 2018 related to charges from a reduction in workforce in Italy. For the year ended December 31, 2017, a recovery of $4.1 million was recognized due to a change in estimate relating to the termination of a lease commitment in Vancouver, Canada. This recovery was fully offset by termination and other exit costs recorded for the year ended December 31, 2017 of $5.8 million, due to reductions in workforce in Canada, Italy and Argentina.

**Foreign exchange gains and losses** reflect net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly composed of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. In addition, the Company has foreign exchange exposure on Euro denominated monetary assets and liabilities where the functional currency of the subsidiary is not the Euro. For the year ended December 31, 2018, we recognized a net foreign exchange loss of $9.0 million primarily due to fluctuations of the Euro and Canadian dollar relative to the U.S. dollar during the year.

For the year ended December 31, 2017, we recognized a net foreign exchange loss of $0.6 million with the movement in the Canadian dollar and Euro relative to the U.S. dollar. This compares to a net foreign exchange loss of $6.6 million for the year ended December 31, 2016.

**Depreciation and amortization** for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 were $16.5 million, $14.7 million, and $15.3 million, respectively. The amount included in cost of revenue for the same periods were $7.7 million, $4.9 million and $4.2 million. The increase in 2018 over 2017 is due to the depreciation of fixed assets related to the Westport HPDI 2.0 ™ business, launched in the fourth quarter of 2017, and recognized for the full year in 2018. The decrease in the total depreciation and amortization expense for 2017 compared to 2016 was due to a decline in asset purchases, partially offset by an increase due to the acquisition of Fuel Systems.

**Income from investments** primarily relates to our 50% interest in CWI, accounted for by the equity method. The Company has not considered WWI a business segment since March 31, 2016 due to the Company's reduced interest pursuant to a sale to the Cartesian Entities. See note 8 of the consolidated financial statements for more details.

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| CWI - 50% interest | $ 22.7 | $ 12.5 | $ 5.6 |
| WWI | — | — | 0.2 |
| Income from investments accounted for by the equity method | $ 22.7 | $ 12.5 | $ 5.8 |

As a result of the U.S. tax reform substantially enacted in the fourth quarter of 2017, CWI recorded a deferred tax expense of $13.4 million in 2017 which reduced income from investments by $6.7 million.

**Interest on long-term debt and amortization of discount**

*(expressed in millions of U.S. dollars)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Interest expense on long-term debt | $ 4.2 | $ 6.1 | $ 6.7 |
| Royalty payable accretion expense and finance charge from prepayment | 4.9 | 8.4 | 4.1 |
| Total interest on long-term debt and accretion on royalty payable | $ 9.1 | $ 14.5 | $ 10.8 |

Interest on our long-term debt and accretion on our royalty payable for the year ended December 31, 2018 was $9.1 million, a decrease of $5.4 million compared to the year ended December 31, 2017. Interest on long-term debt decreased from $6.1 million in 2017 to $4.2 million in 2018 due to a net reduction of high interest debt during 2017. In addition, our average long-term debt balance was lower during 2018 than 2017. Accretion and finance charges associated with the royalty payable decreased from 2017, due to an additional finance charge of $5.2 million in 2017 created by early extinguishment of a portion of the royalty payable on the completion of the sale of the Industrial business segment. This compared to an additional finance charge of $0.8 million in 2018 created by early extinguishment of a portion of the royalty payable on the sale of the CNG Compressor business.

**Income tax expense** for the year ended December 31, 2018 was $2.1 million and was primarily related to taxes payable in our Italian operations. This compared to an income tax recovery of $4.4 million for the year ended December 31, 2017 and an income tax expense of $3.9 million for year ended December 31, 2016.

The tax recovery for 2017 relates to the use of tax losses to offset the tax expense related to the gain on sale of Industrial assets. The tax expense for 2016 primarily relates to taxes on the disposition of a portion of our Weichai investment, a valuation allowance taken against deferred tax assets, and taxes in certain profitable jurisdictions (Canada/ The Netherlands).

