WESTPORT FUEL SYSTEMS INC.

2016 ANNUAL REPORT

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Letter To Shareholders

Dear Fellow Shareholders,

2016 was a transformative year that brought together two industry leaders to form Westport Fuel Systems, the global leader in advanced clean-burning fuel systems and components. We entered 2016 with clear goals and we are pleased to report our progress plus next steps to make Westport Fuel Systems a sustainable, profitable company that delivers value to customers, employees and shareholders.

With our merger closed on June 1, 2016, we immediately began executing on our integration plans. Our global leadership team is focused on improving operating efficiencies and reducing expenses while ensuring that we continue to provide our customers with leading products and technology solutions and exceptional service. At year-end, we had already achieved almost a substantial portion of our stated merger synergy targets plus higher Adjusted EBITDA from operations in the third and fourth quarters.

We accelerated our efforts to capture operating efficiencies and reduce our expenses by consolidating the manufacturing, distribution and corporate footprint, and stream-lining our corporate costs. The results of these efforts started to emerge in the second half of 2016 and with additional work and activities underway, we expect to see more improvements in 2017.

The strategic review of the product and brand portfolio that began upon the close of the merger was completed in late 2016. In early 2017 we sold the assets of the Auxiliary Power Unit ("**APU**") business for $70 million and announced plans to divest the majority of assets remaining in the Industrial Business Segment. By narrowing our focus along with improving our financial base, we can concentrate on growing market share for our unmatched alternative fuel technologies and bringing to market new products that can drive results for the long term. It is our knowledge, technical expertise, deep patent portfolio, and strategic OEM relationships that make Westport Fuel Systems the leader in our market.

The efforts to strengthen our balance sheet were successful in 2016, beyond the closing of the merger. The Cartesian investment brought additional cash to support our global growth initiatives through upfront payments and a convertible note. Additionally, we completed other non-core asset sales around the globe. In 2017, we expect to build on this success with additional non-core asset sales and further right-sizing of our cost structure.

We are pleased to report that our Westport High Pressure Direct Injection 2.0 ("**Westport™ HPDI 2.0**") technology advanced through the validation and testing phases. We are on track to ship the first commercial components to our OEM launch partner by end of 2017, a significant milestone for the company.

This is the culmination and commercialization of many years of work and highlights our expertise and experience along with a deep patent portfolio that makes Westport Fuel Systems a market leader.

We are excited about the potential of Westport™ HPDI 2.0 as it provides customers with cost savings, lower GHG emissions, and the ability to run entirely on renewable fuels - all while matching the performance of vehicles fueled by diesel.

Today Westport Fuel Systems is the premier global company for the engineering, manufacturing, and supply of alternative fuel systems and components. We are driving innovation to power a cleaner tomorrow by delivering performance, fuel efficiency and environmental benefits to address the challenges of climate change and urban air quality. Serving customers in more than 70 countries through our leading transportation and automotive brands, over 600 patents and applications, and with a dedicated team of employees, we can change the way the world moves.

Calendar year 2017 is well underway with the momentum to build on our transformation and the strong finish to 2016. Our key initiatives for 2017:

- Launch Westport™ HPDI 2.0 commercial components to our OEM partner
- Execute our strategic plan and portfolio rationalization
- Strengthen our balance sheet
- Capture remaining merger synergies and drive operational excellence

The 2017 year is already off to a good start and we look forward to updating you as we make further progress. On behalf of our Board of Directors, the management team and employees around the world, thank you for your continued interest and support of Westport Fuel Systems.

Sincerely,

Nancy S. Gougarty
Chief Executive Officer

Ashoka Achuthan
Chief Financial Officer

Sustainability Report

Driving Innovation to Power a Cleaner Tomorrow

Compared to other primary energy use sectors including electricity, industry, and buildings, transportation is the most difficult to decarbonize because of the challenge of economically replacing the energy density of fossil fuels. The current global transportation energy mix is still dominated by petroleum derived fuels like gasoline and diesel (approximately 90%) but we are witnessing the emergence of a more diversified or poly-fuel mix as natural gas, liquid biofuels, electric vehicles, and hydrogen fuel cells are gaining market share through an ability to compete on price, range, and performance.[1]

Canada and other G20 economies have ratified the Paris Agreement in November 2016 committing to deep decarbonization targets to limit average temperature rise to less than 2°C, and are working on plans to limit temperature rise to 1.5°C. We simply need to accelerate the deployment of clean-technology and low carbon transportation solutions and increase the rate of market penetration.

The extent to which the transport sector is able to make progress on the ambitious 80%-by-2050 emission reduction targets incorporated within the Paris Agreement and diversify beyond oil, will be a function of ongoing technology breakthroughs on both fuels and vehicles, political action, shifting demographics, and a range of new public policy considerations that will not only influence how people and freight are moved, but how and where we live.

Our 2016 Sustainability Report highlights the new Westport Fuel Systems updates, progress, and challenges in reaching our vision of a sustainable transportation future. We continue to strive to create leading edge technologies that meet or exceed the requirements of legislation and industry codes and standards to shift the transportation sector to gaseous fuels. Working in conjunction with our partners, we are committed to delivering low-emission gaseous fuel solutions that will meet the demand for high-efficiency, high-performance, and low-carbon transportation.

A Catalyst For Innovation

The heightened focus on the environmental performance of the transportation sector with more stringent requirements for increased engine efficiency, improved urban air quality, and greenhouse gas ("**GHG**") emission reductions has put pressure on engine and vehicle manufacturers, but also introduced an opportunity for collaboration and innovation.

New Engine Efficiency Standards

The United States Environmental Protection Agency (“**EPA**”) and the National Highway Traffic Safety Administration (“**NHTSA**”) jointly released the Phase 2 GHG emissions and fuel efficiency standards for medium- and heavy-duty vehicles in August 2016. These rules are the product of nearly two years of extensive consultation with industry partners and set a high standard for the freight sector.

Freight transport by road is a vital part of the North American economy but also a major source of GHG emissions. The new EPA/NHTSA rules for GHG emissions and fuel efficiency from medium- and heavy-duty trucks will create a new competitive dynamic in the trucking industry. Westport Fuel Systems is well-positioned to deliver best-in-class engines and vehicles that meet increasingly stringent regulatory frameworks.

Next generation natural gas engines and vehicles including Westport High Pressure Direct Injection 2.0 (Westport™ HPDI 2.0) and Enhanced Spark Ignition ("**Westport™ ESI**") technologies comply with the new rule and offer significant GHG emission reduction benefits through the combination of low-carbon fuels and high-efficiency engines. In particular, Westport™ HPDI 2.0 has been proven to deliver diesel-like performance and fuel efficiency while providing a reduction in GHG emissions of 18-20% compared to current diesel engines.

Improved Urban Air Quality

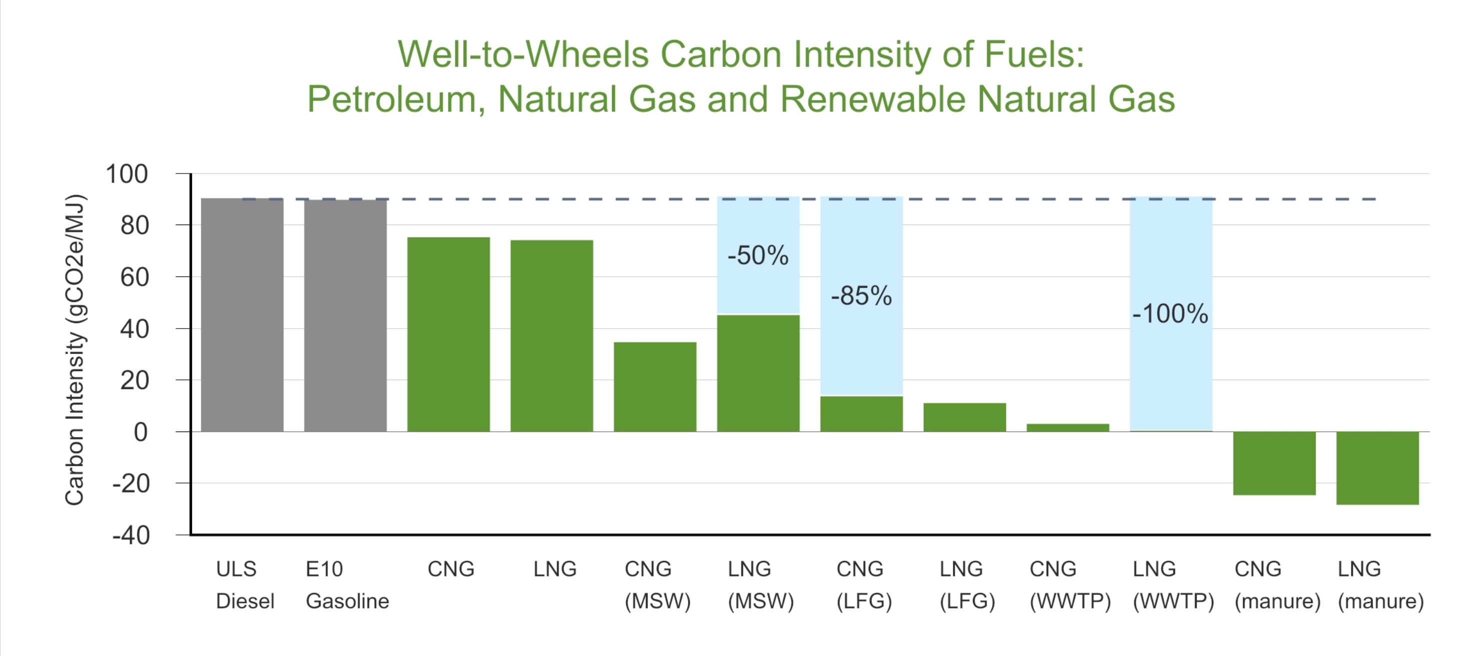
The California Air Resources Board (“**CARB**”) adopted *optional* low oxides of nitrogen (“**NOx**”) emission standards for on-road heavy-duty engines in 2013. For California to meet its 2023 and 2023 ambient ozone air quality standards, CARB estimates that it will require a 90% reduction in NOx emissions below 2010 baseline levels measured in the South Coast air basin.[2]

The Cummins Westport ISL G Near Zero became the first mid-range engine in North America to receive emissions certifications from both the U.S. EPA and CARB that meet the 0.02 g/bhp-hr optional Near Zero NOx Emissions standards for medium-duty truck, urban bus, school bus, and refuse applications. Methane emissions have also been cut dramatically through the combined use of closed crankcase ventilation and revised catalyst formulations.

According to CARB, when fueled by renewable natural gas ("**RNG**"), a transit bus using the ISL G NZ has total emissions equivalent to a battery electric bus powered by electricity generated in a clean natural gas fueled power plant.[3]

The Potential Of RNG

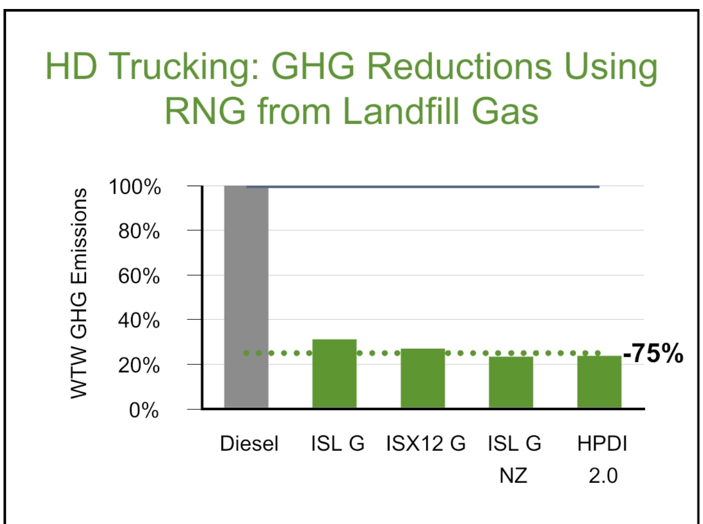
Transportation grade natural gas is increasingly being produced from non-fossil sources, in the form of renewable natural gas or



This chart shows the fuel carbon intensity on a per unit energy basis. For example, for 1 MJ of energy of CNG made from landfill gas and used in an engine, the total amount of CO_2 WTW that results is about 85% lower than using 1 MJ of diesel. This chart addresses only the fuel, and as such does not take into account engine tailpipe emissions of methane, or any differences in engine efficiency.

biomethane. Feedstocks for RNG include landfill gas ("**LFG**"), municipal solid waste ("**MSW**"), waste water treatment plants ("**WWTP**"), or agricultural manure. Substantial carbon intensity reductions can be achieved by turning these waste products into transportation fuel, thereby eliminating direct emissions of carbon dioxide ("**CO_2**") and methane that occur naturally and without any end-use benefit.

When vehicle efficiency and tailpipe emissions are accounted for, RNG (in this case from landfill gas) can reduce the greenhouse gas emissions of natural gas heavy duty trucks by approximately 75% compared to the level produced from equivalent diesel trucks.[4]



Landfill Gas fuel carbon intensity from GREET (greet.es.anl.gov) life-cycle emissions model maintained by Argonne National Labs.

There is an urgent need for sustainable, low-carbon solutions for the transportation and energy sectors. Because natural gas vehicles can operate with 100 percent renewable natural gas or any percentage of blended renewable and conventional gas, they are a promising technology for freight transportation now and into the future as renewable fuels are expected to represent a greater market share of fuel consumed.

Key Collaborations In 2016

Industry leadership begins with outreach and dialogue and we have contributed to many technical working groups, committees, and advisory panels to learn, share our expertise, and help build a body of knowledge about natural gas vehicles, their benefits, and challenges with deployment.

While the economic value proposition remains the primary driver of natural gas for transportation, policy makers, OEM partners and industry stakeholders are looking to the other compelling energy, environmental, and sustainability benefits. It is critical for Westport Fuel Systems to contribute sound, intelligent, data driven, and defensible analysis to a discussion on sustainable mobility and the transition to alternative fuels.

Business For Social Responsibility

FUTURE OF FUELS WWW.BSR.ORG

Westport Fuel Systems has been a member of Business for Social Responsibility ("**BSR**") since 2012 and was a founding member of the Future of Fuels working group. The mission of Future of Fuels is to identify and promote transportation fuel pathways that enhance the sustainability and availability of emerging alternative fuel choices. The working group's objectives are to develop tools and research to map, measure, and manage a sustainable transition to low-carbon commercial freight, convene value chain stakeholders to identify and address the greatest challenges to the deployment of sustainable fuels, and build partnerships that catalyze and test low-carbon commercial freight solutions.

In 2016, Future of Fuels launched its Fuel Tool developed by technical experts and member companies including PepsiCo, Shell, Suncor, Coca-Cola, UPS, Volvo, Walmart, and Westport Fuel Systems. It is an interactive tool able to provide data for fleet owners to measure the average climate emissions for different fuels and technology, to understand the range of related environmental impacts, and enable them to implement practices to achieve desired sustainability results from their fleet and suppliers.

Environmental Defense Fund

PUMP TO WHEELS METHANE LEAKAGE STUDY

The Environmental Defense Fund ("**EDF**") has a history of cross-sector collaboration and balanced environmental analysis. In 2012, the EDF initiated a series of studies with academic and industry partners to better understand the source and quantity of methane emissions along the natural gas supply chain. Westport Fuel Systems was a core supporting member of a multi-partner study initiated by EDF and conducted by the Center for Alternative Fuels, Engines and Emission ("**CAFEE**") at West Virginia University.

The study was published in 2016 in the journal Environmental Science & Technology and offers a critical baseline by which ongoing product and technology enhancements can be measured, as it represents the first significant effort to quantify actual in-use methane emissions from natural gas filling stations and heavy-duty vehicles. The natural gas vehicle industry has already implemented technology solutions to dramatically minimize, or in some cases, eliminate the largest sources of methane emissions from vehicle tailpipe, crankcase ventilation, and dynamic venting that were identified in the study.

Our Approach And Scope

This is our eighth published sustainability report, documenting our strategy, programs and achievements related to the environment, the safety of people and products, our employees, and our community.

The scope of this report relates only to our operations in British Columbia, Canada. We recognize the limitation of this narrow scope given the global reach of the new Westport Fuel Systems. As much of 2016 was spent in post-merger integration activities and product portfolio rationalization, we have identified a need to extend the scope of our sustainability report to encompass all of our global operations and are working to establish processes to achieve this goal. While the majority of our engine testing and development occurs in Vancouver, we recognize that we must tell a more complete story about our activities, success and challenges. This report discloses data from January to December 2016. Historical data from the past four fiscal years have been included for comparative purposes, where appropriate.

Report Content

This report has been developed in accordance with the Global Reporting Initiative ("**GRI**") G3 standard reporting guidelines. The GRI is an independent institution that provides a standard framework for sustainability reporting across companies and industries. We have applied the principles of materiality and stakeholder inclusiveness as recommended by the GRI to assess the relevance of sustainability priorities to Westport Fuel Systems and our stakeholders.

Westport has self-declared this report to correspond to application level B in the six-level grid of the GRI G3 guidelines. Application Level B requires us to disclose our performance on at least twenty core economic, social and environmental indicators.

Determining Material Issues

The intent of the new GRI G4 materiality review process is to ensure that content included in our annual sustainability report represents the key environmental, economic, and social issues that are most critical to our stakeholders.

In 2016 we undertook an extensive internal risk management exercise which will guide and supplement our process for determining materiality in accordance with the framework of the new G4 reporting guidelines. We reviewed our existing mechanisms for gathering stakeholder feedback and sought additional input where possible to organize our findings using the prioritization matrix system recommended by GRI.

GRI INDICATOR INDEX

LEGEND	
AA1	(we report on this indicator)
BB2	(we partially report on this indicator)

ECONOMIC PERFORMANCE

EC1	Direct economic value generated and distributed ▪ (2016 Audited Financial Statements)
EC2	Financial implications and risks and opportunities of climate change ▪ (Climate Change Risks and Opportunities)

SOCIAL PERFORMANCE

HR3	Employee training on human rights ▪ (Human Rights)
LA1	Total workforce by employment type, employment contract, and region ▪ (Employee)
LA3	Benefits provided to full-time, part-time and temporary employees ▪ (Employee)
LA6	Workforce represented in Occupational Health and Safety Committees ▪ (Health and Safety)
LA7	Rates of injury, occupational disease, lost days, and work-related fatalities ▪ (Health and Safety)
SO1	Nature, scope and effectiveness of programs to manage impact on communities ▪ (Community Impacts)
SO2	Percentage and total number of business units analyzed for risks related to corruption ▪ (Anti-Corruption Efforts)
SO3	Percentage of employees trained on anti-corruption policies and procedures ▪ (Anti-Corruption Efforts)
PR1	Life cycle stages: health and safety impacts of products-assessed for improvements ▪ (Product Responsibility)
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products ▪ (Health and Safety)

ENVIRONMENTAL PERFORMANCE

EN3	Direct energy consumption by primary energy source ▪ (Energy)
EN4	Indirect energy consumption by primary source ▪ (Energy)
EN5	Energy saved due to conservation and efficiency efforts ▪ (Energy)
EN6	Initiatives to provide energy-efficient or renewable based products and reductions ▪ (Energy)
EN7	Initiatives to reduce indirect energy consumption and reductions achieved ▪ (Energy)
EN8	Total water withdrawal by source ▪ (Water)
EN16	Total direct and indirect greenhouse gas emissions ▪ (Greenhouse Gas Emissions)
EN18	Initiatives to reduce GHG emissions and reductions achieved ▪ (Greenhouse Gas Emissions)
EN22	Total amount of waste by type and disposal method ▪ (Waste Generation and Diversion)
EN23	Total number and volume of significant spills ▪ (Waste Generation and Diversion)
EN28	Value of fines and non-monetary sanctions for environmental non-compliance ▪ (Environmental Compliance)

Social Performance Indicators

HUMAN RIGHTS

Westport Fuel Systems is dedicated to preserving all fundamental and universally recognized human rights as outlined by the United Nations and the International Labour Organization. Our commitment is stated and reinforced by our Code of Conduct which is reviewed and signed annually by each of our employees.