**Discontinued operations**, as discussed in note 6 in the 2018 consolidated financial statements, the CNG Compressor business was sold during the year ended December 31, 2018, which resulted in a net gain on sale of $9.9 million. The assets and liabilities of the CNG Compressor business were accounted as held for sale effective from the second quarter of 2018. During the year ended December 31, 2017, the Company recognized a net gain on sale of assets of $58.3 million due to the sale of substantially all of the Industrial business segment. An additional gain of $0.8 million was recorded on this sale in the second quarter of 2018.

**CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY**

This “Capital Requirements, Resources and Liquidity” section contains certain forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Readers are encouraged to read the “Forward Looking Statements” and “Basis of Presentation” sections of this MD&A, which discusses forward-looking statements and the “Business Risks and Uncertainties” section of this MD&A and of our AIF.

Our cash and cash position has decreased by $10.7 million during 2018 to $61.1 million from $71.8 million at December 31, 2017. The decrease is primarily the result of operating losses (including increased legal expenses) and debt and royalty repayments, partially offset by cash proceeds from the sale of the CNG Compressor business and dividends from CWI. Cash and cash equivalents consist of guaranteed investment certificates, term deposits and bankers acceptances with maturities of 90 days or less when acquired, and restricted cash.

The Company continues to work towards its goals of increasing revenues and reducing expenditures, which has improved results from operations and operating cash flows in 2017 and 2018, and this improvement in operating results is expected to continue in 2019. In particular, the commercial launch of Westport HPDI 2.0™ in 2018 has allowed the Company to significantly reduce engineering and development spend and the associated capital expenditures on this product and this reduction has improved current and forecasted future cash flows. In addition, while the legal fees related to the SEC investigation that began in 2017 (see Regulatory Compliance section of the MD&A) increased significantly in 2018, we anticipate these legal expenditures to decrease in 2019. However, since the possible outcomes of this proceeding remain uncertain at this time, it is also necessary to acknowledge that any final determination that the Company’s operations or activities are not, or were not, in compliance with the FCPA and/or other U.S. securities laws could result in significant civil and criminal financial penalties and other sanctions, which could have a material adverse impact on our financial condition. Lastly, the Company continues to examine non-core assets to determine whether it is in the best interest of the Company to monetize assets or to continue to hold and invest in these assets. Connected with this activity of assessing its non-core assets, on July 25, 2018 the Company closed the sale of its CNG Compressor business announced in the second quarter of 2018, which resulted in gross proceeds of approximately $14.7 million.

Based on currently known conditions and events, management believes that the cash on hand as of December 31, 2018 and the improvements to the operations expected in 2019 will provide the cash flow necessary to fund the operations over the next year to March 31, 2020. The ability of the Company to continue as a going concern beyond one year will be dependent on its ability to generate positive results from operations and cash flows. If, as a result of future events, the Company was to determine it was no longer able to continue as a going concern, significant adjustments would be required to the carrying value of its assets and liabilities in the accompanying financial statements and the adjustments could be material. See the "Business Overview and General Developments" section in the MD&A for further discussion on liquidity and going concern.

*Cash Flow from Operating Activities*

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

For the year ended December 31, 2018, our net cash flow used in operating activities in continuing operations was $27.4 million, a decrease of $22.1 million from net cash flow used in operating activities in the year ended December 31, 2017. The improvement in cash flow from operating activities is primarily due to improved operations and working capital management, offset by higher legal expenses in 2018.

*Cash Flow from Investing Activities*

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

For the year ended December 31, 2018, our net cash flows received from investing activities of continuing operations was $19.9 million compared to cash used of $8.7 million for the year ended December 31, 2017. As a result of the launch of Westport HPDI

2.0 in late 2017, lower capital expenditures were required during 2018. In addition, dividends from CWI increased by $6.6 million from $16.6 million in 2017 to $23.2 million in 2018.

*Cash Flow from Financing Activities*

For the year ended December 31, 2018, the Company's net cash used in financing activities was $8.1 million, a decrease of $6.2 million compared to the year ended December 31, 2017. During 2018, the Company repaid royalty payable of $3.0 million and other debts of $3.0 million. In 2017, the Company repaid subordinate debt of $44.8 million and royalty payable of $11.5 million. These 2017 repayments were offset by proceeds of $26.0 million from the issuance of shares.

*Cash Flow from Discontinued Operations*

For the year ended December 31, 2018, our net cash flows from discontinued operations was $12.6 million, which primarily reflects the proceeds received from the sale of the CNG Compressor business.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

| | Carrying amount | Contractual cash flows | < 1 year | 1 - 3 years | 4-5 years | > 5 years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 82.9 | $ 82.9 | $ 82.9 | $ — | $ — | $ — |
| Long-term debt, principal (1) | 55.3 | 55.3 | 10.3 | 39.2 | 5.8 | — |
| Long-term debt, interest (1) | — | 10.1 | 4.2 | 5.4 | 0.5 | — |
| Long-term royalty payable (2) | 20.9 | 32.3 | 6.1 | 13.2 | 6.2 | 6.8 |
| Operating lease commitments | — | 8.3 | 3.6 | 3.5 | 1.2 | — |
| | $ 159.1 | $ 189.0 | $ 107.1 | $ 61.1 | $ 13.7 | $ 6.8 |

(1) For details of our long-term debt, principal and interest, see note 14 of the consolidated financial statements. To the extent that our outstanding debt bears interest at floating rates, contractual cash flows for interest have been calculated based on interest rates at December 31, 2018.

(2) For details of our long-term royalty payable, see note 15 of the consolidated financial statements.

**SHARES OUTSTANDING**

For the year ended December 31, 2018, the weighted average number of shares used in calculating the loss per share was 132,371,396. During the year ended December 31, 2018, we granted 1,009,230 RSUs. The Common Shares, share options and Share Units outstanding and exercisable as at the following dates are shown below:

| | December 31, 2018 | | March 18, 2019 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| | | $ | | $ |
| Common Shares outstanding | 133,380,899 | | 133,491,669 | |
| Share Units | | | | |
| Outstanding | 2,667,403 | N/A | 2,553,633 | N/A |
| Exercisable | 2,076,684 | N/A | 2,111,176 | N/A |

*(weighted average exercise prices are presented in Canadian dollars)*

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated 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 our warranty liability, revenue recognition, inventories, and property, equipment, furniture and leasehold improvements. The application of these and other accounting policies are described in Note 3 of our calendar year 2018 annual consolidated financial statements. Actual amounts may vary significantly from estimates used.

### Warranty Liability

Estimated warranty costs are recognized at the time we sell our products and included in cost of revenue. We use historical failure rates and costs to repair product defects during the warranty period, together with information on known products to estimate the warranty liability. The ultimate amount payable and the timing will depend on actual failure rates and the actual cost to repair. We review our warranty provision quarterly and record adjustments to our assumptions based on the latest information available at that time. Since a number of our products are new in the market, historical data may not necessarily reflect actual costs to be incurred, and this exposes the Company to potentially significant fluctuations in liabilities and our statement of operations. 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. We generally record warranty expense for new products upon shipment using a factor based upon historical experience from previous engine generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. Adjustments to and estimated future direct warranty costs are accrued and charged to cost of revenue in the period when the related revenues are recognized while indirect warranty overhead salaries and related costs are charged to cost of revenue in the period incurred.

### Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, a new accounting standard related to revenue recognition. ASC 606 supersedes nearly all U.S. GAAP on revenue recognition and eliminated industry-specific guidance. The underlying principle of ASC 606 is to recognize revenue when a customer obtains control of promised goods or services at an amount that reflects the consideration that is expected to be received in exchange for those goods or services. At the beginning of the first quarter of 2018, we adopted ASC 606 using the modified retrospective method. There was no material financial impact to our adoption of ASC 606.

The Company generates revenues primarily from product sales. Product revenues are derived primarily from standard product sales contracts and from long-term fixed price contracts. Under ASC 606, revenue is recognized 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.