TOTAL WORKFORCE

Westport Fuel Systems is committed to providing a healthy work environment, defined by respectful relationships, professional development and advancement potential and an execution-focused culture to capitalize on business opportunities. We are dedicated to ensuring that Westport Fuel Systems remains an employer of choice in all our locations. A similar benefits package is offered to both full-time and part-time employees.[5]

HEALTH AND SAFETY

The health and safety of our employees, facilities, and communities is an integral part of Westport Fuel Systems operations. When gauging world-class safety performance, recordable injury rates and lost-time injury rates are statistical, comparative industry measures. Our results are indicative of our ongoing and significant commitment to injury prevention, risk mitigation, regulatory compliance, and continuous safety improvement.

Our Health and Safety Committee members are champions for workplace safety. Westport Fuel Systems maintains a Health and Safety Committee in British Columbia or approximately one Committee for every 300 employees. Our Committee is made up of cross-functional management and employee representatives who advise and recommend action on any unresolved workplace health and safety issues brought to them.

SAFETY INCIDENTS

as of Dec. 31	2016	2015	2014	2013	2012
Recordable injury frequency	0	1	3	5	2
Recordable injury rate[6]	0.00	0.33	0.96	1.22	0.46
Lost time injury frequency	0	1	1	2	1
Lost time injury rate[7]	0.00	0.33	0.32	0.49	0.23

Our Vancouver-based employees achieved a significant safety milestone as we did not record any recordable injuries or lost time injuries in 2016. We continue to put the health and safety of our employees at the center of our operational priorities.

Community Impacts

The importance of being a good neighbour is captured within our Environmental Policy statement. Westport Fuel Systems geographic location, with our technical facilities adjacent to homes, schools, and other businesses requires us to monitor and manage the potentially adverse impacts our operations might have on our immediate neighbors. Our Facilities Engineering Group maintains a preventative maintenance schedule for key equipment to minimize the likelihood of environment releases and noise levels in excess of municipal by-laws. Westport Fuel Systems responds to community concerns regarding our facilities, infrastructure, noise levels and environmental impacts in a timely manner. We did not receive any external complaints in 2016.

Anti-Corruption Efforts

Our expectations for individual integrity and ethical, moral and legal conduct are outlined in our Code of Conduct. The Code of Conduct has mandated compliance with all applicable laws in the jurisdictions where we operate and has always prohibited the giving or receiving of improper payments to influence business decisions. In addition, Westport Fuel Systems maintains a confidential ethics hotline to provide an avenue for employees to raise concerns about corporate conduct. The policy includes the reassurance that they will be protected from reprisals or victimization for “whistle blowing” in good faith.

Product Responsibility

Quality and safety are imperatives across the product life cycle. Our Quality Management System ("**QMS**") is certified to ISO 9001:2008 standards for the design, assembly and commercialization of its LNG fuel systems. Westport Fuel Systems QMS comprises the organization’s policies and procedures that aim to ensure that customer requirements are met with consistency, resulting in enhanced customer confidence and satisfaction. The QMS, other internal requirements and engineering systems have contributed to no incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of our products. Internal systems and processes have been established to ensure that the health and safety impacts of our products are assessed in each of the following life-cycle stages:

HEALTH AND SAFETY IMPACTS ASSESSED AT LIFE-CYCLE STAGE

	Status
Development of product concept	YES
Research and development	YES
Certification	YES
Manufacturing and production	YES
Marketing and promotion	YES
Storage, distribution, and supply	YES
Use and service	YES
Disposal, reuse or recycling	PARTIAL

Community Engagement

Being active in the community has always been central to Westport Fuel Systems values. Since 2002, Westport Fuel Systems has been a strong supporter of the United Way of the Lower Mainland. From modest beginnings, our annual workplace campaign has grown steadily and in 2016 our cumulative fundraising total reached $1.34 million CDN.

UNITED WAY OF THE LOWER MAINLAND COMMUNITY SCHOOLS

Westport Fuel Systems is a proud partner of the United Way and Vancouver School Board’s Community Schools Program. Community schools provide safe and structured after-school activities to students aged 6-12. After-school programs play a critical role in providing structured, supervised time for children to be active, to develop positive social skills, and to build overall capabilities. Studies have linked participation in these programs with greater academic success, increased self-confidence and self-esteem, and better relationships with peers and adults.

Through this partnership, Westport Fuel Systems employees lead classes over seven weeks in cooking, acrobatics, guitar, electronics, and visual arts at Lloyd George Elementary School.

CANADIAN BLOOD SERVICES

Westport Fuel Systems has been a member of the Canadian Blood Services’ *Partners for Life Program* since 2001. This nationwide program is designed to encourage group donations from business and community organizations. Each year, we set a target, coordinate group donations and allow employees to take time from work to donate.

Environmental Performance Indicators

ENVIRONMENTAL COMPLIANCE

Compliance with applicable federal, provincial, and municipal regulations is a baseline environmental performance standard and we believe that leading organizations must go beyond minimum environmental requirements. Since its inception in 1996, Westport Fuel Systems has not received any fines or non-monetary sanctions for environmental non-compliance.

WATER

It is expected that climate change will impact global water resources. Water use is an increasingly critical component of each organization’s sustainability performance. Despite this, only the largest industries in British Columbia have water meters with data logging capability and the city of Vancouver does not currently provide meters to light industrial or commercial customers such as Westport Fuel Systems.

Our calculations indicate that Westport Fuel Systems facilities cumulatively have an average daily rate of water use of approximately 13.5 m^3 per day. Engine and fuel system component testing activities use process water that flows in a closed-loop thereby minimizing total water withdrawals. Water conserving domestic appliances and fixtures have been installed at all locations in an effort to further reduce our impact. We recognize that providing only an estimate and not actual water use is a limitation of our current sustainability report.

ENERGY CONSUMPTION

Our energy consumption in 2016 was comparable to 2015. This is due in part to product development cycles but also to our ability to test components on systems capable of recycling fuel, and a greater focus on energy efficiency improvements. The bulk of our LNG test rigs continue to operate on liquid nitrogen and we continue to return power to the grid through the use of transient dynamometers in our test cells.

ENERGY CONSUMPTION

	for the 12 months ending Dec. 31				
(values in gigajoules)	2016	2015	2014	2013	2012
DIRECT					
Diesel	414	749	2,000	2,722	2,250
LPG	0	0	0	0	35
LNG	5,714	5,436	21,730	8,559	8,466
CNG	18,991	18,887	35,449	38,148	28,802
NG returned	(500)	(4,351)	(13,937)	(1,024)	(1,860)
Net direct consumption	**24,619**	**20,721**	**45,242**	**48,405**	**37,693**
INDIRECT					
Electrical	10,065	12,576	16,249	14,956	12,239

GREENHOUSE GAS EMISSIONS

The Greenhouse Gas Protocol developed by the World Business Council on Sustainable Development ("**WBSCD**") is the globally accepted standard for greenhouse gas emissions accounting. The organizational boundary of this inventory includes all of Westport Fuel Systems British Columbia-based facilities and includes both scope one and scope two emissions. We have not measured scope three emissions to date.

GREENHOUSE GAS INVENTORY[8] (unaudited)

	for the 12 months ended Dec. 31				
(values in tonnes CO_2 equivalent)	2016	2015	2014	2013	2012
Total Scope 1 Direct Emissions	1,442.8	1,272.8	2,389.7	2,576.1	2,224.2
Total Scope 2 Indirect Emissions	251.0	303.0	413.0	387.0	288.0
Total GHG impact	**1,693.8**	**1,575.8**	**2,802.7**	**2,963.1**	**2,512.2**

Finding comparable organizations against which to benchmark our GHG emissions remains a challenge, as the research and development of new engine technologies is necessarily an energy-intensive process. There are currently no regulatory requirements for a company of our size to disclose its emissions.[9] The process of compiling a GHG inventory provides an important foundation for understanding reduction opportunities and measuring progress. Westport Fuel Systems works through the internationally-recognized Carbon Disclosure Project to inventory and make public our GHG emissions. We have identified future opportunities to reduce the impacts of our operations, as well as opportunities to integrate climate change risk into our risk management procedures and overall business strategy.

WASTE GENERATION AND DIVERSION

Waste reduction, reuse and recycling programs are well established and well-maintained. Using formulas based on bin size and frequency of collection, Westport Fuel Systems generates approximately 200 tonnes of waste annually. Reducing the amount of waste sent to landfill remains a priority and we have launched employee education and awareness efforts to communicate the importance of minimizing the amount of waste generated.

We extend the opportunity for employees to recycle electronics, batteries, confidential paper, and some hazardous waste like paint through our waste minimization program. Our Facilities Engineering Group tracks the amount of waste recycled via our hazardous waste program, scrap materials collection and office waste initiatives.

TYPES OF HAZARDOUS AND SOLID WASTE RECYCLED

Absorbent pads & materials	Aluminum	Batteries	Beverage containers
Cardboard	Coolant	Diesel	E-waste
Filters/rags	Light bulbs	Lube oil	Organics & kitchen waste
Paper	Hard & soft plastic	Plastic oil pails	Solvents
Steel	Viscor	Wastewater	Wood

Footnotes

1. http://www.bsr.org/reports/BSR_Future_of_Fuels_Understanding_Impacts_of_Fuels.pdf

2. https://www.arb.ca.gov/msprog/hdlownox/hdlownox.htm

3. http://www.gladstein.org/pdfs/On-Road_Pathways.pdf and https://www.forbes.com/sites/trucksdotcom/2016/04/11/natural-gas-engine-cummins-on-way/#1ff0f9e5d8ba

4. The graphs shown here are illustrative, based on the assumptions within GREET, the lifecycle emissions model maintained by Argonne National Labs. However, the carbon intensity of renewable natural gas can be highly variable based on the type of feedstock, the geography, energy consumption to produce the biomethane, and the outcome for the feedstock if not used to make RNG.

5. Part-time employees must work at least three days per week to be eligible for the same benefits package as full-time employees. Casual employees or contractors are not eligible for benefits.

6. The recordable injury incident rate is the annualized rate of occupational injuries and illness per 100 employees. It is a calculation of the number of injuries x 200,000/employee hours worked. First aid classified injuries are not included.

7. The lost time injury rate is a calculation of the total number of lost time injuries x 200,000/employee hours worked. Lost days refer to scheduled work days and the count begins on the next scheduled work day immediately after the injury.

8. The GHG Protocol methodology used at this time only includes emissions associated with fuel consumption and not energy and emissions associated with fuel production, distribution and transport.

9. In Canada, Large Final Emitters ("**LFEs**")—facilities that emit the equivalent of 100,000 tonnes or more of carbon dioxide (CO_2) equivalents per year—are required to disclose their emissions.

Management's Discussion and Analysis

Basis of Presentation

This Management's Discussion and Analysis ("**MD&A**") for Westport Fuel Systems Inc. (formerly known as Westport Innovations 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, 2016. 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 31, 2017. 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, 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 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

Fuel Systems Solutions, Inc. ("**Fuel Systems**") and Westport Innovations Inc. ("**Westport**"), two companies with a strong foundation of innovation and technology leadership in the alternative fuels space were both key players in the development of the global market for gaseous fueled engines and vehicles for transportation and industrial applications. The merger of these two leaders in June 2016 has created Westport Fuel Systems, a premier global company for the engineering, manufacturing, and supply of alternative fuel systems and components.

Our new corporate vision - "*Driving Innovation to Power a Cleaner Tomorrow*" - encompasses our mandate to deliver best in-class alternative fuel engines, fuel systems, and components. Global trends in greenhouse gas emission reduction regulations and increasingly stringent urban air quality requirements further solidifies our strategy to develop technology solutions and commercialize products that original equipment manufacturers ("**OEMs**") will need to meet demanding regulatory frameworks. With a broad range of alternative fuel capabilities in liquefied petroleum gas ("**LPG**"), compressed natural gas ("**CNG**"), liquefied natural gas ("**LNG**"), renewable natural gas ("**RNG**"), and hydrogen and our innovative proprietary technologies, Westport Fuel Systems is well positioned in key on-road, industrial, and high horsepower market segments.

Our Automotive and Industrial businesses are the solid foundation of our market leadership position and source of competitive advantage. We have been able to realize synergies through a post-merger strategic assessment of our entire portfolio with emphasis on streamlining our operating lines as well as our product and brand portfolios. The outcome of this work has been a more focused portfolio with capital and resources targeted to the businesses that will drive long-term profitability.

In the Automotive segment, we are leveraging our increased scale, customer base, and global sales and distribution networks to continue growing market share; a strategy we believe will lead to a stronger financial position. In addition to our significant operational competency in well-established automotive and industrial markets, our investment in new technologies 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. We are on track to ship the first commercial Westport High Pressure Direct Injection 2.0 ("**Westport™ HPDI 2.0**") components to our European OEM launch partner in 2017. Our fully integrated Westport™ HPDI 2.0 system matches the "diesel-like" power, torque, and fuel economy benefits of a true compression ignition engine powered by natural gas, with reduced greenhouse gas emissions, and the capability to run entirely on renewable fuels.

Westport Fuel Systems has a compelling value proposition. We offer technology solutions for global environmental challenges, we occupy a premier technology leadership position, and we have a range of brands and products for diverse applications and markets. Our team has the specialized technical knowledge and engineering talent that can conceive, prototype, demonstrate, and commercialize the next generation of gaseous fueled technologies with our OEM partners. Our operationally focused leadership team has deep expertise in successful organizational restructuring, customer satisfaction, and financial discipline. We are building a sustainable, profitable company that delivers value to customers, shareholders, employees, and the environment.

During 2016, the end markets for our Automotive business continued to be challenging as a result of low oil prices. However, we did see encouraging signs of growth in the fourth quarter of 2016, with our revenue increased by 5% sequentially over the third quarter, and these continued into the early part of 2017. Overall we have seen some market consolidations among suppliers, and we have added market share in some markets as weaker players exit the industry. Importantly, our Automotive and Industrial divisions were profitable in both the third and fourth quarters of 2016.

Liquidity and Going Concern

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. Under the new standard, management must 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. 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 the financial statements are issued. When substantial doubt exists under this methodology, 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. This standard was adopted by the Company at December 31, 2016.

The Company's financial statements have been prepared on the basis that the Company will continue as a going concern.

At December 31, 2016, the Company's cash and cash equivalents were $60.1 million and its long-term debt was $79.0 million, of which $48.1 million matures in 2017. The Company incurred significant recurring losses and negative cash flows from operating activities during 2016, 2015 and 2014, and anticipates incurring additional losses and cash outflows through 2017, largely due to the start up of production and commercial distribution of HPDI in the fourth quarter of 2017.

Principal Conditions or Events that Require Management's Consideration

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

a. Forecast operating and capital investment requirements: After the merger with Fuel Systems and given the low oil price environment experienced in most of 2015 and 2016, the Company has been rationalizing its operations to achieve the necessary synergies required in order to become cash flow positive from operations. The Company expects to generate positive cash flows from operations throughout its business in 2017 and beyond except for its Technology Investments segment where the Company expects significant costs for final development, testing and capital expenditures on its HPDI program with a major OEM in fiscal 2017. Overall, the Company forecasts negative cash flows from operating activities in 2017.

b. Significant debt maturing in 2017 is the CDN$55.0 million Debentures ("**Debentures**") maturing on September 15, 2017.

This debt is classified as current liabilities on the consolidated balance sheet as at December 31, 2016. Details of this loan can be found in note 15(a) to the consolidated financial statements.

Management's Plans

Management considered the following factors and management's plans to alleviate or mitigate substantial doubt:

a. Asset sales: In conjunction with its rationalization and synergy program, the Company has a number of initiatives to simplify the number of businesses that the Company will focus on. As a result, the Company has identified a number of non-core assets that it has or would make available for sale, subject to appropriate terms and conditions in the circumstances. The Company has been active in discussions with interested parties and two of these initiatives are in the final stages of negotiation. The Company expects final binding agreements to be signed in April 2017 and closing to occur shortly thereafter. These two non-core assets sales are expected to contribute significant proceeds to the Company and would be used to fund the forecasted operating and capital investment requirements for HPDI commercialization. The Company continues to examine other assets to determine whether it is in the best interest of the Company to monetize these assets in the next year or continue to hold and invest in these assets. The Company's decisions with respect to these assets may depend on its ability to raise additional financings as discussed below. The Company's Board of Directors has approved a sales process and timeline for the sale of certain assets in the event that the financing is not obtained when required.

b. Maturing Debt: The holders of the CDN$55.0 million Debentures have the option to extend, a maximum of six times, the maturity date for an additional period of six months each time (i.e. if all extensions made, an additional three years) provided that greater than CDN $10.0 million of the aggregate principal amount of the Debentures remains outstanding. At the date of these financial statements, the Debenture holders have not elected to extend and have until August 1, 2017 to do so. The Company has engaged financial advisors to assist with alternative sources of funding. As of the date of these financial statements, the Company has held discussions and received interest including draft term sheets from potential lenders that would allow the Company to refinance a portion of the Debentures. In addition, the Company has initiated discussions with a representative of the Debenture holders on extending or replacing the Debentures with new financing. While there can be no assurance that the Company will be able to borrow on terms that are acceptable to the Company, management believes that it is probable that new loan(s) to refinance a portion of the Debentures, either with the Debenture holders or new lenders, will be entered into on a timely basis.

Management's Assessment and Conclusion

Management is confident that the cash on hand at December 31, 2016 of $60.1 million, the estimated proceeds from the sales of non-core assets and the estimated proceeds from financing as discussed above will provide the cash flow necessary to fund operations over the next year to March 31, 2018 and as a result, Management has determined that substantial doubt has been alleviated by Management's plans at a probable level of assurance. Management cautions the readers that there is no absolute assurance that the Company will be able to conclude all of the non-core assets sales and raise the financing necessary, under satisfactory terms and conditions, to continue as a going concern. If the Company was not to continue as a going concern, significant adjustments may be required to the carrying value of its assets and liabilities in the accompanying consolidated financial statements and the adjustments could be material.

Merger Integration

The process of the merger integration is underway, and significant achievements have been made to integrate the two businesses.

Items to highlight are as follows:

- The executive team is in place with Nancy Gougarty, CEO, Ashoka Achuthan, CFO, Andrea Alghisi, COO of the Automotive and Industrial divisions, Thom Rippon, CTO and EVP, Innovation Group and Jack Keaton, EVP, Innovation Group.

- Facility integration and closures commenced and will continue as management assesses the various business lines and manufacturing facilities. Facilities in Argentina, China, the U.S. (New York, Plymouth, Sterling Heights and Union City) and Vancouver, Canada were either closed, sold, merged or in the case of Vancouver, a decision was made not to relocate into the new office space. An $11.8 million restructuring charge for these facility closures was recorded. The annual savings and costs avoided as a result of closed or vacant facilities are approximately $4.3 million annually (Note 14 "**Restructuring**" of our annual consolidated financial statements).

- The closure of the New York office and the merger of two public companies to one public company was completed by September 30, 2016. This will result in savings in Board of Director fees, audit fees, insurance fees, listing fees, and personnel expenses. The annual savings are forecasted to be $4.4 million per year, excluding $0.5 million of rent, which is captured above.

- The US Automotive business of Fuel Systems was merged into Westport Fuel Systems Dallas during the quarter ended September 30, 2016.

- Reductions in workforce in the Corporate and Technology Investments group in Vancouver are forecasted to be annual savings of $2.5 million. A $4.0 million restructuring charge resulted from this reduction in workforce.
- Our post merger integration task forces continue to review the business and operations to determine other synergies and efficiencies. Additionally, these task forces are capturing and consolidating restructuring actions of Westport and Fuel Systems that were underway at the time of the merger. Approximately $19 million in annual savings have been achieved to date. Total annual savings and merger synergies of $30 million are on track and expected to be achieved by 2018.
- Inventory and accounts receivable have been reduced by $32.1 million from the second quarter of 2016 (first consolidated quarter of Westport Fuel Systems) to the fourth quarter of 2016. Working capital management will continue to be a top priority of the Company.

HPDI

Westport's next generation of HPDI technology, Westport™ HPDI 2.0 will provide heavy duty vehicle and engine OEMs with a vertically integrated natural gas solution with competitive price and comparable performance, and fuel economy. Earlier generation natural gas engines for heavy duty trucks use spark ignition to initiate natural gas combustion, which reduces the high torque and fuel efficiency that is the hallmark of current diesel engines. Spark ignition uses a lower compression ratio and develops higher exhaust temperatures than the diesel engine upon which it is based, thereby requiring extensive changes of both internal and external engine components and, in most cases, changes to the vehicle's powertrain and cooling systems.

Like a diesel engine, Westport™ HPDI 2.0 system uses compression ignition to initiate combustion. Our fully integrated Westport™ HPDI 2.0 system matches the power, torque, and fuel economy and thermal characteristics of the base diesel engine, with minimal change to engine components. It is the only natural gas engine technology that can achieve thermal efficiency within 1% of current generation high efficiency heavy duty diesel engines, with inherently low methane emissions.

Westport™ HPDI 2.0 system components are designed to integrate easily with modern, highly efficient diesel base engines, and have been developed and validated to meet the quality and durability standards required for heavy duty long haul trucks.

A key component of the Westport™ HPDI 2.0 system is a new family of high pressure fuel injectors, co-developed with Delphi Automotive PLC, that is designed to provide better cost, smaller size and improved packaging compared to prior generation Westport™ HPDI injector designs. Westport's cryogenic technologies enable the use of LNG for fuel storage on the vehicle, which results in smaller and lighter fuel tanks compared to CNG fuel storage systems. The Westport™ HPDI 2.0 system includes new LNG fuel tanks and pumps that have been completely redesigned for reduced cost, improved quality and much higher durability than earlier generation LNG tank systems.

A critical issue facing heavy duty truck OEMs is increasing pressure to reduce greenhouse gas emissions from their vehicles. In the U.S., the Environmental Protection Agency ("**EPA**") and NHTSA jointly introduced new Greenhouse Gas and Fuel Efficiency Standards in August 2016. These new Standards require heavy duty truck OEMs to reduce the average greenhouse gas emissions from the trucks they sell by 25% from the current level by 2027. Similar standards are under consideration in other jurisdictions, including the European Union.

The Westport™ HPDI 2.0 system reduces greenhouse gas emissions compared to the equivalent diesel engine by approximately 20% on a tank-to-wheels basis when using geologic natural gas. The system is also capable of using 100% renewable fuels, such as methane from landfill sites or municipal wastewater treatment sources, as well as a renewable diesel pilot fuel. When using these fuels, greenhouse gas emissions can be reduced by 80% or more compared to the equivalent diesel engine.

OEMs have a choice from many technologies, including more efficient tires, intelligent transmissions, waste heat recovery and improved aerodynamics, all of which can contribute to the reduction of greenhouse gas emissions. But none of these technologies provides a 20%, or higher, reduction in greenhouse gases in a single step. The Company believes that our HPDI system will provide OEMs with an attractive option for their greenhouse gas reduction requirements.

High-horsepower applications (16 litre or greater) including locomotives, mine-haul trucks, and marine vessels face similar regulatory pressure to reduce greenhouse gas emissions. These demanding engine applications consume large amounts of fuel and often operate in jurisdictions where LNG offers a significant cost advantage over diesel, thereby also providing more favourable economics for the use of natural gas. Westport Fuel Systems' proprietary technologies for fuel storage and delivery such as the P200 cryogenic pump for high-volume applications like locomotive tenders and mine-haul trucks is an example of our innovation in natural gas fuel supply expertise.

Our first Westport™ HPDI 2.0 customer, a European heavy duty truck OEM, will launch the first application of this technology into their heavy duty truck line in late 2017, with series production to start in early 2018. Product development for this program is now essentially complete, and we are currently engaged in the final validation of manufacturing processes and field testing with selected truck fleets.

Operating Business Units

As a result of the merger with Fuel Systems, we analyzed our operating segments and the principal focus of the operating business units are summarized below:

AUTOMOTIVE BUSINESS SEGMENT (PREVIOUSLY BRANDED AS WESTPORT OPERATIONS)

The Westport Fuel Systems Automotive segment designs, manufactures and sells CNG & LPG components and systems for passenger cars, light-duty trucks and medium-duty vehicles including OEM, delayed OEM ("**DOEM**") & Aftermarket segments. The portfolio of products includes pressure regulators, injectors, electronic control units, valves and filters, in addition to complete bi-fuel, mono-fuel and dual-fuel LPG and CNG conversion kits.

The Automotive segment also designs, manufactures, and sells a wide range of CNG compressors and refueling systems, from BRC FuelMaker home appliance for individuals or small fleets, to complete refueling stations branded CUBOGAS.

We serve more than 70 countries with a strong customer base in Europe, the Americas, Asia, and a growing presence in Africa. Products are either sold directly to the OEM or through a local distributor. We supply a large number of global OEMs including Volkswagen, Tata, GAZ, FCA, General Motors, Ford, Maruti Suzuki, Honda, Volvo Car, Hyundai, and Kia as well as Aftermarket distributors and customers.

INDUSTRIAL BUSINESS SEGMENT

The Westport Fuel Systems Industrial division designs and manufactures alternative fuel components and systems for off-road mobile and stationary equipment, and heavy-duty on-road vehicles as well as the development of complete emissions certified and non-certified engines for forklifts and other industrial equipment. In addition, our auxiliary power unit ("**APU**") products for Class 8 diesel trucks and locomotives offer significant environmental benefits and cost of operation savings by reducing or displacing diesel fuel usage while these engines idle. Fuel system components and systems are primarily sold under the IMPCO, Beam-Garretson, and GFI brands, engines under the Westport Power brand and APU's under the ComfortPro brand.

Engines in forklifts, aerial platforms, sweepers, turf equipment, power generators and other industrial equipment have long been workhorses of developed countries and comprise a significant portion of our global business. With key jurisdictions seeking a broader consensus on the regulation of emission sources in an attempt to further reduce air pollution, many countries have legislated, and we believe will continue to legislate, emission standards for this type of equipment.

Our industrial brands focus on serving the market with fuel systems, services and emission certified engine packages. With the imposition of new emissions regulations, OEMs will require advanced technologies that permit the use of gaseous fuels in order to satisfy not only new regulations but also their customers' requirements for durability, performance and reliability.

All of our products are designed, tested and validated in accordance with our own internal requirements, as well as tested and certified with major regulatory and safety agencies throughout the world, including Underwriters Laboratories in North America, TÜV in Europe, and the EPA and the California Air Resources Board ("**CARB**") in the U.S..

CORPORATE AND TECHNOLOGY INVESTMENTS SEGMENT

The Corporate & Technology Investments segment is responsible for current and advanced research and development programs, corporate oversight, and general administrative duties. Examples of our leading technologies include fully integrated combustion solutions, fuel injectors, and fuel storage and delivery solutions including cryogenics. The corporate oversight and general administrative functions for the Company are grouped under this unit.

Westport's next generation of HPDI technology, Westport™ HPDI 2.0 will provide global vehicle and engine OEMs with a vertically integrated natural gas solution with attractive price, performance, and fuel economy. Developed to OEM quality standards, Westport™ HPDI 2.0 system components are manufactured in partner facilities, offer ready integration into OEM operations globally. A key component of the Westport™ HPDI 2.0 system is a brand new family of high pressure fuel injectors, co-developed with Delphi, designed to provide better cost, smaller size and improved packaging compared to prior generation Westport™ HPDI injector designs. Westport and Delphi have entered into a joint development agreement which will combine our intellectual property and engineering strengths to co-develop and manufacture high-pressure natural gas fuel injectors designed for multiple engine OEMs. The family of injectors are developed with core components of Westport's HPDI 2.0 fuel system.

CUMMINS WESTPORT INC. 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 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 up to 100% RNG.

CWI is a Delaware corporation owned 50% by Westport Power Inc. ("**WPI**"), 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 (the "**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 joint venture is to engage in the business of selling, marketing and developing 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.

WEICHAI WESTPORT INC. JOINT VENTURE

Weichai Westport inc. ("**WWI**") is a joint venture between Westport, Weichai Holding Group Co. Ltd. ("**Weichai**") and Hong Kong Peterson (CNG) Equipment Ltd. focusing on the Chinese market. WWI develops, manufactures and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach, and heavy-duty truck applications in China or exported to other regions globally. On April 20, 2016, the Company sold a portion of its economic interest in WWI to Cartesian Capital Group ("**Cartesian**"), a related party, for an upfront payment of $6.3 million plus a potential future payment based on Cartesian's return on investment. A loss on sale of investment of $5.2 million was recognized in the quarter ended June 30, 2016. On August 20, 2016, the Company sold a portion of the investment to Weichai Power Co., Ltd and Weichai for $7.4 million and recognized a gain on sale of $2.7 million. In addition, the Company received a dividend of $3.2 million from WWI net of withholding taxes. Commencing April 20, 2016, the Company no longer has the ability to exercise significant influence over the joint venture and, therefore, with effect from that date accounts for its interest by the cost method.

Adjustment to Financial Information

The Company has adopted a change in accounting policy for warranties as adopted by the Company's joint venture, CWI. All comparative numbers have been adjusted to reflect the new policy. See Income from investments sections in this MD&A or note 8(a) in the consolidated financial statements for additional details.

Selected Annual Financial Information

The following table sets forth a summary of our financial results for 2016, 2015 and 2014. The 2016 results include seven months results from Fuel Systems as a result of the merger. As reflected in the consolidated financial statements note 8(a), the net losses

in 2015 and 2014 have been adjusted for a change in accounting policy at CWI.

SELECT CONSOLIDATED STATEMENTS OF OPERATIONS DATA

(expressed in millions of USD, except per share amounts and shares outstanding)	Years ended December 31		
	2016	2015 (Adjusted)	2014 (Adjusted)
Total revenue[1]	$ 224.9	$ 103.3	$ 130.6
Gross margin[2]	48.3	18.1	29.6
GM %	21.5%	17.5%	22.7%
Net loss[3]	(97.6)	(99.2)	(148)
Net loss per share —basic and diluted[3]	(1.07)	(1.55)	(2.34)
Weighted average shares outstanding	91,028,504	64,109,703	63,130,022

1. *2016 revenue includes sales from Fuel Systems' business for the seven-month period since the June 1, 2016 merger.*
2. *Gross margin is calculated as revenue less cost of product revenue. The Company has modified current and prior years' gross margin to include manufacturing depreciation in cost of sales, which is the presentation historically adopted by Fuel Systems, that the Company has elected to adopt for the entire group.*
3. *Included in the year ended December 31, 2016 is a bargain purchase gain of $35.8 million related to the acquisition of Fuel Systems. The net losses for 2015 and 2014 have been adjusted to reflect the change in accounting policy adopted by CWI. See income from investments sections in this MD&A or note 8(a) in the consolidated financial statements for additional details on the change in accounting policy.*

The following table sets forth a summary of our financial position as at December 31, 2016 and December 31, 2015:

SELECTED BALANCE SHEET DATA

(expressed in millions of United States dollars)	Dec 31, 2016	Dec 31, 2015 (Adjusted)
Cash and short-term investments	$ 60.9	$ 27.8
Total assets	331.5	213.7
Long-term debt, including current portion	79	62.5
Long-term royalty payable, including current portion	21.6	—
Total Liabilities	246	142.1
Shareholders' equity	85.4	71.6

The following table sets forth a summary of the financial results of CWI for 2016, 2015 and 2014.

SELECTED CWI STATEMENTS OF OPERATIONS DATA

(expressed in millions of United States dollars)	Years ended Dec 31 2016	2015 (Adjusted)	2014 (Adjusted)
Total revenue	$ 276.5	$ 331.9	$ 337.2
Gross margin	77.1	101.4	71.7
GM %	27.9%	30.6%	21.3%
Net income before income taxes	16.7	48.1	26.2
Net income attributable to the Company	5.6	16.3	9.8

Results from Operations

The following tables summarize results by segment for 2016, 2015 and 2014.

Items Affecting Comparability of Results

The year ended December 31, 2016 includes seven months of Fuel Systems' results and this is reported in the "Automotive - Fuel Systems" and "Industrial" segments in the tables below. In addition, 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 due to the Company's reduced interest pursuant to a sale to the Cartesian Capital Group (Cartesian).

The Company's 2015 income statement does not include any Fuel Systems results. However, where meaningful, information for Fuel Systems for the prior year has been provided for comparison purposes.

Revenue

2016 / 2015

Total consolidated revenues increased $121.6 million, or 118% from $103.3 million in 2015 to $224.9 million in 2016.

The following table summarizes revenues by segment for the year ended December 31, 2016 compared to the year ended December 31, 2015:

REVENUES (2016 / 2015)

(expressed in millions of U.S. dollars)	Years ended Dec 31 2016	2015	Change $	%
Automotive - Westport	$ 86.9	$ 100.1	$ (13.2)	(13)%
Automotive - Fuel Systems	78.2	N/A	78.2	N/A
Total Automotive	165.1	100.1	65.0	65 %
Industrial - Fuel Systems	54.7	N/A	54.7	N/A
Corporate and Technology Investments	5.1	3.2	1.9	59 %
CWI	276.5	331.9	(55.4)	(17)%
WWI	29.9	186.0	(156.1)	(84)%
Total segment revenues	$ 531.3	$ 621.2	$ (89.9)	(14)%
Less: Equity investees' revenues	306.4	517.9	(211.5)	(41)%
Total consolidated revenues	**$ 224.9**	**$ 103.3**	**$ 121.6**	**118 %**

Automotive

Automotive revenue for the year ended December 31, 2016 was $165.1 million compared to $100.1 million for 2015. Total revenue includes sales from Fuel Systems' business for the seven-month period since the June 1, 2016 acquisition. Excluding the acquisition, Westport's automotive revenue declined 13% in 2016 compared to 2015. Approximately, 2% of this decrease is due to the decline in the Euro against the U.S. dollar. The remaining decrease is due to softness in the end markets of Europe, Argentina and the United States as a result of low oil prices and other factors impacting local economies.

Fuel Systems' Automotive revenue for the seven months period since the acquisition through to December 31, 2016 was $78.2 million compared to $100.1 million for the same seven months period from 2015. Sales in Europe and Argentina have been impacted by lower exchange rates and softer end markets resulting from the decline in oil prices. Sales in the final quarter of 2016 were the strongest of the year as some stability returned to oil prices in the latter half of the year.

Industrial

Industrial revenue for the year ended December 31, 2016 was $54.7 million. This revenue is entirely from the Fuel Systems' business for the period since the June 1, 2016 acquisition and compares to $54.9 million for the seven months from the prior year.

Corporate and Technology Investments

Corporate and Technology Investments revenue for the year ended December 31, 2016 increased $1.9 million, or 59% from $3.2 million to $5.1 million. The increase is primarily driven by revenue generated through new OEM partnerships related to the Company's

HPDI technology. The Company met several key milestones in relation to HPDI during 2016 with OEM partners.

CWI

CWI revenue for the year ended December 31, 2016 decreased $55.4 million, or 17% from $331.9 million to $276.5 million. CWI product revenue for the year ended December 31, 2016 decreased $68.8 million, or 25%, to $205.2 million on sales of 7,232 units compared to $274.0 million and 9,940 units for the year ended December 31, 2015, which was primarily attributed to weak market demand caused by sustained lower oil prices and competition with higher efficiency diesel engines. CWI parts revenue for the year ended December 31, 2016 was $71.2 million compared with $57.8 million for the year ended December 31, 2015 which was primarily attributed to a higher engine population in service.

2015 / 2014

Total segment revenues decreased $465.1 million, or 43% from $1,086.3 million in 2014 to $621.2 million in 2015.

The following table summarizes total revenue by segment for the years ended December 31, 2015 compared to the year ended December 31, 2014:

REVENUES (2015 / 2014)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	2015	2014	$	%
Automotive - Westport	$ 100.1	$ 127.0	$ (26.9)	(21)%
Corporate and Technology Investments	3.2	3.6	(0.4)	(11)%
CWI	331.9	337.2	(5.3)	(2)%
WWI	186.0	618.5	(432.5)	(70)%
Total segment revenues	$ 621.2	$ 1,086.3	$ 465.1	(43)%
Less: Equity investees' revenues	517.9	955.7	(437.8)	(46)%
Total consolidated revenues	**$ 103.3**	**$ 130.6**	**$ (27.3)**	**(21)%**

Automotive

Automotive Westport revenue for the year ended December 31, 2015 decreased $26.9 million, or 21% from $127.0 million to $100.1 million. Automotive - Westport was impacted significantly by the decline in the price of oil and the strengthening of the US dollar. Revenue from European operations for the year ended December 31, 2015, including the Prins Autogassystemen Holding B.V. ("**Prins**") acquisition increased by €6.2 million, while revenue from North American operations decreased by approximately $17.1 million. The decrease in revenue from North American operations was driven by decreases in Westport's Ford qualified vehicle modifier ("**QVM**") business, decreased sales of Westport iCEPACK, and a decrease in engineering service contracts. A further decrease of approximately $12.0 million in revenue was driven by unfavourable impacts of foreign currency translation from the Euro to the US dollar equivalent.

Corporate and Technology Investments

Revenue for the year ended December 31, 2015 decreased $0.4 million or 11% from $3.6 million to $3.2 million. The decrease is primarily driven by unfavourable impacts of foreign currency translation from the Canadian to the US dollar equivalent.

CWI

CWI revenue for the year ended December 31, 2015 decreased $5.3 million, or 2% from $337.2 million to $331.9 million. CWI product revenue for the year ended December 31, 2015 decreased $9.6 million, or 3%, to $274.0 million on sales of 9,940 units compared to $283.6 million and 10,512 units for the year ended December 31, 2014, which was primarily attributed to the decline of the price of oil and other macroeconomic conditions. CWI parts revenue for the year ended December 31, 2015 was $57.8 million compared with $53.7 million for the year ended December 31, 2014 which was primarily attributed to the increase of natural gas engine population in service.

WWI

WWI revenue for the year ended December 31, 2015 decreased $432.5 million, or 70%, from $618.5 million to $186.0 million. WWI shipped 15,956 units in 2015 compared with 51,006 units for the year ended December 31, 2014. Westport's WWI results were in-line with general market conditions in China and in-line with diesel truck sales. Truck demand remains subdued, as demonstrated by the decrease of recent monthly commercial vehicle sales in China year-over-year, according to China Association of Automotive Manufacturers ("**CAAM**").