### 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. Cost is determined based on the lower of weighted average cost or first-in, first-out 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 provides inventory write-downs based on excess and obsolete inventories determined primarily by future demand forecasts. In addition, the Company records a liability for firm, noncancelable, 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

### Property, Plant and Equipment and Intangible Assets

We consider whether or not there has been an impairment in our long-lived assets, such as equipment, furniture and leasehold improvements and intangible assets, whenever events or changes in circumstances indicate that the carrying value of the assets

may not be recoverable. If such assets are not recoverable, we are required to write down the assets to fair value. When quoted market values are not available, we use 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 to determine whether or not a write down is required.

*Impairment of property, plant and equipment*

During the year ended December 31, 2018, the Company recorded an impairment charge of $0.7 million. The impairment resulted primarily from the write-down of tooling equipment and was recorded in the Transportation segment.

The Company has significant investments in property, plant and equipment related to its Westport HPDI 2.0™ business. The HPDI business is at 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 2018 levels, are expected, allowing the HPDI business to benefit from economies of scale and become profitable. This growth in volumes in 2019 and future years is expected through sales with our initial launch partner, our supply arrangement with WWI, and the possibility of additional OEMs entering into supply agreements for our HPDI technology. If these assumptions are not realized, the Company may be required to record an impairment on these assets in future periods.

*Intangible assets*

Based on the revenue and operating results, the Company concluded that there were no impairment indicators as of November 30, 2018 for the intangible assets. Therefore, no impairment on intangible assets was recorded as at December 31, 2018.

**NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS**

(a) New accounting pronouncements adopted in 2018:

*Revenue:*

In May 2014, Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606"). The Company adopted the guidance using the modified retrospective method as at January 1, 2018 with no material impact to the financial statements. The adoption of this standard did not result in any impact on previously reported amounts. In accordance with he standard, additional disclosures have been provided.

*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments:*

In August 2016, the FASB issued ASU 2016-15, which provides cash flow classification guidance on eight specific cash flow issues to reduce diversity in practice for which authoritative guidance did not previously exist. The Company adopted this standard on January 1, 2018 with no material impact to the Company's financial statements.

(b) New accounting pronouncements to be adopted in 2019:

*Leases (Topic 842):*

In February 2016, the FASB issued ASU 2016-02, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, and interim periods with early adoption permitted. The Company's future minimum lease payments at December 31, 2018 under operating leases are disclosed in note 21(a). The Company is finalizing its implementation of this new standard and will use the modified retrospective method as at January 1, 2019. The Company's significant leases relate to its leasing of operating premises.

## REGULATORY COMPLIANCE

As disclosed in the Company's previous management discussion and analysis filings, on June 15, 2017, the Enforcement Division of the SEC issued a subpoena to Westport Fuel Systems for information concerning its investment in Weichai Westport Inc. and compliance with the FCPA and securities laws related to disclosure in SEC filings in connection with the Westport Fuel Systems operations in China. The SEC Enforcement Division issued follow up subpoenas on February 14, 2018, June 25, 2018, and August 2, 2018. The company has completed its response to those subpoenas. No new subpoenas have been received since August 2, 2018. Westport Fuel Systems is cooperating with these requests and cannot predict the duration, scope or outcome of the SEC's investigation. To date our management has devoted significant time and attention to these matters, and we may be required to devote even more time, attention and financial resources to these matters in the future. The SEC's investigation and our requirements in response thereto could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. While we cannot estimate our potential exposure, if any, in these matters at this time, we have already expended significant amounts investigating and responding to the subpoenas in respect of this investigation, including funding the expense of independent legal representation, and expect to continue to need to expend significant amounts to conclude the SEC investigation. During the year ended December 31, 2018, we recorded expenses related to the SEC investigation of $10.0 million, net of expected insurance recoveries, and to date have recorded aggregate net expenses related to such investigation of $11.8 million. Although we maintain insurance that may cover some of these expenses, and we have given notice to our insurers of the matter, there is a risk that a substantial portion of the overall expenses and costs relating to such SEC investigation will not be covered by such policies. In the event of future proceedings arising out of the SEC investigation, to the extent covered, our ultimate liability may possibly exceed the available insurance.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

### Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (our principal executive officer and principal financial officer, respectively), as appropriate to allow timely decisions regarding required disclosures. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of management, including our CEO and CFO, the effectiveness of the design and operation of our disclosure controls and procedures.