Gross Margin

2016 / 2015

Total consolidated gross margin increased $30.2 million, or 167% from $18.1 million in 2015 to $48.3 million in 2016.

The following table presents gross margin by segment for 2016 compared to 2015:

GROSS MARGIN (2016 / 2015)						
(expressed in millions of U.S. dollars)	Year ended Dec 31, **2016**	% of Revenue	Year ended Dec 31, **2015** (Adjusted) (1)	% of Revenue	**Change**	
					$	**%**
Automotive - Westport	$ 14.5	16.7%	$ 14.9	14.9%	$ (0.4)	(3)%
Automotive - Fuel Systems	15.3	19.6%	N/A	N/A	15.3	N/A
Total Automotive	29.8	18.0%	14.9	14.9%	14.9	100 %
Industrial	14.4	26.3%	N/A	N/A	14.4	N/A
Corporate and Technology Investments	4.1	80.4%	3.2	100.0%	0.9	28 %
CWI	77.1	27.9%	101.4	30.6%	(24.3)	(24)%
WWI	3.0	10.0%	21.4	11.5%	(18.4)	(86)%
Total segment gross margin	$ 128.4	24.2%	$ 140.9	22.7%	$(12.5)	(9)%
Less: Equity investees' gross margin	80.1	26.1%	122.8	23.7%	(42.7)	(35)%
Total consolidated gross margin	**$ 48.3**	**21.5%**	**$ 18.1**	**17.5%**	**$30.2**	**167 %**

1. The net losses for 2015 have been adjusted to reflect the change in accounting policy adopted by CWI. See income from investments sections in this MD&A or [note 8a] in the consolidated financial statements for additional details on the change in accounting policy.

Automotive

Gross margin increased $14.9 million to $29.8 million,or 18.0% of revenue, for the year ended December 31, 2016 compared to $14.9 million or 14.9% of revenue for the year ended December 31, 2015. The increase in gross margin was a result of the merger with Fuel Systems. Excluding the merger and the decrease in 2016 inventory obsolescence provision compared to 2015, Automotive gross margin would have decreased by $3.6 million. The decrease is due to a 13% decrease in revenue and changes in product mix in our European businesses.

Fuel Systems' gross margin includes $1.4 million for amortization of the inventory fair value adjustment recorded on acquisition. Excluding this adjustment, the gross margin and gross margin percentage would have been $16.7 million and 21%, respectively compared to $19.5 million and 19.5% for the seven months from the prior year. The increase in the gross margin percentage was the result of direct material cost reduction activities, restructuring of the US automotive business and lower warranty charges.

Industrial

Gross margin is entirely from the Fuel Systems' business for the period since the June 1, 2016 acquisition and includes $1.2 million for amortization of the inventory fair value adjustment recorded on acquisition. Excluding this adjustment, the gross margin and gross margin percentage would have been $15.6 million and 29%, respectively, compared to $15.1 million and 28% for the seven months from the prior year.

CWI

Gross margin decreased $24.3 million to $77.1 million, or 27.9% of revenue for the year ended December 31, 2016, compared to $101.4 million or 30.6% of revenue, for the year ended December 31, 2015 as a result of a 27% decrease in engines sold during the period.

2015 / 2014

Total consolidated gross margin decreased $11.5 million or 39% from $29.6 million in 2014 to $18.1 million in 2015.

The following table presents gross margin by segment for 2015 compared to 2014:

GROSS MARGIN (2015 / 2014)						
(expressed in millions of U.S. dollars)	**Year ended Dec 31, 2015** (Adjusted) (1)	**% of Revenue** (Adjusted) (1)	**Year ended Dec 31, 2014** (Adjusted) (1)	**% of Revenue** (Adjusted)	**Change**	
					$ (Adjusted) (1)	% (Adjusted)
Automotive - Westport	$ 14.9	14.9%	$ 26.0	20.5%	$ (11.1)	(43)%
Corporate & Technology Investments	3.2	100.0%	3.6	100.0%	(0.4)	(11)%
CWI	101.4	30.6%	71.7	21.3%	29.7	41 %
WWI	21.4	11.5%	52.5	8.5%	(31.1)	(59)%
Total segment gross margin	$ 140.9	22.7%	$ 153.8	14.2%	$ (12.9)	(8)%
Less: Equity investees' gross margin	122.8	23.7%	124.2	13.0%	(1.4)	1 %
Total consolidated gross margin	**$ 18.1**	**17.5%**	**$ 29.6**	**22.7%**	**$ (11.5)**	**(39)%**

1. The net losses for 2015 and 2014 have been adjusted to reflect the change in accounting policy adopted by CWI. See Income from investments sections in this MD&A or note 8(a) in the consolidated financial statements for additional details on the change in accounting policy.

Automotive - Westport

Automotive - Westport gross margin decreased $11.1 million to $14.9 million, or 14.9% of revenue, for the year ended December 31, 2015 compared to $26.0 million, or 20.5% of revenue for the year ended December 31, 2014. The decrease in gross margin percentage is due to inventory obsolescence charges of $8.7 million in 2015 compared to $2.1 million in the prior year. Adjusted gross margin would have been 23.6% of revenue without the obsolescence, compared to 22.1% in the prior year. Gross margin also decreased due to lower revenue and changes in product mix.

CWI

CWI gross margin increased $29.7 million to $101.4 million, or 30.6% of revenue from $71.7 million or 21.3% of revenue for the year ended December 31, 2015. The increase in CWI gross margin percentage was due primarily to a favourable decrease in net warranty adjustments and net extended coverage claims compared to the year ended December 31, 2014. Reliability of the ISL G engine has continued to improve as a result of hardware and calibration changes. See Income from investments sections in this MD&A or note 8(a) in the consolidated financial statements for additional details on the change in accounting policy.

WWI

WWI gross margin decreased $31.1 million to $21.4 million, from $52.5 million. The decrease in gross margin relates to a decrease in the number of engines sold. Gross margin as a percentage of revenue increased from 8.5% to 11.5% as a result of changes in product mix and product pricing.

Research & Development Expenses

2016 / 2015

The following table presents details of research and development ("**R&D**") expense by segment for 2016 compared to 2015:

RESEARCH & DEVELOPMENT (2016 / 2015)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	**2016**	**2015**	**$**	**%**
Automotive - Westport	$ 9.7	$ 13.6	$ (3.9)	(29)%
Automotive - Fuel Systems	5.7	N/A	5.7	N/A
Total Automotive	15.4	13.6	1.8	13 %
Industrial - Fuel Systems	4.1	N/A	4.1	N/A
Corporate and Technology Investments	39.9	39.2	0.7	2 %
Total research and development	**$ 59.4**	**$ 52.8**	**$ 6.6**	**13 %**

Automotive

Automotive Total Automotive R&D expenses for the year ended December 31, 2016 increased by $1.8 million primarily due to the R&D costs associated with Fuel Systems, offset by lower R&D costs of Westport. The Westport R&D expense decreased $3.9 million as a result of closing the Australia research facility in June 2016, reductions in program expenses, decreased headcount, and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent. Automotive Fuel Systems R&D expenses decreased $1.3 million. Fuel Systems' Automotive R&D expense for the seven months ended December 31, 2016 was $5.7 million, compared to $7.0 million for the seven months from the prior year, a decrease of $1.3 million, due to restructuring and reduction in workforce at the US Automotive business.

Industrial

Industrial R&D expenses for the seven months since the Fuel Systems' acquisition during the year ended December 31, 2016 were $4.1 million compared to $4.0 million for the seven months from the prior year.

Corporate and Technology Investments

Corporate and Technology Investments research and development expenses increased $0.7 million from $39.2 million to $39.9 million as the Company prepares for the 2017 commercial launch of Westport™ HPDI 2.0.

2015 / 2014

The following table presents details of R&D expense by segment for the year ended December 31, 2015 compared to year ended December 31, 2014:

RESEARCH & DEVELOPMENT (2015 / 2014)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	2015	2014	$	%
Automotive - Westport	$ 13.6	$ 21.3	$ (7.7)	(36)%
Corporate and Technology Investments	39.2	55.3	(16.1)	(29)%
Total research and development	**$ 52.8**	**$ 76.6**	**$ (23.8)**	**(31)%**

Automotive

Automotive R&D expenses decreased $7.7 million due to reduction in program expenses, decreased headcount, and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Corporate and Technology Investments

Corporate and Technology Investments R&D expenses decreased $16.1 million from $55.3 million to $39.2 million due to reduction in program expenses, prioritizing of investment programs, decreased headcount and favorable impacts of foreign currency translation from the Canadian to the US dollar equivalent.

Selling, General and Administrative Expenses

2016 / 2015

The following table presents details of Selling, General and Administrative ("**SG&A**") expense by segment for 2016 compared to 2015:

SELLING, GENERAL & ADMINISTRATIVE (2016 / 2015)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	2016	2015	$	%
Automotive - Westport	$ 16.3	$ 18.3	$ (2.0)	(11)%
Automotive - Fuel Systems	11.8	N/A	11.8	N/A
Total Automotive	$ 28.1	$ 18.3	$ 9.8	54 %
Industrial - Fuel Systems	6.0	N/A	6.0	N/A
Corporate and Technology Investments	35.1	34.4	0.7	2 %
Total selling, general and administrative	**$ 69.2**	**$ 52.7**	**$ 16.5**	**31 %**

Automotive

Automotive SG&A expenses for the year ended December 31, 2016 increased by $9.8 million primarily due to the SG&A expenses from Fuel Systems offset by lower SG&A expense of Westport. Westport SG&A expenses decreased $2.0 million due to a reduction in workforce. Fuel Systems' Automotive SG&A expenses for the seven months ended December 31, 2016 was $11.8 million compared to $19.1 million for the seven months from the prior year, a decrease of $7.3 million due to restructuring and reduction in workforce of the US Automotive and Argentina businesses.

Industrial

Industrial SG&A expenses for the seven months ended December 31, 2016 were $6.0 million compared to $6.5 million for the seven months from the prior year.

Corporate and Technology Investments

Corporate and Technology Investments SG&A expenses increased $0.7 million due to an increase of $2.5 million relating to merger transaction costs compared to 2015, offset by lower salary expenses from our restructuring activities.

2015 / 2014

The following table presents details of SG&A expense by segment for the year ended December 31, 2015 compared to the year ended December 31, 2014:

SELLING, GENERAL & ADMINISTRATIVE (2015 / 2014)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	2015	2014	$	%
Automotive - Westport	$ 18.3	$ 30.5	$ (12.2)	(40)%
Corporate and Technology Investments	34.4	35.3	(0.9)	(3)%
Total selling, general and administrative	**$ 52.7**	**$ 65.8**	**$ (13.1)**	**(20)%**

Automotive SG&A

Automotive SG&A expenses decreased $12.2 million due to decreased headcount and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Corporate and Technology Investments

Corporate and Technology Investments SG&A expenses decreased $0.9 million due to decreased headcount and favorable impacts of foreign currency translation from the Canadian to the US dollar equivalent. Within 2015 SG&A are costs of $4.5 million related to the merger between the Company & Fuel Systems. Without these merger costs, SG&A would have decreased 15.3% year over year.

Restructuring

Restructuring expenses recognized for the year ended December 31, 2016 were $19.0 million. Beginning in the third quarter of 2016, the Company initiated a series of restructuring activities which include the consolidation of facilities in Argentina, Canada, China and the United States. This resulted in an implementation of a reduction in workforce resulting in employee severance, onetime termination benefits and contract termination costs. Refer to the consolidated financial statements note 14 for additional details.

Foreign Exchange Gains & Losses

Foreign exchange gains and losses reflected 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, 2016, we recognized a net foreign exchange loss of $6.4 million with the decline in the Canadian dollar and Euro relative to the U.S. dollar. A majority of the foreign exchange loss for the year ended December 31, 2016 is unrealized.

For the year ended December 31, 2015, we recognized a net foreign exchange gain of $11.6 million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange gain of $3.4 million for the year ended December 31, 2014.

Depreciation & Amortization

Depreciation and amortization for the year ended December 31, 2016 was $16.0 million compared to $13.7 million for the year ended December 31, 2015 and $18.7 million for the year ended December 31, 2014. The amount included in cost of sales was $4.7 million for the year ended December 31, 2016, $1.9 million for the year ended December 31, 2015 and $3.1 million for the year ended December 31, 2014. The increase in 2016 is due to the acquisition of Fuel Systems and consolidation of property, plant and equipment.

Income From Investments

Income from investments primarily relates to our 50% interest in CWI, accounted for by the equity method. Up until the end of the first quarter of 2016, the Company also recorded its 35% interest in WWI using the equity method; however, due to our sale of a portion of our economic interest in WWI on April 20, 2016, we no longer have the ability to exercise significant influence and, therefore, with effect from that date we account for our interest using the cost method. The decrease in income from investments results primarily from lower revenues and gross margins for CWI in the current year compared to the prior year and due to the change in accounting policy described below.

During the fourth quarter of 2016, CWI changed its method for determining its warranty liability to exclude, from the estimated cost to settle claims, the parts margin it expects to earn on parts sold and used to service warranty claims. This change was accounted for as a change in accounting policy and the comparative balances were adjusted on a retrospective basis. The Company's income from investments, accumulated deficit and long-term investments have been adjusted to reflect this change in accounting policy. The effect of the change was to increase the income from investments in 2014 by $1.6 million, decrease the income from investments in 2015 by $0.8 million and decrease the income from investments in 2016 by $4.0 million. Opening accumulated deficit at January 1, 2014 was decreased by $3.2 million.

INCOME FROM INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

	Years ended Dec 31		
(expressed in millions of U.S. dollars)	2016	2015 (Adjusted)	2014 (Adjusted)
CWI – 50% interest income (loss)	$ 5.6	$ 16.4	$ 9.8
WWI	0.2	1.0	6.0
Other	—	0.2	0.1
Income from investment accounted for by the equity method	**$ 5.8**	**$ 17.6**	**$ 15.9**

Interest On Long-term Debt and Amortization of Discount Expense

Interest on long-term debt and amortization of discount expense primarily relates to our interest expense on Canadian dollar and Euro denominated debentures.

INTEREST ON LONG-TERM DEBT & AMORTIZATION OF DISCOUNT EXPENSE

	Years ended Dec 31		
(expressed in millions of U.S. dollars)	2016	2015	2014
Canadian debentures – 9% per annum	$ 3.7	$ 3.9	$ 3.7
Senior financing facilities	0.7	0.9	1.6
Convertible note – 9% per annum	0.9	—	—
Amortization of discount and non-cash interest expense	5.5	0.7	0.5
Total Interest on long-term debt	**$ 10.8**	**$ 5.5**	**$ 5.8**

Interest on long-term debt for the year ended December 31, 2016 of $10.8 million is higher compared to the year ended December 31, 2015 due to additional interest accrued on the convertible debt and the Cartesian royalty payable.

Interest on long-term debt for the year ended December 31, 2015 of $5.5 million was lower compared to the year ended December 31, 2014 due to favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Bargain Purchase Gain

Bargain purchase gain from acquisition of Fuel Systems was $35.8 million as the fair value of assets acquired and liabilities assumed exceeded the total of the transaction date fair value of consideration paid.

Income Tax Expense

Income tax expense for the year ended December 31, 2016 was $5.0 million compared to an income tax expense of $0.7 million for the year ended December 31, 2015 and an income tax recovery of $0.6 million for year ended December 31, 2014.

The increase for the year ended December 31, 2016 primarily relates to higher distributable earnings from our investment in CWI. The increase in income tax expense for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily relates to lower distributable earnings from our investment in CWI and a recovery of the deferred income tax liability relating to the intangible and goodwill impairment charges.

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.

Key elements to our continuing liquidity are refinancing our debt when it comes due and the sale of non-core assets. While our Automotive and Industrial divisions generate positive cash flows, these cash flows are not sufficient to offset the significant capital investment and research and development expenditures required to support our HPDI production start-up during 2017. The majority of the HPDI investment, both in terms of R&D and capital spend completes in 2017.

At December 31, 2016, the Company's cash and cash equivalents and short term investments were $60.9 million and our longterm debt was $79.0 million, of which $48.1 million matures in 2017. The Company incurred significant recurring losses from operations as well as negative cash flows from operating activities during 2016, 2015 and 2014, and anticipates incurring additional losses and negative cash flows through 2017. See the Business Overview and General Developments section in this MD&A for further discussion on liquidity and going concern.

Asset Sales

During 2016, the Company completed the following significant asset sales:

(i) The Company sold a portion of its economic interest in WWI to Cartesian and to Weichai related companies for $13.7 million. (See note 8(b) "Weichai Westport Inc." of our consolidated financial statements).

(ii) On July 29, 2016, the Company sold its test cell and other assets in Plymouth, Michigan for $12.2 million. A gain of $1.4 million was recorded on the sale.

Further asset sales are expected as we continue to integrate Fuel Systems and align the two businesses.

As at December 31, 2016, our cash, cash equivalents and short-term investment position was $60.9 million, an increase of $33.1 million from $27.8 million at December 31, 2015. Cash and cash equivalents consist of guaranteed investment certificates, term deposits and bankers acceptances with maturities of 90 days or less when acquired. Short-term investments consist of investment grade bankers’ acceptances, term deposits and commercial paper. We invest primarily in short-term paper issued by Schedule 1 Canadian banks, R1 high rated corporations and governments.

The Company has sustained net losses since inception and as at December 31, 2016 has an accumulated deficit of $956.9 million. The Company’s ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing or raise cash through the sale of assets while in pursuit of operating profitability. There can be no assurance that the Company will be successful in achieving its objectives. Management believes that the cash balances available as of December 31, 2016, proceeds from asset sales, cost cutting measures and its ability to find new sources of financing, provide sufficient funds for the Company to meet its obligations beyond the next 12 months. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a 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.

2016 COMPARED TO 2015

In 2016, our net cash flow used in operating activities was $79.6 million, an increase of $10.5 million from the net cash flow used in operating activities in the year ended December 31, 2015. The increase was primarily driven by our increased loss from operations.

CASH FLOW FROM INVESTING ACTIVITIES

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

2016 COMPARED TO 2015

In 2016, our net cash flow received from investing activities was $76.6 million, an increase of $60.2 million. The acquisition of Fuel Systems during the period included $45.3 million of acquired cash which resulted in positive cash flows from investing activities. The sales of the Weichai investment and Plymouth plant asset also returned positive investment cash flows of $13.0 million and $11.7 million, respectively. Dividends received from joint ventures decreased by $7.1 million to $13.4 million, primarily as a result of lower revenue and profits at CWI.

Cash Flow from Financing Activities

2016 COMPARED TO 2015

In 2016, Our net cash flow from financing activities increased compared to 2015 by $34.3 million, due to proceeds from the Cartesian financing: issuance of $17.5 million in the form of convertible debt and $17.5 million in royalties payable. In 2015, our net cash used for financing activities was $2.9 million, because our repayment of operating lines of credit and long term facilities was greater than our infusion of cash from drawing on operating lines of credit.

CONTRACTUAL CASH FLOWS

(expressed in millions of U.S. dollars)	Carrying Amount	Contractual Cash Flows	< 1yr	1-3 yrs	4-5 yrs	> 5 yrs
Accounts payable and accrued liabilities	$ 93.2	$ 93.2	$ 93.2	—	—	—
Long-term debt, principal(1)	79.0	79.7	48.8	4.4	22.2	4.3
Long-term debt, interest(1)	—	11.7	4.9	3.9	2.7	0.2
Long-term royalty payable(2)	21.6	46.0	1.5	9.6	16.8	18.1
Operating lease commitments	10.8	57.0	9.3	16.8	10.8	20.0
Royalty payments (3)	2.6	3.8	0.1	3.8	—	—
	$207.2	**$ 291.4**	**$157.8**	**$ 38.5**	**$ 52.5**	**$ 42.6**

1. *For details of our long-term debt, principal and interest, see note 15 of the consolidated financial statements.*
2. *On January 11, 2016, The Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided $17.5 million in cash (the "Tranche 1 Financing"). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments in respect of the Tranche 1 Financing based on the greater of (i) a percentage of amounts received by the Company on select high pressure direct injection systems and joint venture products in excess of agreed thresholds through 2025 and (ii) stated fixed amounts per annum (referred to as the long-term royalty payable). The carrying value is being accreted to the expected redemption value using the effective interest method, which is approximately 23% per annum. Throughout the entire term of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2016, the Company is in compliance with all covenants under the financing arrangements.*
3. *The Company is obligated to repay funding received from Industrial Technologies Office ("ITO") in the form of royalties equal to the greater of $1.0 million (CDN $1.4 million) or 0.33% of the Company's gross annual revenue from all sources, including CWI, provided that gross revenue exceeds $10.1 million (CDN$13.5 million) in any aforementioned fiscal year, until the earlier of March 31, 2018 or until cumulative royalties total of $21.0 million (CDN$28.2 million) has been repaid. As at December 31, 2016, $2.6 million remains accrued in accounts payable and accrued liabilities (December 31, 2015 - $2.4 million). As at December 31, 2016, cumulative royalties of CDN $13.0 million have been paid.*

Shares Outstanding

For the year ended December 31, 2016, the weighted average number of shares used in calculating the loss per share was 91,028,504. During the year ended December 31, 2016, we granted 684,402 RSUs and PSUs (together the "**Share Units**"). The Common Shares, share options and Share Units outstanding and exercisable as at the following dates are shown below:

SHARES OUTSTANDING

(weighted average exercise prices are presented in Canadian dollars)	Dec 31, 2016		Mar 30, 2017	
	Shares / units	WAEP	Shares / units	WAEP
Common Shares outstanding	110,109,092		110,213,277	
Share Units				
Outstanding (1)(2)	6,664,591	N/A	6,453,457	N/A
Exercisable	1,891,008	N/A	2,288,156	N/A

1. *As at December 31, 2016, excludes 6,740 (March 30, 2017 - 0) of phantom share units, respectively, which when vested, are exercisable in exchange for a cash payment and do not result in the issuance of common shares.*
2. *As at December 31, 2016, includes 1,695,000 (March 30, 2017 - 1,670,000) PSUs with payout levels ranging between 0% and 150% upon achieving the required performance criteria over the measurement period. None of these PSUs are currently known to be issuable based on the prior achievement of the required 150% conversion ratio as at the date hereof, however such awards have not yet vested.*

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 accounting of CWI as variable interest entity, 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 2016 annual consolidated financial statements. Actual amounts may vary significantly from estimates used.

Variable Interest Entities

A variable interest entity ("**VIE**") is any type of legal structure not controlled by voting equity but rather by contractual and/or other financial arrangements. Interests in VIEs are consolidated by the company that is the primary beneficiary. The Company's interest in CWI is a VIE but it is determined that there is no primary beneficiary.

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

The Company recognizes revenue upon transfer of title and risk of loss, generally when products are shipped provided there is (1) persuasive evidence of an arrangement, (2) there are no uncertainties regarding customer acceptance, (3) the sales price is fixed or determinable and (4) management believes collectibility is reasonably assured.

The Company recognizes service revenue from research and development arrangements based on the contracts and the ability of the Company to measure its performance. Depending on the contract, revenues may be recognized using the milestone, percentage of completion, or completed contract methods of accounting. All costs incurred related to revenue earned from research and development contracts are recorded as research and development expense as incurred.

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, 2016, the Company recorded an impairment charge of $2.7 million. The impairment resulted primarily from the write-down of engineering test equipment. The method used to determine the fair value of the equipment was based on utilization of assets and was recorded in the Corporate and Technology segment.

INTANGIBLE ASSETS

Based on the revenue and operating results and decline in the oil price, the Company concluded there were impairment indicators as of November 30, 2016 and November 30, 2015 requiring the performance of a long-lived assets impairment test for customer contracts, technology and other intangibles. The Company completed its assessments at November 30, 2016 and November 30, 2015 respectively and concluded that intangible assets were not impaired.

New Accounting Pronouncements and Developments

Adopted in 2016

GOING CONCERN

In August 2014, the FASB issued ASU 2014-15. Presentation of Financial Statements - Going Concern provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures.

CHANGE IN ACCOUNTING POLICY

As previously noted, CWI changed its method for determining its warranty liability to exclude, from the estimated cost to settle claims, the parts margin it expects to earn on parts sold and used to service warranty claims. These changes were accounted for as change in accounting policy and the comparative balances were restated on a retrospective basis. The Company's income from investments, accumulated deficit and long-term investments balances have been adjusted to reflect this change in accounting policy.

To Be Adopted In The Future

REVENUE

In May 2014, Financial Accounting Standards Board ("**FASB**") issued ASU 2014-09, Revenue From Contracts With Customers ("**Topic 606**"). Topic 606 removes inconsistencies and weaknesses in revenue accounting requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2017. The Company is evaluating the impact of this new standard to the financial statements.

SIMPLIFYING THE MEASUREMENT OF INVENTORY (TOPIC 330)

In July 2015, the FASB issued ASU 2015-11, which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

INVENTORY 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 fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities with early adoption permitted. The Company has not yet evaluated the impact of the adoption of this new standard.

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. ASU 2016-15 is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**"), on a timely basis such that appropriate decisions can be made regarding public disclosures. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of management, including the CEO and CFO, the effectiveness of the design and operation of 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**").

The CEO and CFO have concluded that as of December 31, 2016, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified therein and accumulated and reported to management to allow timely discussions regarding required disclosures.

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) promulgated under the Exchange Act. Our internal control over financial reporting is designed under our supervision, and affected 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. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

All 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. Because of the inherent limitations in all control systems, 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, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, in relation to criteria described 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, 2016.

KPMG LLP, 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, 2016. 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

Discussion of The Quarter Ended December 31, 2016

Our revenues and operating results can vary significantly from quarter to quarter depending on the timing of product deliveries, product mix, acquisitions, product launch dates, research and development project cycles, timing of related government funding, impairment 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 following table provides summary unaudited consolidated financial data for our last eight quarters:

SELECTED CONSOLIDATED QUARTERLY OPERATIONS DATA (unaudited and adjusted[5])

(expressed in millions of United States dollars except for per share amounts)	2015				2016			
Three months ended:	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30[1]	Sep 30	Dec 31
Product revenue	$ 27.0	$ 24.6	$ 21.3	$ 24.9	$ 23.5	$ 44.0	$ 73.5	$ 79.5
Service and other revenue	1.0	3.2	1.0	0.2	0.5	0.4	2.6	0.9
Total revenue	28.0	27.8	22.3	25.1	24.0	44.4	76.1	80.4
Cost of product and parts revenue[2]	23.1	18.6	21.5	22.1	17.6	34.4	62.8	61.8
Gross margin	$ 4.9	$ 9.2	$ 0.8	$ 3.0	$ 6.4	$ 10.0	$ 13.3	$ 18.6
Gross margin percentage	*17.5%*	*33.1%*	*3.6%*	*12.0%*	*26.7%*	*22.5%*	*17.5%*	*23.1%*
Net loss for the period	$ (17.4)	$ (20.1)	$ (37.2)	$ (24.5)	$ (24.6)	$ 3.7	$ (33.5)	$ (43.2)
EBITDA[3]	$ (11.9)	$ (14.4)	$ (32.3)	$ (20.5)	$ (19.3)	$ 10.6	$ (24.0)	$ (31.6)
Adjusted EBITDA[4]	$ (9.4)	$ (7.3)	$ (9.6)	$ (13.5)	$ (11.9)	$ (10.3)	$ (7.8)	$ (9.1)
Loss per share								
Basic	$ (0.27)	$ (0.31)	$ (0.58)	$ (0.38)	$ (0.38)	$ 0.05	$ (0.31)	$ (0.43)
Diluted	$ (0.27)	$ (0.31)	$ (0.58)	$ (0.38)	$ (0.38)	$ 0.04	$ (0.31)	$ (0.43)
Income from unconsolidated joint ventures								
CWI net income attributable to the Company[5]	$ 5.7	$ 3.8	$ 3.7	$ 3.1	$ 0.5	$ 1.5	$ 2.8	$ 0.8
WWI net income attributable to the Company	$ 0.3	$ 0.1	$ 0.1	$ 0.5	$ 0.2	—	—	—

1. *Includes the one month period of results from the merger with Fuel Systems and a bargain purchase gain of $42.9 million for the three months ended June 30, 2016, and further reduced by $7.1 million to $35.8 million for the three months ended December 31, 2016.*
2. *The Company has modified current and prior quarters' gross margin to include manufacturing depreciation in cost of sales, which is the presentation historically applied by Fuel Systems that the Company has elected to adopt for the entire group.*
3. *The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have a standardized meaning according to U.S. GAAP. See non-GAAP measures for more information.*
4. *The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Westport Fuel Systems defines Adjusted EBITDA as EBITDA adjusted for amortization of stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other adjustments. See non-GAAP measures for more information.*
5. *The Company's income from investments, retained earnings and long-term investments have also been adjusted to reflect a change in accounting policy in its joint venture, CWI. See consolidated financial statements note 8(a).*

Three Months Ended December 31, 2016 & 2015

Our consolidated revenue for the three months ended December 31, 2016 was $80.4 million, a increase of $55.3 million, or 220.3%, from $25.1 million for the three months ended December 31, 2015. The increase in revenue was primarily a result of the merger with Fuel Systems.

Our consolidated net loss for the three months ended December 31, 2016 was $43.2 million, or a loss of $0.43 per share compared to a net loss of $24.5 million, or a loss of $0.38 per share, for the three months ended December 31, 2015. The increase in net loss primarily relates to higher operating costs in 2016 as a result of the merger, an adjustment to the bargain purchase gain recorded in the fourth quarter of 2016 and lower income from investments.

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 loss 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 and ability. 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.

QUARTERLY EBITDA DATA

	2015				2016			
Three months ended:	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Loss before income taxes	$ (16.9)	$ (19.5)	$ (37.0)	$ (25.1)	$ (24.7)	$ 4.2	$ (32.3)	$ (39.8)
Interest expense, net(1)	1.4	1.6	1.4	1.3	2.3	2.7	3.1	4.3
Depreciation	3.6	3.5	3.3	3.3	3.1	3.7	5.2	3.9
EBITDA	**$ (11.9)**	**$ (14.4)**	**$ (32.3)**	**$ (20.5)**	**$ (19.3)**	**$ 10.6**	**$ (24.0)**	**$ (31.6)**

1. Interest expense, net is defined as the aggregate of bank charges, interest, and other, interest on long term-debt and amortization of discount.

EBITDA decreased by $6.6 million from a loss of $24.0 million for the three months ended September 30, 2016 to a loss of $31.6 million in the three months ended December 31, 2016 primarily as a result of an adjustment to the bargain purchase gain recorded in the fourth quarter of 2016 and lower income from investments.

Adjusted EBITDA

The terms EBITDA and Adjusted EBITDA are not defined under U.S. GAAP and are not measures 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.

QUARTERLY ADJUSTED EBITDA DATA

	2015				2016			
Three months ended:	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
EBITDA	$ (11.9)	$ (14.4)	$ (32.3)	$ (20.5)	$ (19.3)	$ 10.6	$ (24.0)	$ (31.6)
Stock based compensation	3.4	4.7	3.3	3.5	4.0	2.3	2.9	1.2
Unrealized foreign exchange (gain) loss	(2.9)	(1.2)	(8.0)	0.5	1.3	4.1	(7.1)	8.1
Goodwill impairment			18.7					
Asset impairment		3.3						2.7
Inventory impairment from product line closure			5.5				4.3	1.3
Bargain purchase gain						(42.9)		7.1
Merger and financing costs			3.2	1.3	2.1	4.5	0.4	
Amortization fair value inventory adjustment recorded on acquisition						0.7	1.9	
(Gain) loss on sale of investments						6.3	(3.9)	(0.3)
Loss on disposal of assets				0.8				
Restructuring, termination and other exit costs							17.5	1.5
Other	2.0	0.3		1.0		4.1	0.2	0.9
Adjusted EBITDA	**$ (9.4)**	**$ (7.3)**	**$ (9.6)**	**$ (13.5)**	**$ (11.9)**	**$ (10.3)**	**$ (7.8)**	**$ (9.1)**

1. The Company's income from investments, retained earnings and long-term investments have also been adjusted to reflect a change in accounting policy in its joint venture, CWI. See consolidated financial statements note 8(a).

The Company defines Adjusted EBITDA as EBITDA adjusted for stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other unusual 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. The Company compensates for these limitations by relying primarily on its U.S. GAAP results.

Related Party Transactions

Related party balances and transactions have increased due to the Cartesian financing and acquisition of Fuel Systems. See Note 20 of the Consolidated financial statements as at December 31, 2016 for details of related party transactions.

Subsequent Events

On March 24, 2017, the Company renegotiated its €10.0 million senior revolving financing facility with annual payments on the principal ranging from €0.7 million to €2.2 million until the loan is paid off in full on December 31, 2022. See note 15(b) of the consolidated financial statements for details.

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, 2016 under the heading "Risk Factors" and is available on SEDAR at www.sedar.com.

Reports

Independent Auditors' Report Of Registered Public Accounting Firm

To the Shareholders of Westport Innovations Inc.

We have audited the accompanying consolidated financial statements of Westport Innovations Inc., which comprise the consolidated balance sheet as at December 31, 2015, the consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2015 and December 31, 2013 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Westport Innovations Inc. as at December 31, 2015, and its consolidated results of operations and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2013, in accordance with US generally accepted accounting principles.

Comparative Information

Without modifying our opinion, we draw attention to [Note 3(a)] to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2014 has been adjusted for the adoption of new accounting standards in 2015.

The consolidated financial statements of Westport Innovations Inc. as at and for the year ended December 31, 2014, excluding the adjustments described in [Note 3(a)] to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 9, 2015 (October 15, 2015 as to the change in reportable segments discussed in [Note 23] to the consolidated financial statements).

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2015, we audited the adjustments described in [Note 3(a)] to the consolidated financial statements that were applied to adjust the comparative information presented as at and for the year ended December 31, 2014. In our opinion, the adjustments are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the December 31, 2014 consolidated financial statements, other than with respect to the adjustments described in [Note 3(a)] to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Westport Innovations Inc.'s internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"), and our report dated March 29, 2016 expressed an unmodified (unqualified) opinion on the effectiveness of Westport Innovations Inc.'s internal control over financial reporting.

KPMG LLP

KPMG LLP, Chartered Professional Accountants,
March 29, 2016, Vancouver, Canada

Report Of Independent Registered Public Accounting Firm

To the Shareholders of Westport Innovations Inc.

We have audited Westport Innovations Inc.'s ("**the Company**") internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Financial Statements and Assessment of 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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.

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2015, and the consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2015 and December 31, 2013 and our report dated March 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

KPMG LLP, Chartered Professional Accountants,
March 29, 2016, Vancouver, Canada

Report Of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Westport Innovations Inc.

We have audited, before the effects of the adjustments to retrospectively apply accounting standards adopted in 2015 as discussed in Note 3 to the consolidated financial statements, the accompanying consolidated financial statements of Westport Innovations Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2014, and consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity and cash flows for the year ended December 31, 2014 and a summary of significant accounting policies and other explanatory information, (the 2014 consolidated financial statements before the effects of the adjustments discussed in [Note 3] to the consolidated financial statements are not presented herein).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, such 2014 consolidated financial statements, before the effects of the adjustments to retrospectively apply accounting standards adopted in 2015 as discussed in [Note 3] to the consolidated financial statements, present fairly, in all material respects, the financial position of Westport Innovations Inc. and subsidiaries as at December 31, 2014, and its financial performance and its cash flows for the year ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply accounting standards adopted in 2015 as discussed in [Note 3] to the consolidated financial statements and, accordingly, we do not express an opinion on any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ Deloitte LLP

Chartered Professional Accountants, Vancouver, Canada

March 9, 2015

(October 15, 2015 as to the change in reportable segments discussed in [Note 23] to the consolidated financial statements)

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

(expressed in thousands of United States dollars, except share amounts)	2016	2015 (Adjusted, [note 8])
ASSETS		
Current Assets		
Cash and cash equivalents	$ 60,057	$ 27,143
Short-term investments	848	696
Accounts receivable [note 6]	77,178	38,324
Inventories [note 7]	70,624	35,660
Prepaid expenses	5,055	3,475
	213,762	105,298
Long-term investments [note 8]	13,422	35,142
Property, plant and equipment [note 10]	59,682	42,527
Intangible assets [note 11]	22,858	22,307
Deferred income tax assets [note 19b]	3,767	2,538
Goodwill [note 12]	2,923	3,008
Other long-term assets	15,046	2,863
	$ 331,460	**$ 213,683**
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities [note 13]	$ 93,245	$ 57,454
Current portion of restructuring obligation [note 14]	5,408	—
Current portion of deferred revenue	4,656	1,779
Current portion of long-term debt [note 15]	48,097	8,257
Current portion of royalty payable [note 16]	1,500	—
Current portion of warranty liability [note 17]	6,834	5,554
	159,740	73,044
Restructuring obligation [note 14]	8,715	—
Deferred revenue	3,559	1,513
Long-term debt [note 15]	30,935	54,190
Long-term royalty payable [note 16]	20,062	—
Warranty liability [note 17]	6,936	8,437
Deferred income tax liabilities [note 19b]	9,803	3,570
Other long-term liabilities	6,272	1,302
	246,022	142,056
SHAREHOLDERS' EQUITY		
Share capital [note 18]		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
110,109,092 (2015 – 63,380,819) common shares	1,042,410	937,029
Other equity instruments	20,926	16,460
Additional paid in capital	10,079	9,837
Accumulated deficit	(956,890)	(859,317)
Accumulated other comprehensive income	(31,087)	(32,382)
	85,438	71,627
COMMITMENTS AND CONTINGENCIES [note 21]		
	$ 331,460	**$ 213,683**

See accompanying notes to consolidated financial statements. Approved on behalf of the Board:

Brenda J. Eprile
Director

Warren Baker
Director

CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME (LOSS)