Based on that evaluation, our CEO and CFO have concluded that as of December 31, 2018, our disclosure controls and procedures were effective at a reasonable assurance level.

### Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO and effected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with U.S. GAAP and the requirements of the SEC, as applicable. There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected.

Because of these inherent limitations internal control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met, and no evaluation of controls can provide absolute assurance that all control issues have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under potential future conditions, regardless of how remote. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management, including the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting, based on the criteria in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the

Treadway Commission (“COSO”). Based on this evaluation, management has determined that our internal control over financial reporting was effective as of December 31, 2018.

During the year ended December 31, 2018, 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.

KPMG LLP ("KPMG"), our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2018. KPMG's audit report on effectiveness of internal control over financial reporting is included in the consolidated financial statements of this filing.

**SUMMARY OF QUARTERLY RESULTS AND DISCUSSION OF THE QUARTER ENDED DECEMBER 31, 2018**

Our revenues and operating results can vary significantly from quarter to quarter depending on factors such as the timing of product deliveries, product mix, product launch dates, research and development project cycles, timing of related government funding, impairment charges, restructuring charges, stock-based compensation awards and foreign exchange impacts. Net loss has and can vary significantly from one quarter to another depending on operating results, gains and losses from investing activities, recognition of tax benefits and other similar events.

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

**Selected Consolidated Quarterly Operations Data**

*(expressed in millions of United States dollars except for per share amounts)*

| Three months ended | 31-Mar-17 | 30-Jun-17 | 30-Sep-17 | 31-Dec-17 | 31-Mar-18 | 30-Jun-18 | 30-Sep-18 | 31-Dec-18 |
|---|---|---|---|---|---|---|---|---|
| | | (1) | | (2) | | | (3) | |
| Total revenue | $ 57.3 | $ 58.6 | $ 56.4 | $ 57.5 | $ 63.8 | $ 80.5 | $ 65.5 | $ 60.5 |
| Cost of product and parts revenue | 39.9 | 43.4 | 42.7 | 43.5 | 49.2 | 58.8 | 49.9 | 48.2 |
| Gross margin | $ 17.4 | $ 15.2 | $ 13.7 | $ 14.0 | $ 14.6 | $ 21.7 | $ 15.6 | $ 12.3 |
| Gross margin percentage | *30.4%* | *25.9%* | *24.3%* | *24.3%* | *22.9%* | *27.0%* | *23.8%* | *20.3%* |
| Net loss from continuing operations | $ (12.5) | $ (13.4) | $ (16.2) | $ (20.8) | $ (12.6) | $ (5.7) | $ (12.1) | $ (10.4) |
| Net income (loss) for the period | $ (12.5) | $ 32.3 | $ (15.6) | $ (14.2) | $ (14.2) | $ (4.9) | $ (3.2) | $ (9.2) |
| EBITDA (4) | $ (6.3) | $ (7.5) | $ (11.1) | $ (14.3) | $ (5.4) | $ 0.2 | $ (3.0) | $ (5.3) |
| Adjusted EBITDA (5) | $ (3.9) | $ (5.3) | $ (5.6) | $ (4.9) | $ (3.4) | $ 8.6 | $ 4.3 | $ 0.2 |
| **Earnings (loss) per share** | | | | | | | | |
| Basic and diluted from continuing operations | $ (0.11) | $ (0.12) | $ (0.15) | $ (0.14) | $ (0.10) | $ (0.04) | $ (0.09) | $ (0.08) |
| Basic and diluted | $ (0.11) | $ 0.29 | $ (0.14) | $ (0.14) | $ (0.11) | $ (0.04) | $ (0.02) | $ (0.07) |
| CWI net income attributable to the Company | $ 1.8 | $ 5.3 | $ 5.8 | $ (0.4) | $ 1.5 | $ 7.8 | $ 7.7 | $ 5.7 |

(1) During the second quarter of 2017, the Company completed the sale of non-core assets from its Industrial business unit and recognized a gain on sale of assets in discontinued operations of $58.3 million.