(expressed in thousands of United States dollars, except share and per share amounts)	Years ended December 31		
	2016	**2015** (Adjusted, [note 8])	**2014** (Adjusted, [note 8])
Product revenue	$ 220,448	$ 97,844	$ 118,015
Service and other revenue	4,407	5,460	12,554
	224,895	103,304	130,569
COST OF REVENUE & EXPENSES			
Cost of product revenue	176,552	85,232	101,053
Research and development	59,413	52,777	76,580
General and administrative	48,204	35,201	40,319
Sales and marketing	20,949	17,496	25,489
Restructuring, termination and other exit costs [note 14]	19,000	—	—
Foreign exchange (gain) loss	6,408	(11,601)	(3,433)
Depreciation and amortization [note 10] [note 11]	11,308	11,736	15,536
Impairment of long lived assets, net [note 8] [note 10] [note 11] [note 12]	4,843	22,722	29,604
Provision for inventory purchase commitments [note 21b]	—	—	4,106
	346,675	213,563	289,254
Loss from operations	(121,780)	(110,259)	(158,685)
Income from investments accounted for by the equity method	5,838	17,551	15,863
Interest on long-term debt and amortization of discount	(10,773)	(5,529)	(5,849)
Bargain purchase gain from acquisition (note 5)	35,808		
Interest and other income (expense), net of bank charges	(1,656)	(186)	114
Loss before income taxes	(92,563)	(98,423)	(148,557)
INCOME TAX EXPENSE (RECOVERY) [note 19]			
Current	2,002	1,245	606
Deferred	3,008	(514)	(1,185)
	5,010	731	(579)
Net loss for the year	$ (97,573)	$ (99,154)	$ (147,978)
OTHER COMPREHENSIVE INCOME (LOSS)			
Cumulative translation adjustment	(1,295)	(16,889)	(15,201)
Comprehensive loss	**$ (96,278)**	**$ (116,043)**	**$ (163,179)**
LOSS PER SHARE			
Basic and diluted	**$ (1.07)**	**$ (1.55)**	**$ (2.34)**
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic and diluted	**91,028,504**	**64,109,703**	**63,130,022**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(expressed in thousands of United States dollars, except share amounts)	Common shares outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
January 1, 2014 (Adjusted [note 8])	62,733,762	$ 916,497	$ 13,834	$ 8,205	$ (612,185)	$ (292)	$ 326,059
Issue of common shares:							
On exercise of stock options	43,071	374	—	(132)	—	—	242
On exercise of share units	608,975	10,701	(10,701)	—	—	—	—
In connection with acquisition	94,914	3,285	(3,285)	—	—	—	—
Stock-based compensation	—	—	7,919	1,764	—	—	9,683
Net loss for the year	—	—	—	—	(147,978)	—	(147,978)
Other comprehensive loss	—	—	—	—	—	(15,201)	(15,201)
December 31, 2014 (Adjusted [note 8])	**63,480,722**	**930,857**	**7,767**	**9,837**	**(760,163)**	**(15,493)**	**172,805**
Issue of common shares:							
On exercise of share units	575,024	5,010	(5,010)	—	—	—	—
In connection with acquisition	325,073	1,162	—	—	—	—	1,162
Stock-based compensation	—	—	13,703	—	—	—	13,703
Net loss for the year	—	—	—	—	(99,154)	—	(99,154)
Other comprehensive loss	—	—	—	—	—	(16,889)	(16,889)
December 31, 2015 (Adjusted [note 8])	**64,380,819**	**937,029**	**16,460**	**9,837**	**(859,317)**	**(32,382)**	**71,627**
Issue of common shares:							
On exercise of share units	845,491	6,639	(6,639)	—	—	—	—
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 loss	—	—	—	—	—	1,295	1,295
DECEMBER 31, 2015	**110,109,092**	**$ 1,042,410**	**$ 20,926**	**$ 10,079**	**$ (956,890)**	**$ (31,087)**	**$ 85,438**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of United States dollars)	Years ended December 31 2016	2015 (Adjusted [note 8])	2014 (Adjusted [note 8])
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss for the year	$ (97,273)	$ (99,154)	$ (147,978)
Items not Involving Cash			
Depreciation and amortization	16,015	13,654	18,666
Stock-based compensation expense	10,450	14,871	9,683
Unrealized foreign exchange gain	6,408	(11,601)	(3,434)
Deferred income tax (recovery) expense	3,008	(514)	(1,185)
Income from investments accounted for by the equity method	(5,838)	(17,551)	(15,863)
Accretion of long-term debt	4,945	876	2,139
Impairment of long lived assets, net	4,843	22,722	29,604
Inventory write-downs to net realizable value	7,104	8,743	2,102
Bargain purchase gain from acquisition	(35,808)	—	—
Provision for inventory purchase commitments	—	—	4,106
Change in fair value of derivative liability and bad debt expense	1,670	587	1,338
Restructuring obligations	14,123	—	—
Changes in Non-Cash Operating Working Capital			
Accounts receivable	(4,675)	975	11,629
Inventories	26,152	(5,997)	(1,367)
Prepaid expenses	881	661	(556)
Accounts payable and accrued liabilities	(20,650)	9,526	(4,749)
Deferred revenue	(5,212)	(1,507)	(5,096)
Warranty liability	(5,473)	(5,359)	(5,797)
	(79,630)	(69,068)	(106,758)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(9,347)	(4,845)	(10,249)
Sale of short term investments, net	1,000	—	—
Maturity (purchase) of short-term investments, net	—	—	31,369
Acquisitions, net of acquired cash [note 5]	45,344	787	(3,053)
Proceeds on sale of investments	12,965	—	—
Proceeds on sale of assets	13,219	—	—
Dividends received from joint ventures	13,398	20,464	3,200
	79,579	16,406	21,267
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of operating lines of credit and long term facilities	(12,789)	(8,308)	(9,540)
Drawings on operating lines of credit	9,184	5,432	17,797
Finance costs incurred	—	—	(2,033)
Proceeds from stock options exercised	—	—	242
Issuance of convertible debt and royalty payable	35,000	—	—
	31,395	(2,876)	6,466
Effect of foreign exchange on cash and cash equivalents	4,570	(10,601)	(6,206)
Increase (decrease) in cash and cash equivalents	32,914	(66,139)	(85,231)
Cash and cash equivalents, beginning of year	27,143	93,282	178,513
Cash and cash equivalents, end of year	**$ 60,057**	**$ 27,143**	**$ 93,282**
SUPPLEMENTARY INFORMATION			
Interest paid	$ 4,339	$ 4,551	$ 4,702
Taxes paid, net of refunds	2,479	1,238	871
Non-Cash Transactions			
Shares issued on exercise of share units	98,742	1,162	3,285

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Company Organization and Operations

Westport Fuel Systems Inc. (the "**Company**", formerly known as Westport Innovations Inc.) was incorporated under the Business Corporations Act (Alberta) on March 20, 1995. On June 1, 2016, the Company merged with Fuel Systems Solutions, Inc. The Company engineers, manufactures and supplies alternative fuel systems and components for use in the transportation and industrial markets on a global basis. The Company's components & 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 August 2014, the FASB issued ASU 2014‑15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. Under the new standard, management must 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. 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 the financial statements are issued. When substantial doubt exists under this methodology, 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. This standard was adopted by the Company at December 31, 2016.

These financial statements have been prepared on the basis that the Company will continue as a going concern. At December 31,

2016, the Company's cash and cash equivalents were $60,057 and its long-term debt was $79,032, of which $48,097 matures in 2017. The Company incurred significant recurring losses and negative cash flows from operating activities during 2016, 2015 and 2014, and anticipates incurring additional losses and cash outflows through 2017, largely due to the start up of production and commercial distribution of HPDI in the fourth quarter of 2017.

PRINCIPAL CONDITIONS OR EVENTS THAT REQUIRE MANAGEMENT'S CONSIDERATION

a. Forecast operating and capital investment requirements

After the merger with Fuel Systems and given the low oil price environment experienced in most of 2015 and 2016, the Company has been rationalizing its operations to achieve the necessary synergies required in order to become cash flow positive from operations. The Company expects to generate positive cash flows from operations throughout its business in 2017 and beyond except for its Technology Investments segment where the Company expects significant costs for final development, testing and capital expenditures on its HPDI program with a major OEM in fiscal 2017. Overall, the Company forecasts negative cash flows in 2017.

b. Maturing debt

Significant debt maturing in 2017 is the CDN $55,000 Debentures ("**Debentures**") maturing on September 15, 2017. This debt is classified as current liabilities on the consolidated balance sheet as at December 31, 2016. Details of this loan can be found in [note 15a] to these consolidated financial statements.

MANAGEMENT'S PLANS

Management considered the following factors and management's plans to alleviate or mitigate substantial doubt:

a. Asset sales

In conjunction with its rationalization and synergy program, the Company has a number of initiatives to simplify the number of businesses that the Company will focus on. As a result, the Company has identified a number of non-core assets that it has or would make available for sale, subject to appropriate terms and conditions in the circumstances. The Company has been active in discussions with interested parties and two of these initiatives are in the final stages of negotiation. The Company expects final binding agreements to be signed in April 2017 and closing to occur shortly thereafter. These two non-core assets sales are expected to contribute significant proceeds to the Company and would be used to fund the forecasted operating and capital investment requirements for HPDI commercialization.

The Company continues to examine other assets to determine whether it is in the best interest of the Company to monetize these assets in the next year or continue to hold and invest in these assets. The Company's decisions with respect to these assets may depend on its ability to raise additional financings as discussed below. The Company's Board of Directors has approved a sales process and timeline for the sale of certain assets in the event that the financing is not obtained when required.

b. Maturing debt

The holders of the CDN $55,000 Debentures have the option to extend, a maximum of six times, the maturity date for an additional period of six months each time (i.e. if all extensions made, an additional three years) provided that greater than CDN$10,000 of the aggregate principal amount of the Debentures remains outstanding. At the date of these financial statements, the Debenture holders have not elected to extend and have until August 1, 2017 to do so.

The Company has engaged financial advisors to assist with alternative sources of funding. As of the date of these financial statements, the Company has held discussions and received interest including draft term sheets from potential lenders that would allow the Company to refinance a portion of the Debentures. In addition, the Company has initiated discussions with a representative of the Debenture holders on extending or replacing the Debentures with new financing. While there can be no assurance that the Company will be able to borrow on terms that are acceptable to the Company, management believes that it is probable that new loan(s) to refinance a portion of the Debentures, either with the Debenture holders or new lenders, will be entered into on a timely basis.

MANAGEMENT'S ASSESSMENT AND CONCLUSION

Management is confident that the cash on hand at December 31, 2016 of $60,057, the estimated proceeds from the sales of noncore assets and the estimated proceeds from financing as discussed above will provide the cash flow necessary to fund operations over the next year to March 31, 2018, and as a result, Management has determined that substantial doubt has been alleviated by Management's plans at a probable level of assurance. Management cautions the readers that there is no absolute assurance that the Company will be able to conclude all of the non-core assets sales and raise the financing necessary, under satisfactory terms and conditions, to continue as a going concern. If the Company was not to continue as a going concern, significant adjustments may be required to the carrying value of its assets and liabilities in the accompanying 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, its wholly owned subsidiaries and variable interest entities ("**VIEs**") for which the Company is considered the primary beneficiary. 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**").

B. FOREIGN CURRENCY TRANSLATION

The Company's functional currency is in the Canadian dollars 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, Japanese Yen and Indian Rupee. The Company translates assets and liabilities of non-U.S. dollar functional currency operations using the period end exchange rates, shareholders' equity balances using the weighted average of historical exchange rates, and revenues and expenses using the monthly average rate for the period with the resulting exchange differences recognized in other comprehensive income.

Transactions that are denominated in currencies other than the functional 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.

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:

FOREIGN CURRENCY TRANSLATION

	Year end exchange rate		Avg. for yr. ended		
(expressed in thousands of United States dollars)	2016	2015	2016	2015	2014
Canadian Dollar	0.74	0.72	0.76	0.78	0.91
Australian Dollar	0.72	0.73	0.74	0.75	0.90
Euro	1.06	1.09	1.11	1.11	1.33
Argentina Peso	0.06	0.08	0.07	0.11	0.12
RMB	0.14	0.15	0.15	1.16	0.16
Swedish Krona	0.11	0.12	0.12	0.12	0.15
Japanese Yen	0.01	0.01	0.01	0.01	0.01
Indian Rupee	0.01	0.02	0.02	0.02	0.02

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.

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 valuation 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 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.

F. PROPERTY, PLANT AND EQUIPMENT

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.

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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION

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

G. LONG-TERM INVESTMENTS

The Company accounts for investments in which it has significant influence, including 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. The Company accounts for investments in which it does not exercise significant influence using the cost method of accounting.

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. GOVERNMENT ASSISTANCE

The Company periodically applies for financial assistance under available government incentive programs, which is recorded in the period it is received or receivable. Government assistance relating to the purchase of property, plant and equipment is reflected as a reduction of the cost of such assets. Government assistance related to research and development activities is recorded as a reduction of the related expenditures.

K. INTANGIBLE ASSETS

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

L. 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.

M. GOODWILL IMPAIRMENT

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.

A two-step test is used to identify a potential impairment and to measure the amount of impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired; otherwise, goodwill is impaired and the loss is measured by performing step two. Under step two, the impairment loss is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill.

Fair value is determined using widely accepted valuation techniques, which may include discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies.

N. 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 for a period ending two years 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 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. The amount payable by the Company and the timing will depend on actual failure rates and cost to repair failures of its products.

O. REVENUE RECOGNITION

The Company recognizes revenue upon transfer of title and risk of loss, generally when products are shipped provided there is (1) persuasive evidence of an arrangement, (2) there are no uncertainties regarding customer acceptance, (3) the sales price is fixed or determinable and (4) management believes collectibility is reasonably assured.

The Company recognizes service revenue from research and development arrangements based on the contracts and the ability of the Company to measure its performance. Depending on the contract, revenues may be recognized using the milestone, percentage of completion, or completed contract methods of accounting. All costs incurred related to revenue earned from research and development contracts are recorded as research and development expense as incurred.

P. 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 2016

Going Concern

In August 2014, the FASB issued ASU 2014-15. Presentation of Financial Statements - Going Concern, which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures.

B. CHANGE IN ACCOUNTING POLICY

The Company's joint venture, Cummins Westport Inc ("**CWI**"), changed its method for determining its warranty liability to exclude, from the estimated cost to settle claims, the parts margin it expects to earn on parts sold and used to service warranty claims. These changes were accounted for as change in accounting policy and the comparative balances were restated on a retrospective basis. The Company's income from investments, accumulated deficit and long-term investments balances have been adjusted to reflect this change in accounting policy.

C. NEW ACCOUNTING PRONOUNCEMENTS TO BE ADOPTED IN THE FUTURE

Revenue

In May 2014, Financial Accounting Standards Board ("**FASB**") issued ASU 2014-09, Revenue From Contracts With Customers ("**Topic 606**"). Topic 606 removes inconsistencies and weaknesses in revenue accounting requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2017. The Company is evaluating the impact of this new standard to the financial statements.

Simplifying the Measurement of Inventory (Topic 330): Inventory

In July 2015, the FASB issued ASU 2015-11, which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

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 fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities with early adoption permitted. The Company has not yet evaluated the impact of the adoption of this new standard.

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. ASU 2016-15 is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

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 of the Company to replace outstanding Fuel Systems restricted stock units in connection with the merger. No replacement awards were issued for other equity instruments pursuant to the merger agreement.

The merger was accounted for as a business combination, with Westport deemed to be the acquirer. 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, which includes the fair value of the common shares issued of $98,742 and the fair value of the restricted stock units related to pre-combination services of $655. The Company incurred total acquisition related costs of $9,890 in 2015 and 2016 under the Corporate and Technology Investments segment, 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. The following table summarizes the final allocation of the purchase price to the fair values of assets acquired and liabilities assumed at the date of the acquisition, as well as the adjustments made during the measurement period.

PURCHASE PRICE ALLOCATION

Consideration allocated to:	Preliminary Purchase Price Allocation as of June 1, 2016	Measurement Period Adjustments	Final Purchase Price Allocation as of December 31, 2016
Cash and cash equivalents	$ 45,344	$ —	45,344
Accounts receivable	42,165	789	42,954
Inventory	72,734	826	73,560
Property, plant and equipment	37,192	600	37,792
Intangible assets	4,240	—	4,240
Deferred income taxes, net	1,911	(3,964)	(2,053)
Other assets	12,962	—	12,962
Accounts payable and accrued liabilities	(58,401)	(5,305)	(63,706)
Other liabilities	(15,888)	—	(15,888)
Total net identifiable assets	142,259	(7,054)	135,205
Bargain purchase gain	(42,862)	7,054	(35,808)
Total	**$ 99,397**	**$ —**	**$ 99,397**

The fair value of $42,954 of accounts receivable acquired was based on the amounts expected to be collectible.

The fair value of $73,560 assigned to inventory was based on estimated selling prices net of selling costs associated with finished goods, and replacement value for raw materials and unassembled components.

Property, plant and equipment of $37,792 was determined based on depreciated replacement cost values.

The fair value of intangible assets of $4,240 primarily relates to brand value associated with the BRC, IMPCO and ComfortPro brands. The intangible assets are being amortized over their estimated useful life of ten years.

The fair value of $63,706 assigned to accounts payable and accrued liabilities acquired was based on the expected amount to be paid and contingent liabilities recognized at the acquisition date. Adjustments made in the measurement period include $4,000 settlement of a patent infringement and $1,305 to settle remaining claims.

Since the acquisition date, Fuel Systems' total revenue was $132,850 and generated a net loss of $5,049.

PROFORMA RESULTS

The following unaudited supplemental proforma information presents the consolidated financial results as if the acquisition of Fuel Systems had occurred on January 1, 2015. This supplemental proforma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2015, nor are they indicative of any future results.

PROFORMA RESULTS		
	Years ended Dec 31	
	2016	2015
Revenue		
Revenue for the year	224,895	103,304
Fuel Systems (prior to merger)	96,833	263,397
Proforma revenue for the year	**321,728**	**366,701**
Net loss		
Net loss for the year	(97,573)	(99,154)
Fuel Systems, net of transaction costs (prior to merger)	(6,249)	(47,135)
Proforma adjustments(1)	(28,951)	(1,575)
Proforma net loss for the year	**$ (132,773)**	**$ (147,864)**

1. Includes adjustments for the bargain purchase gain, additional interest expense for the convertible debt in all periods, and for transaction costs related to the merger with Fuel Systems.

6. Accounts Receivable

ACCOUNTS RECEIVABLE	Dec 31, 2016	Dec 31, 2015
Customer trade receivable	$ 73,341	$ 35,517
Due from related parties [note 20]	488	1,165
Other receivables	5,010	3,617
Income tax receivable	1,638	1,047
Allowance for doubtful accounts	(3,299)	(3,022)
	$ 77,178	**$ 38,324**

7. Inventories

INVENTORIES	Dec 31, 2016	Dec 31, 2015
Purchased parts	$ 46,475	$ 20,864
Work-in-process	4,403	3,485
Finished goods	19,746	11,311
Total	**$ 70,624**	**$ 35,660**

During the year ended December 31, 2016, the Company recorded write-downs to net realizable value of approximately $7,104 (year ended December 31, 2015 - $8,743; year ended December 31, 2014 - $2,102).

8. Long-term Investments

LONG-TERM INVESTMENTS	Dec 31, 2016	Dec 31, 2015
Cummins Westport Inc. (a)	10,950	14,762
Weichai Westport Inc. (b)	$ 1,824	$ 19,065
Other equity accounted investees	648	1,315
Total long-term investments	**$ 13,422**	**$ 35,142**

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 have 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 variable interest entity ("**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:

CWI REVENUES & EXPENSES			
	Years ended Dec 31		
	2016	2015 (Adjusted)	2014 (Adjusted)
Investment income under the equity method	$ 5,606	$ 16,339	$ 9,777
Dividends received	10,198	20,646	3,200

During the fourth quarter of 2016, CWI changed its method for determining its warranty liability to exclude, from the estimated cost to settle claims, the parts margin it expects to earn on parts sold to dealers and used to service warranty claims. This change was accounted for as a change in accounting policy and the comparative balances were restated on a retrospective basis, with the following after tax impact to CWI and the Company:

CWI TAX IMPACT

	CWI Impact	Company Impact
Opening accumulated deficit decrease (January 1, 2014)	$ 6,314	$ 3,157
Increase to 2014 income from investment	3,283	1,641
Decrease to 2015 income from investment	(1,533)	(766)
Decrease to 2016 income from investment	(8,064)	(4,032)
Net change to accumulated deficit (December 31, 2016)	—	—

Assets, liabilities, revenue and expenses of CWI, as adjusted for the change in accounting policy, are as follows:

CWI ASSETS & LIABILITIES

	December 31, 2016	December 31, 2015 (Adjusted)
Current assets		
Cash and short-term investments	$ 95,623	$ 114,053
Accounts receivable	5,018	4,632
Other current assets	209	287
Long-term assets		
Property, plant and equipment	1,074	1,212
Deferred income tax assets	45,231	46,177
Total assets	**147,245**	**166,361**
Current liabilities		
Current portion of warranty liability	$ 26,206	$ 30,922
Current portion of deferred revenue	$ 20,070	$ 13,858
Accounts payable and accrued liabilities	$ 7,125	$ 11,852
	$ 53,401	$ 56,632
Long-term liabilities		
Warrant liability	$ 27,282	$ 31,461
Deferred revenue	$ 41,788	$ 45,859
Other long-term liabilities	$ 2,863	$ 2,908
	$ 71,933	$ 80,228
Total liabilities	**$ 125,334**	**$ 136,860**

CWI INCOME

	Years ended Dec 31		
	2016	2015 (Adjusted)	2014 (Adjusted)
Product revenue	$ 205,235	$ 274,033	$ 283,551
Parts revenue	71,230	57,849	53,683
	276,465	331,882	337,234
Cost of revenue and expenses			
Cost of product and parts revenue	199,317	230,508	265,584
Research and development	36,066	30,165	21,131
General and administrative	1,136	1,414	1,202
Sales and marketing	23,047	21,236	22,514
Foreign exchange (gain) loss	8	28	34
Bank charges, interest and other	695	817	805
	260,269	284,168	311,270
Income from operations	16,196	47,714	25,964
Interest and investment income	552	367	260
Income before taxes	16,748	48,081	26,224
Income tax expense (recover)			
Current	4,680	19,785	21,514
Deferred	856	(1,565)	(13,754)
	5,536	18,220	7,760
Income for the year	**11,212**	**29,861**	**18,464**

B. WEICHAI WESTPORT INC.

On April 20, 2016, the Company sold a portion of its economic interest in Weichai Westport Inc. (WWI) to Cartesian Capital Group (Cartesian), a related party, for an upfront payment of $6,300 plus a potential future payment based on Cartesian's return on investment. A loss on sale of investment of $5,238 was recognized in the quarter ended June 30, 2016. On August 20, 2016, the Company sold a portion of the investment to Weichai Power Co., Ltd and Weichai Holding Group Co., Ltd for $7,372 and recognized a gain on sale of $2,696. In addition, the Company received a dividend of $3,200 from WWI net of withholding taxes. Commencing April 20, 2016, the Company no longer has the ability to exercise significant influence over the joint venture and, therefore, with effect from that date accounts for its interest by the cost method.

9. Variable Interest Equity

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 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.

The carrying amount and maximum exposure to losses relating to VIEs in which the Company holds a significant variable interest but is not the primary beneficiary, and which have not been consolidated, were as follows:

	Balance at Dec 31			
	2016		2015 (Adjusted)	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	$ 10,950	$ 10,950	$ 14,762	$ 14,762
Accounts receivable	236	236	1,165	1,165

10. Property, Plant & Equipment

PROPERTY, PLANT & EQUIPMENT	Cost	Accumulated depreciation	Net book value
December 31, 2016			
Land and buildings	$ 4,471	$ 1,127	$ 3,344
Computer equipment and software	9,230	7,044	2,186
Furniture and fixtures	6,703	2,641	4,062
Machinery and equipment	77,120	34,754	42,366
Leasehold improvements	14,346	6,622	7,724
Total 2016	**$ 111,870**	**$ 52,188**	**$ 59,682**
December 31, 2015			
Land and buildings	$ 2,706	$ 165	$ 2,541
Computer equipment and software	7,171	6,234	937
Furniture and fixtures	5,163	2,084	3,079
Machinery and equipment	70,415	36,739	33,676
Leasehold improvements	10,394	8,100	2,294
Total 2015	**$ 95,849**	**$ 53,322**	**$ 42,527**

Based on declining revenue and operating results, which were impacted by lower oil prices, the Company concluded that there were impairment indicators, requiring the performance of a long-lived assets impairment test during the years ended December 31, 2016 and 2015.

During the year ended December 31, 2016, the Company recorded an impairment charge of $2,708. The impairment resulted primarily from the write-down of engineering test equipment in Vancouver, Canada. The method used to determine the fair value of equipment was based on utilization of assets and the write-down was recorded in the Corporate and Technology Investments segment.

During the year ended December 31, 2015, the Company recorded an impairment charge of $4,015. The impairment resulted primarily from the write-down of Orca™ LNG trailers ("**Orcas**") which provide in-yard fleets convenient refueling in the absence of a permanent liquefied natural gas (LNG) solution. The method used to determine fair value was recent sales of Orcas and the impairment charge was recorded in the Automotive business segment.

Depreciation expense for the year ended December 31, 2016 was $12,836 (year ended December 31, 2015 - $10,703; year ended December 31, 2014 - $14,106). The amount of depreciation expense included in cost of sales for the year ended December 31, 2016 was $4,707 (year ended December 31, 2015 - $1,918; year ended December 31, 2014 - $3,130).

11. Intangible Assets

INTANGIBLE ASSETS	Cost	Accumulated depreciation	Net book value
December 31, 2016			
Patents and trademarks	$ 20,770	$ 5,093	$ 15,667
Technology	4,735	3,068	1,667
Customer contracts	11,419	6,053	5,366
Other intangibles	319	171	148
Total 2016	**$ 37,243**	**$ 14,385**	**$ 22,858**
December 31, 2015			
Patents and trademarks	$ 16,964	$ 4,094	$ 12,870
Technology	4,862	2,663	2,199
Customer contracts	12,025	4,952	7,073
Other intangibles	283	118	165
Total 2015	**$ 34,134**	**$ 11,827**	**$ 22,307**

Based on declining revenue and operating results, which were impacted by lower oil prices, the Company concluded there were impairment indicators as of November 30, 2016 and November 30, 2015 requiring the performance of a long-lived assets impairment test for trademarks, customer contracts, and technology. The Company completed its assessments at November 30, 2016 and November 30, 2015, respectively, and concluded that intangible assets were not impaired.

During the year ended December 31, 2016, amortization of $3,179 (December 31, 2015 - $2,951; year ended December 31, 2014 - $4,560) was recognized in the statement of operations.

12. Goodwill

A continuity of goodwill is as follows:

GOODWILL

	Dec 31, 2016	Dec 31, 2015
Balance, beginning of period:	$ 3,008	$ 23,352
Measurement period adjustments [note 4a]	—	149
Impairment losses	—	(18,707)
Impact of foreign exchange changes	(85)	(1,786)
Balance, end of period	**$ 2,923**	**$ 3,008**

The Company completed its annual assessment at November 30, 2016 and concluded the remaining goodwill of $2,923 related to the Netherlands reporting unit under the Automotive business segment was not impaired.

Based on the revenue and operating results of the Italian reporting unit, which is within the Automotive segment in the nine months ended September 30, 2015, the decline in the outlook for the remainder of 2015 and future years and the decline in the Company's share price, the Company concluded there were impairment indicators requiring an interim goodwill impairment assessment as of September 30, 2015. Based on the Company's 2015 assessment, it was determined that the carrying amount of goodwill exceeded the implied fair value of goodwill and as a result, an impairment of $18,707 was recorded in the Italian reporting unit in 2015.

For 2016 and 2015, the fair value of the reporting units was determined using the present value of expected future cash flows discounted at a rate equivalent to a market participant's weighted-average cost of capital. The estimates and assumptions regarding expected future cash flows and the appropriate discount rates are in part based upon historical experience, financial forecasts and industry trends and conditions.

13. Accounts Payable and Accrued Liabilities

ACCOUNTS PAYABLE & ACCRUED LIABILITIES

	Dec 31, 2016	Dec 31, 2015
Trade accounts payable	$ 70,411	$ 42,851
Accrued payroll	13,356	3,839
Accrued interest	1,977	1,037
Due to related parties [note 20]	1,191	—
Taxes payable	941	2,014
Other payables	5,369	7,713
Total	**$ 93,245**	**$ 57,454**

14. Restructuring, Termination and Other Exit Obligations:

RESTRUCTURING, TERMINATION AND OTHER EXIT OBLIGATIONS

	Years ended Dec 31, 2016		
	Termination	Lease-exit	Total
Balance, beginning of period	$ —	$ —	$ —
Additions	7,198	11,802	19,000
Additions: Interest and other	—	509	509
Payments	(3,876)	(1,196)	(5,072)
Impact of foreign exchange	(44)	(270)	(314)
Balance, end of period	$ 3,278	$ 10,845	$ 14,123
Less: Current portion	(2,903)	(2,505)	(5,408)
Long-term portion	**$ 375**	**$ 8,340**	**$ 8,715**

Beginning in the third quarter of 2016, the Company initiated a series of restructuring activities which included the consolidation of facilities in Argentina, Canada, China and the United States. This resulted in an implementation of a reduction in workforce resulting in employee severance, one-time termination benefits and contract termination costs associated with the restructuring activities. The Company incurred a charge of $7,198 associated with such termination obligations.

The Company recorded restructuring charges on leases during the year ended December 31, 2016. One lease is in New York, US, and has a lease end date of March 2017. The Company exited the premises in September 2016 and is no longer using this space. The Company has also exited its car service and racing facility in Cherasco, Italy and has a lease end date of April 30, 2017. The other lease is in Vancouver, Canada. The Company has a 10 year lease commitment for 116,000 square feet of office space; however, the Company has notified the lessor that it does not intend to occupy the space. With respect to these leases, the Company recorded a charge to earnings of $11,802. The liability is equal to the present value of rent and other direct costs for the period of time space is expected to remain contracted but unoccupied, less any expected rent to be paid to the Company by a tenant under a sublease over the remainder of the lease term. The cash flows have been discounted at 15% and the lease is expected to terminate in June 2026.

15. Long-Term Debt

LONG-TERM DEBT

	Dec 31, 2016	Dec 31, 2015
Subordinated debenture notes (a)	$ 40,463	$ 38,359
Senior financing (b)	10,553	10,859
Convertible debt (c)	17,286	—
Other bank financing (d)	9,949	12,435
Capital lease obligations (e)	781	794
Balance, end of period	79,032	62,447
Current portion	(48,097)	(8,257)
Total	**$ 30,935**	**$ 54,190**

A. SUBORDINATED DEBENTURE NOTES

The subordinated debenture notes are unsecured, mature on September 15, 2017 and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term. The holders of the Debentures have the option to extend, a maximum of six times, the maturity date for an additional period of six months each time (i.e. if all extensions made, an additional three years) provided that greater than CDN$10,000 of the aggregate principal amount of the Debentures remains outstanding. At the date of these financial statements, the Debenture holders have not elected to extend and have until August 1, 2017 to do so.

B. SENIOR FINANCING

The €10,000 senior revolving financing facility is denominated in Euros and bears interest at the 6-month Euribor plus 2.6% (2.3% as at December 31, 2016). Subsequent to year end on March 24, 2017, the €10,000 financing facility was renewed. The loan bears an 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. SENIOR REVOLVING FINANCING

On January 11, 2016, the Company entered into a financing agreement 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.

D. OTHER BANK FINANCING

Other bank financing consists of various secured and unsecured bank financing arrangements that carry rates of interest ranging from 0.75% to 3.9% 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. Approximately $6,700 of this financing is renewable as additional accounts receivables are pledged.

E. CAPITAL LEASE OBLIGATIONS

The Company has capital lease obligations that have terms of three to five years at interest rates ranging from 2.3% to 11.0% (2015 - 3.1%% to 4.9%).

Throughout the entire term of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2016, the Company is in compliance with all covenants under the financing arrangements.

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

LONG-TERM DEBT REPAYMENT SCHEDULE

	Subordinated debenture notes	Senior revolving financing	Convertible debt	Other bank financing	Capital lease obligations	Total
2017	$ 40,463	$ 739	$ —	$ 6,449	$ 446	$ 48,097
2018	—	1,688	—	316	195	2,199
2019	—	1,794	—	316	64	2,174
2020	—	1,900	—	316	46	2,262
2021+	—	4,432	17,286	2,552	30	24,300
	$ 40,463	**$10,553**	**$ 17,286**	**$ 9,949**	**$ 781**	**$ 79,032**

16. Long-term Royalty Payable

On January 11, 2016, The Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided $17,500 in cash (the "Tranche 1 Financing"). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments in respect of the Tranche 1 Financing based on the greater of (i) a percentage of amounts received by the Company on select high pressure direct injection systems and joint venture products in excess of agreed thresholds 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.

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

LONG TERM ROYALTY PAYABLE SCHEDULE

	Dec 31, 2016
Balance, beginning of year	$ —
Issuance of debentures	17,500
Accretion expense	4,062
Balance, end of year	21,562
Current portion	(1,500)
Long-term portion	**$ 20,062**

MINIMUM REPAYMENTS INCLUDING INTEREST

	For years ending Dec 31
2017	$ 1,500
2018	3,426
2019	6,164
2020	7,722
2021	$ 9,054
2022 and thereafter	18,113
	$ 45,979

17. Warranty Liability

WARRANTY LIABILITY

	Years ended Dec 31		
	2016	2015	2014
Balance, beginning of year	$ 13,991	$ 23,109	$ 28,845
Warranty assumed on acquisition	5,180	—	1,952
Warranty claims	(7,353)	(9,438)	(10,709)
Warranty accruals	2,811	427	2,734
Impact of foreign exchange changes	(859)	(107)	287
Balance, end of year	**$ 13,770**	**$ 13,991**	**$ 23,109**
Less: Current portion	**$ (6,834)**	**$ (5,554)**	**$ (9,696)**
Long-term portion	**$ 6,936**	**$ 8,437**	**$ 13,413**

18. Share Capital, Stock Options & Other Stock-based Plans

On June 1, 2016, the Company issued 44,882,782 common shares to former Fuel Systems' shareholders and 653,532 restricted stock units in connection with the merger described in note 5.

During the year ended December 31, 2016, the Company issued 845,491 common shares, net of cancellations, upon exercises of share units and in connection with earn out payments, (year ended December 31, 2015 – 900,097 common shares). The Company issues shares from treasury to satisfy stock option and share unit exercises.

A. SHARE UNITS

The compensation program sets out provisions where the restricted share units ("**RSUs**") and performance share units ("**PSUs**") (together, the "**Units**") will be granted to the Company's executive management if performance milestones are achieved as determined at the discretion of the Human Resources and Compensation Committee of the Company's Board of Directors. These performance milestones are focused on achievement of key cash management, profitability and revenue growth objectives. Vesting periods and conditions for each Unit granted pursuant to the Westport Omnibus Plan are at the discretion of the Board of Directors and may include time based, share price or other performance targets.

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, 2016, the Company recognized $10,450 (year ended December 31, 2015 - $14,871;

year ended December 31, 2014 – $9,683) 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, 2016, December 31, 2015 and December 31, 2014 are as follows:

STOCK OPTION PLAN SUMMARY

(stock option values expressed in Canadian dollars)	Dec 31, 2016		Dec 31, 2015		Dec 31, 2014	
	#	WAEP	#	WAEP	#	WAEP
Outstanding, beginning of period	9,657,921	$ 7.62	5,337,873	$ 10.27	1,200,591	$ 23.68
Granted	684,402	2.90	5,556,630	6.74	5,792,162	10.54
Exercised / Vested	(845,491)	10.26	(575,024)	11.49	(608,975)	19.52
Forfeited / Expired	(2,832,241)	6.60	(661,558)	10.34	(1,045,905)	21.75
Outstanding, end of year	**6,664,591**	**$ 6.75**	**9,657,921**	**$ 7.62**	**5,337,873**	**$ 10.27**
Options exercisable, end of year	**1,891,008**	**$ 7.77**	**1,150,294**	**$ 9.58**	**142,166**	**$ 11.67**

WAEP = weighted average exercise price (C$)

During 2016, 684,402 (2015 - 5,556,630) share units were granted to employees. This included 684,402 RSUs (2015 - 2,861,630) and nil PSUs (2015 - 2,695,000). 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. PSU awards do not have a certain number of common shares that will issue over time - the number depends on future performance and other conditions tied to the payout of the PSU. The vesting of the 1,695,000 remaining PSU's from the 2015 grant is conditional upon Shareholders of Westport approving an increase in the number of awards available for issuance pursuant to the Westport Omnibus Plan. As a result these PSU's are being treated as a liability until this condition is met.

As at December 31, 2016, $6,594 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 1.2 years.