(2) During the fourth quarter of 2017, the CWI recorded a tax charge of $13.4 million due to the US tax reform. This reduced the Company's income from investments by $6.7 million. Excluding this tax charge, the net loss from continuing operations would have been $14.1 million and the net loss for the period would have been $7.5 million.

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

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

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

**THREE MONTHS ENDED DECEMBER 31, 2018 AND 2017**

Our total revenue for the three months ended December 31, 2018 was $60.5 million, an increase of $3.0 million, or 5.2%, from $57.5 million for the three months ended December 31, 2017. The increase in revenue was primarily a result of higher sales of the Company's HPDI product.

Our consolidated net loss for the three months ended December 31, 2018 was $9.2 million, or a loss of $0.08 per share compared to a net loss of $14.2 million, or a loss of $0.14 per share, for the three months ended December 31, 2017 . The decrease in net loss

primarily relates to higher gross margin, lower operating costs and an increase in investment income from our CWI joint venture, offset by unrealized foreign exchange losses and higher legal expenses in 2018.

**Non-GAAP Measures:**

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

**EBITDA**

The term EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. The Company defines EBITDA as net loss from continuing operations before income taxes adjusted for interest expense (net) and depreciation and amortization.

Management believes that EBITDA is an important indicator commonly reported and widely used by investors and analysts as an indicator of the Company's operating performance. The intent is to provide additional useful information to investors and analysts and such measures do not have any standardized meaning under U.S. GAAP. These measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. Other issuers may define EBITDA differently.

| Three months ended | 31-Mar-17 | 30-Jun-17 | 30-Sep-17 | 31-Dec-17 | 31-Mar-18 | 30-Jun-18 | 30-Sep-18 | 31-Dec-18 |
|---|---|---|---|---|---|---|---|---|
| Loss before income taxes from continuing operations | $ (13.3) | $ (17.3) | $ (15.8) | $ (20.7) | $ (11.7) | $ (5.6) | $ (9.5) | $ (11.9) |
| Interest expense, net (1) | 3.4 | 6.3 | 0.9 | 2.5 | 2.1 | 1.7 | 2.3 | 2.6 |
| Depreciation and amortization | 3.6 | 3.5 | 3.8 | 3.9 | 4.2 | 4.1 | 4.2 | 4.0 |
| EBITDA | $ (6.3) | $ (7.5) | $ (11.1) | $ (14.3) | $ (5.4) | $ 0.2 | $ (3.0) | $ (5.3) |

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

EBITDA decreased by $2.3 million from a loss of $3.0 million for the three months ended September 30, 2018 to a loss of $5.3 million in the three months ended December 31, 2018 primarily due to lower gross margin and lower CWI net income attributed to the Company.

**Non-GAAP Measures (continued):**

**Adjusted EBITDA**

The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP.

Adjusted EBITDA is used by management to review operational progress of its business units and investment programs over successive periods and as a long-term indicator of operational performance since it ties closely to the unit's ability to generate sustained cash flows.

Westport Fuel Systems defines Adjusted EBITDA as EBITDA from continuing operations adjusted for stock-based compensation, unrealized foreign exchange gains or losses, and non-cash and other adjustments. Adjusted EBITDA has limitations as an analytical tool, and when assessing the Company's operating performance, investors should not consider Adjusted EBITDA in isolation, or as a substitute for net loss or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Among other things, Adjusted EBITDA does not reflect the Company's actual cash expenditures. Other companies may calculate similar measures differently than Westport Fuel Systems, limiting their usefulness as comparative tools. Westport Fuel Systems compensates for these limitations by relying primarily on its U.S. GAAP results.

| Three months ended | 31-Mar-17 | 30-Jun-17 | 30-Sep-17 | 31-Dec-17 | 31-Mar-18 | 30-Jun-18 | 30-Sep-18 | 31-Dec-18 |
|---|---|---|---|---|---|---|---|---|
| EBITDA | $ (6.3) | $ (7.5) | $ (11.1) | $ (14.3) | (5.4) | 0.2 | (3.0) | (5.3) |
| Stock based compensation | 1.1 | 3.1 | 2.1 | 0.7 | 0.3 | 1.4 | 0.6 | 0.7 |
| Unrealized foreign exchange (gain) loss | (1.6) | 1.0 | 2.5 | (1.3) | — | 5.2 | 2.2 | 1.6 |
| Asset impairment | — | — | — | 0.6 | — | — | — | 0.6 |
| Restructuring, termination and other exit costs | 1.6 | (1.6) | (0.1) | 1.8 | 0.6 | 0.2 | — | — |
| CWI US tax adjustment | — | — | — | 6.7 | — | — | — | — |
| Legal costs associated with SEC investigation | — | — | 0.9 | 0.9 | 0.9 | 2.5 | 3.5 | 3.1 |
| Other | 1.3 | (0.3) | 0.1 | — | 0.2 | (0.9) | 1.0 | (0.5) |
| Adjusted EBITDA | $ (3.9) | $ (5.3) | $ (5.6) | $ (4.9) | (3.4) | 8.6 | 4.3 | 0.2 |

Adjusted EBITDA decreased by $4.1 million from $4.3 million for the three months ended September 30, 2018 to $0.2 million in the three months ended December 31, 2018 primarily due to lower gross margin and lower CWI net income attributed to the Company.

**BUSINESS RISKS AND UNCERTAINTIES**

An investment in our business involves risk and readers should carefully consider the risks described in our AIF and other filings on www.sedar.com and www.sec.gov. Our ability to generate revenue and profit from our technologies is dependent on a number of factors, and the risks discussed in our AIF, if they were to occur, could have a material impact on our business, financial condition, liquidity, results of operation or prospects. While we have attempted to identify the primary known risks that are material to our business, the risks and uncertainties discussed in our AIF may not be the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently believe are immaterial may also adversely affect our business, financial condition, liquidity, results of operation or prospects. A full discussion of the risks impacting our business is contained in the AIF for the year ended December 31, 2018 under the heading "Risk Factors" and is available on SEDAR at www.sedar.com.

**Exhibit 99.4**

**CERTIFICATION**

I, David M. Johnson, certify that:

1 I have reviewed this annual report on Form 40-F of Westport Fuel Systems Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 19, 2019

By: /s/ David M. Johnson

Name: David M. Johnson
Title: Chief Executive Officer, Westport Fuel Systems Inc.

**Exhibit 99.5**

**CERTIFICATION**

I, James M. MacCallum, certify that:

1 I have reviewed this annual report on Form 40-F of Westport Fuel Systems Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 19, 2019

By: /s/ James M. MacCallum

Name: James M. MacCallum
Title: Acting Chief Financial Officer, Westport Fuel Systems Inc.

**Exhibit 99.6**

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Westport Fuel Systems Inc. (the “Company”) on Form 40-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David M. Johnson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 19, 2019 /s/ David M. Johnson

David M. Johnson
Chief Executive Officer

This certification accompanies this annual report on Form 40-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Exchange Act, be deemed filed by the Company for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**Exhibit 99.7**

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Westport Fuel Systems Inc. (the “Company”) on Form 40-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James M. MacCallum, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 19, 2019 /s/ James M. MacCallum

James M. MacCallum
Acting Chief Financial Officer

This certification accompanies this annual report on Form 40-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Exchange Act, be deemed filed by the Company for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

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**Consent of Independent Registered Public Accounting Firm**

The Board of Directors of Westport Fuel Systems Inc.

We consent to the use of our reports, each dated March 19, 2019, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting included in this annual report on Form 40-F.

As discussed in note 4(a) to the consolidated financial statements, the Company has changed its accounting policies for revenue as of January 1, 2018 due to the adoption of ASC 606 - Revenue from Contracts with Customers.

We also consent to the incorporation by reference of such reports in the Registration Statements (Nos. 333-165812, 333-168847 and 333-211726) on Form S-8, (No. 333-228551) on Form F-10/A and (No. 333-207523) on Form F-4/A of Westport Fuel Systems Inc.

**/s/ KPMG LLP**

Chartered Professional Accountants

March 19, 2019
Vancouver, Canada

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