B. AGGREGATE INTRINSIC VALUES

The aggregate intrinsic value of the Company's share units at December 31, 2016 and 2015 are as follows:

AGGREGATE INTRINSIC VALUES OF SHARE UNITS

(values in CDN$)	Dec 31, 2016	Dec 31, 2015
Outstanding	$ 10,130	$ 26,849
Exercisable	2,874	3,198
Exercised	1,285	1,599

C. STOCK-BASED COMPENSATION

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

STOCK-BASED COMPENSATION IN OPERATING EXPENSES

	Years ended Dec 31		
	2016	2015	2014
Research and development	$ 6,010	$ 9,915	$ 1,749
General and administrative	2,334	$ 2,224	$ 5,884
Sales and marketing	2,106	$ 2,732	$ 2,050
Total	**$ 10,450**	**$ 14,871**	**$ 9,683**

19. Income Taxes

A. PROVISION

INCOME TAX PROVISION

	Years ended Dec 31		
	2016	2015 (Adjusted, Note 8)	2014 (Adjusted, Note 8)
Loss before income taxes	$ (92,563)	$ (98,423)	$ (148,557)
Expected income tax recovery	(24,066)	$ (25,580)	$ (38,628)
Increase (reduction) in income taxes resulting from			
Non-deductible stock-based compensation	2,176	$ 3,553	$ 2,495
Other permanent differences	5,854	$ (76)	$ (446)
Withholding taxes	1,109	$ 1,429	$ 969
Foreign tax rate differences, foreign exchange and other adjustments	(4,561)	$ (138)	$ 7,409
Non-taxable income from equity investment	925	$ (4,313)	$ (4,162)
Change in valuation allowance	32,583	$ 21,036	$ 25,784
Goodwill impairment	—	$ 4,820	$ 4,748
Change in uncertain tax position	301	$ —	$ 1,252
Bargain purchase gain	(9,311)	$ —	$ —
Income tax expense (recovery)	**$ 5,010**	**$ 731**	**$ (579)**

The Company's income tax provision differs from that calculated by applying the combined enacted Canadian federal and provincial statutory income tax rate of 26% for the year ended December 31, 2016 (year ended December 31, 2015 – 26%; year months ended December 31, 2014 – 26%) as follows:

B. DEFERRED INCOME TAX

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

DEFERRED INCOME TAX ASSETS & LIABILITIES

	Dec 31, 2016	Dec 31, 2015
Deferred income tax assets		
Net loss carry forwards	$ 191,685	$ 129,653
Intangible assets	10,319	3,792
Property, plant and equipment	11,829	7,317
Warranty liability	4,072	4,220
Foreign tax creidts	5,233	—
Inventory	4,104	2,206
Research and development	4,710	3,140
Other	17,114	7,831
Total gross deferred income tax assets	249,066	158,159
Valuation allowance	(245,299)	(153,099)
Total deferred income tax assets	3,767	5,060
Deferred income tax liabilities		
Intangible assets	(4,945)	(4,566)
Property, plant and equipment	(596)	(1,177)
Other	(4,262)	(349)
Total deferred income tax liabilities	(9,803)	(6,092)
Total net deferred income tax liabilities	**$ (6,036)**	**$ (1,032)**
Allocated as follows		
Deferred income tax assets	3,767	2,538
Deferred income tax liabilities	(9,803)	(3,570)
Total net deferred income tax liabilities	**$ (6,036)**	**$ (1,032)**

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

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

C. INCOME TAX EXPENSE / RECOVERY

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

INCOME TAX EXPENSE (RECOVERY)

	Net income (loss) before income taxes	Current	Deferred	Total
Year ended Dec 31, 2016				
Canada	$ (100,143)	$ 57	$ 788	$ 845
United States	14,926	7	—	7
Italy	(4,324)	192	1,440	1,632
Other	(3,022)	1,746	780	2,526
	$ (92,563)	**$ 2,002**	**$ 3,008**	**$ 5,010**
Year ended Dec 31, 2015 (Adjusted, note 8(a))				
Canada	$ (44,739)	$ 793	$ 228	$ 1,021
United States	(22,227)	9	—	9
Italy	(20,695)	389	(566)	(177)
Other	(10,762)	54	(176)	(122)
	$ (98,423)	**$ 1,245**	**$ (514)**	**$ 731**
Year ended Dec 31, 2014 (Adjusted, note 8(a))				
Canada	$ (86,143)	$ 165	$ 301	$ 466
United States	(49,577)	8	—	8
Italy	(3,834)	521	(1,463)	(942)
Other	(9,003)	(88)	(23)	(111)
	$ (148,557)	**$ 606**	**$ (1,185)**	**$ (579)**

D. LOSS CARRY-FORWARDS

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

LOSS CARRY-FORWARDS

Expiring in:	2017	2018	2019	2020	2021+	Total
Canada	$ —	$ —	$ —	$ —	$ 437,967	$ 437,967
Italy	—	—	—	—	16,622	16,622
United States	—	—	—	—	110,403	110,403
Sweden	—	—	—	—	18,843	18,843
Other	—	972	6,023	4,632	14,144	25,771
Total	**$ —**	**$ 972**	**$ 6,023**	**$ 4,632**	**$ 597,979**	**$ 609,606**

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. DEFERRED INCOME TAX LIABILITY

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. TAX RESERVES

The Company records uncertain tax positions in accordance with ASC No. 740, Income Taxes. As at December 31, 2016, the total amount of the Company's uncertain tax benefits was $2,745 (year ended December 31, 2015 - $1,230). 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 2013 to 2016 taxation years remain open to examination by the Internal Revenue Service and the 2011 to 2016 taxation years remain open to examination by the Italian Revenue Agency, and various years remain open in the other foreign jurisdictions.

20. Related Party Transactions

The Company is reporting a larger number of related party transactions compared to 2015 as a consequence of the appointments of Mr. Peter Yu (Cartesian financing) and Mr. Mariano Costamagna (Fuel Systems merger) as directors of the Company. Subsequent to year end, Mr. Costamagna resigned from the Board of Directors. The following table sets forth amounts that are included within the captions noted on the consolidated balance sheets, representing related party transactions with the Company:

RELATED PARTY TRANSACTIONS

	Years ended Dec 31	
	2015	**2014**
Receivables		
Entities related to Mariano Costamagna (a)	$ 237	$ —
Cummins Westport Inc. (b)	236	1,165
Ideas & Motion S.r.L. (c)	15	—
Total	**$ 488**	**$ 1,165**
Payables		
Entities related to Mariano Costamagna (a)	**$ 1,191**	**$ —**

A. ENTITIES RELATED TO MARIANO COSTAMAGNA INCLUDE:

Bianco S.p.A, TCN S.r.L., Biemmedue S.p.A, MTM Hydro S.r.L., Immobiliare IV Marzo, Delizie Bakery S.r.L., Galup S.r.L., TCN Vd S.r.L., Europlast S.r.L., A.R.S. Elettromeccanica S.r.L., Ningbo Topclean Mechanical Technology Co. Ltd., and Erretre S.r.L..

B. PURSUANT TO THE AMENDED AND RESTATED JOINT VENTURE AGREEMENT

Westport engages in transactions with CWI (see note 8 (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.

C. IDEAS & MOTION S.R.L

Ideas & Motion S.r.L Is an Italian consulting and services company in which the Company owns an equity ownership interest of 14.28%.

OTHER RELATED PARTY TRANSACTIONS

	2016		2016	
	Purchases	Sales	Purchases	Sales
Related party company				
Entities related to Mariano Costamagna (a)	$ 2,592	$ 412	$ —	$ —
Cummins Westport Inc. (b)	—	2,744	—	5,742
Ideas & Motion S.r.L. (c)	—	43	—	—
Total	**$ 2,592**	**$ 3,199**	**$ —**	**$ 5,742**

D. OTHER TRANSACTIONS WITH RELATED PARTIES:

The Company leases buildings under separate facility agreements from IMCOS Due S.r.L., a real estate investment company owned 100% by Mariano Costamagna and members of his immediate family. The terms of these leases reflect the fair market value of such properties based upon appraisals. The Company made payments to IMCOS Due S.r.L. of $1,475 for the year ended December 31, 2016 (2015 - nil).

Peter Yu, founder and managing partner of Cartesian, was elected as a Director in January 2016 in connection with the Investment Agreement. The convertible debt (note 15(c)) and royalty payable (note 16) are related party balances. In addition, the Company sold a portion of its economic interest in WWI to Cartesian (note 8(b)). The Company has not made any cash payments to Cartesian relating to the convertible debt or royalty payable as at December 31, 2016, but has accrued interest in accordance with the terms of the agreements.

21. 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:

CONTRACTUAL COMMITMENTS	
2017	$ 9,347
2018	9,134
2019	7,686
2020	6,298
2021	4,548
Thereafter	19,996
Total	**$ 57,009**

As disclosed in note 14, the Company has recorded restructuring charges on several leases. Any income received from subleasing the leases will reduce the minimum annual payments required by the Company. For the year ended December 31, 2016, the Company incurred operating lease expenses of $5,675 (year ended December 31, 2015 - $3,763; year ended December 31, 2014 - $3,879).

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.

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

B. PURCHASE COMMITMENTS

The Company purchases components from a variety of suppliers and contract manufacturers. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with suppliers and contract manufacturers. A portion of our reported estimated purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. The Company may be subject to penalties, and may lose important suppliers, if it is unable to meet its purchase commitments. In 2014, the Company entered into several long-term fixed price contracts to purchase parts to produce certain products. These contracts represent firm purchase commitments which are evaluated for potential market value losses. The Company estimated a loss on these firm purchase commitments with reference to the estimated future sales price of these products and recognized a provision for inventory purchase commitments of $4,106 in 2014. The provision is recognized in other payables in accounts payable and accrued liabilities. During 2015 and 2016, no additional loss for provision for inventory purchase commitments was accrued and the provision has been drawn down to $751 as at December 31, 2016.

22. Segment Information

The financial information for the Company's business segments evaluated by the Chief Operating Decision Maker (**"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.

The Company's business operates in four operating segments:

AUTOMOTIVE BUSINESS SEGMENT (PREVIOUSLY BRANDED AS WESTPORT OPERATIONS)

The Westport Fuel Systems Automotive division designs, manufactures and sells compressed Natural Gas (CNG) and liquid petroleum gas (LPG) components and systems for passenger cars and light-duty trucks and medium-duty vehicles including OEM, delayed OEM ("**DOEM**") and Aftermarket. The portfolio of products includes pressure regulators, injectors, electronic control units, valves and filters, in addition to complete bi-fuel, mono-fuel and dual-fuel LPG and CNG conversion kits.

During the first quarter of 2015, the Company realigned the structure of the company's internal organization. The realignment combined, our historical operating segments, Westport Applied Technologies, Westport On-Road Systems and Westport Off-Road Systems into a single operating segment, Automotive Business Segment (previously branded as Westport Operations). This change reflects the manner in which operating decisions and assessing business performance is currently managed by the CODM. As the Company narrows its focus within certain business units, including its investments in joint ventures, and defers certain products and related programs, the CODM manages the combined businesses as a whole. Therefore, the Automotive Business Segment provides more meaningful information to users of the Company's financial statements. All comparable periods presented have been revised to reflect this change.

INDUSTRIAL BUSINESS SEGMENT

The Westport Fuel Systems Industrial division designs and manufactures alternative fuel components and systems for off-road mobile and stationary equipment, and heavy-duty on-road vehicles as well as the development of complete emissions certified and non-certified engines for forklifts and other industrial equipment.

CORPORATE AND TECHNOLOGY INVESTMENTS SEGMENT

The Corporate and Technology Investments segment is responsible for current and advanced research and development programs, corporate oversight, and general administrative duties. The corporate oversight and general administrative duties function for the company is grouped under this unit.

CUMMINS WESTPORT INC. JOINT VENTURE

CWI, our 50:50 joint venture with 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 and street sweepers.

WEICHAI WESTPORT INC. JOINT VENTURE

WWI is a joint venture between Westport, Weichai Holding Group Co. Ltd. (Weichai) and Hong Kong Peterson (CNG) Equipment Ltd. focusing on the Chinese market. WWI develops, manufactures and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach, and heavy-duty truck applications in China or exported to other regions globally. On April 20, 2016, the Company sold a portion of its economic interest in WWI [note 8b] and the Company discontinued reporting of WWI results on an equity basis. As the Company no longer has significant influence in the joint venture, the Company does not consider WWI a business segment.

The accounting policies for the reportable segments are consistent with those described in note 3. The CODM evaluates segment performance based on the net operating income (loss), which is before income taxes and does not include depreciation and amortization, impairment charges, restructuring charges, foreign exchange gains and losses, bank charges, interest and other expenses, interest and other income, gain on sale of long-term investments and bargain purchase gain.

Financial information by business segment as follows:

REVENUE

	Years ended Dec 31		
	2016	2015	2015
Automotive	$ 165,071	$ 100,108	$ 126,988
Industrial	54,662	—	—
Corporate and Technology Investments	5,162	3,196	3,581
CWI	276,465	331,882	337,234
WWI	29,931	185,967	618,465
Total segment revenues	531,291	621,153	1,086,268
Less: equity investees' revenue	(306,396)	(517,849)	(955,699)
Total consolidated revenues	**$ 224,895**	**$ 103,304**	**$ 130,569**

OPERATING LOSS

	Years ended Dec 31		
	2016	2015	2015
Automotive	$ (19,157)	$ (21,855)	$ (35,952)
Industrial	3,746	—	—
Corporate and Technology Investments	(76,118)	(77,283)	(92,456)
Restructuring	(19,000)	—	—
Foreign exchange gain (loss)	(6,408)	11,601	3,433
Impairment of long lived assets, net	(4,843)	(22,722)	(29,604)
Provision for inventory purchase commitments	—	—	(4,106)
CWI	29,782	51,011	21,555
WWI	718	3,784	78,502
Total segment operating loss	(91,280)	(55,464)	(58,628)
Less: equity investees' operating income	(30,500)	(54,795)	(100,057)
Consolidated operating loss	(121,780)	(110,259)	(158,685)

ADDITIONS TO LONG-LIVED ASSETS

	Years ended Dec 31		
	2016	2015	2015
Automotive	$ 3,310	$ 1,350	$ 2,278
Industrial	747	—	—
Corporate and Technology Investments	5,290	3,495	7,971
Total consolidated revenues	**$ 9,347**	**$ 4,845**	**$ 10,249**

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:

REVENUE BY REGION

	% of total product revenue and service and other revenue, years ended Dec 31		
	2016	2015	2014
Europe	54%	48%	47%
Americas (including USA)	32%	40%	42%
Asia	12%	12%	11%
Others	2%	—%	—%

As at December 31, 2016, total goodwill of $2,923 (December 31, 2015 - $3,008) was allocated to the Automotive segment.

As at December 31, 2016, total long-term investments of $12,876 (December 31, 2015 - $34,716) was allocated to the Corporate and Technology Investments segment and $546 (December 31, 2015 - $426) was allocated to Automotive segment.

Long-lived assets information by geographic area:

LONG-LIVED ASSETS BY REGION

	Fixed Assets	Intangible Assets	Total
December 31, 2016			
Italy	$ 26,713	$ 19,942	$ 46,655
Canada	22,157	1,377	23,534
United States	5,613	—	5,613
Rest of Europe	3,119	4,462	7,581
Asia Pacific	3,154	—	3,154
	60,756	25,781	86,537
Less: equity investees' long lived assets	(1,074)	—	(1,074)
Total consolidated long-lived assets	**$ 59,682**	**$ 25,781**	**$ 85,463**
December 31, 2015			
Italy	$ 6,212	$ 19,531	$ 25,743
Canada	18,875	494	19,369
United States	14,210	—	14,210
Rest of Europe	3,076	5,135	8,211
Asia Pacific	7,767	155	7,922
	50,140	25,315	75,455
Less: equity investees' long lived assets	(7,613)	—	(7,613)
Total consolidated long-lived assets	**$ 42,527**	**$ 25,315**	**$ 67,842**

Total assets are allocated as follows:

TOTAL ASSETS

	Dec 31, 2016	Dec 31, 2015
Automotive	$ 241,975	$ 157,452
Industrial	65,717	—
Corporate and Technology Investments and unallocated assets	23,768	56,231
CWI	147,245	171,189
WWI	—	125,724
	478,705	510,596
Less: equity investees' total assets	(147,245)	(296,913)
Total consolidated assets	**$ 331,460**	**$ 213,683**

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

23. 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, 2016, the Company has $60,905 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at December 31, 2016:

CONTRACTUAL OBLIGATIONS & COMMITMENTS

	Carrying amount	Contractual cash flows	Years < 1	1–3	4–5	5+
Accounts payable & accrued liabilities	$ 93,245	$ 93,245	$ 93,245	$ —	$ —	$ —
Subordinated debentures notes[1]	40,463	43,727	43,727	—	—	—
Senior revolving financing[2]	10,553	11,793	1,039	4,026	4,336	2,392
Convertible debt	17,286	24,456	1,575	3,150	19,731	—
Senior financing[3]	9,949	10,476	6,893	767	758	2,058
Capital lease obligations	781	826	473	268	85	—
Long-term royalty payable	21,562	45,979	1,500	9,590	16,776	18,113
Operating lease commitments	10,845	57,009	9,347	16,820	10,846	19,996
Royalty[4]	2,577	3,831	—	3,831	—	—
	$ 207,261	**$ 291,342**	**$157,799**	**$38,452**	**$52,532**	**$42,559**

1. *Includes interest at 9%.*
2. *Includes interest at rates disclosed in note 15(b).*
3. *Includes interest at rates disclosed in note 15(b).*
4. *The Company is obligated to repay funding received from Industrial Technologies Office ("ITO") in the form of royalties equal to the greater of $1,005 (CDN $1,350) or 0.33% of the Company's gross annual revenue from all sources, including CWI, provided that gross revenue exceeds $10,055 (CDN$13,500) in any aforementioned fiscal year, until the earlier of March 31, 2018 or until cumulative royalties total of $21,003 (CDN $28,200) has been repaid. As at December 31, 2016, $2,577 remains accrued in accounts payable and accrued liabilities (December 31, 2015 - $2,387). As at December 31, 2016, cumulative royalties of CDN $12,991 have been paid.*

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 and short-term investments 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, 2016, 91% (December 31, 2015 - 85%) of accounts receivable relates to customer receivables, and 9% (December 31, 2015 - 15%) relates to amounts due from related parties, income tax and value added taxes receivables. 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.

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, 2016 is as follows:

FOREIGN CURRENCY RISK IN BALANCE SHEET

	U.S. dollars
Cash and cash equivalents	$ 9,732
Accounts receivable	9,780
Accounts payable	4,353
Long-term debt, including current portion	17,286
Long-term royalty payable, including current portion	21,562

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, 2016 had increased or decreased by 50 basis points, with all other variables held constant, net loss for the year ended December 31, 2016 would have increased or decreased by $67.

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 Company's short-term investments are recorded at fair value. The long-term investments represent our interest in CWI, which is accounted for using the equity method, and WWI and other investments, which are accounted for using the cost method.

The carrying values reported in the consolidated balance sheet for the unsecured subordinated debenture notes (note 15) is greater than its fair value based on a recent financing the Company performed with Cartesian (note 16). The approximate fair value of the unsecured subordinated debenture notes is approximately $38,848 (CDN $52,159). Additionally, the interest rate on the notes approximates the interest rate being demanded in the market for debt with similar terms and conditions. The carrying value reported in the balance sheet for senior financing agreements (note 15(b)) approximates their fair values as at December 31, 2016, as the interest rates on the debt is floating and therefore approximates the market rates of interest. The Company's credit spread in these subsidiaries also has not substantially changed from the premiums currently paid.

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, 2016, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

24. Subsequent Events

On March 24, 2017, the Company renegotiated its €10,000 senior revolving financing facility. See [note 15b] to these financial statements for details.

Recent Material Announcements

On April 17, 2017, Westport Fuel Systems announced that it had entered into a definitive agreement to sell the assets of its Auxiliary Power Unit (APU) business. On May 1, 2017, Westport Fuels Systems announced that it had closed the sale for net proceeds of approximately $60 million US dollars, after adjusting for estimated net working capital, transaction costs, hold back amounts and other deal related expenses. The divestiture is consistent with Westport Fuel Systems strategy to streamline its business and product lines and focus on alternative fuel solutions for the transportation and automotive industries.

Information for Shareholders

DIRECTORS & EXECUTIVE OFFICERS

Name / position	Residence	Start date	Committees AU	HR	NC
Ashoka Achuthan *CFO*	Chicago, Illinois	Nov 2013			
Andrea Alghisi *COO Automotive and Industrial Group*	Tortona, Italy	June 2016			
Jim Arthurs *Executive Vice President*	North Vancouver, British Columbia	Jan 2014			
Warren J. Baker *Director*	Avila Beach, California	Sep 2002		•	•
Brenda J. Eprile *Chair & Director*	North York, Ontario	Oct 2013	•	•	•
Nancy S. Gougarty *CEO and Director*	Leesville, South Carolina	Feb 2013			
Anthony Harris *Director*	Alameda, California	June 2016	•		•
Colin Johnston *Director*	Turin, Italy	June 2016	•	•	
Jack Keaton *Executive Vice President*	Vancouver, British Columbia	Apr 2014			
Scott Mackie *Director*	Milford, Michigan	Sept 2016	•		
Rodney T. Nunn *Director*	Chatham, Ontario	Mar 2016		•	
Thomas G. Rippon *Executive Vice President*	White Rock, British Columbia	Sep 2013			
Peter M. Yu *Director*	New York City, New York	Jan 2016			

Committees are as follows: AU = Audit; HR = Human Resources & Compensation; NC = Nominating & Corporate Governance

Corporate Information

STOCK LISTINGS

NASDAQ	WPRT
Toronto Stock Exchange	WPRT

Westport Shareholder Services

Shareholders with questions about their account—including change of address, lost stock certificates, or receipt of multiple mail-outs and other related inquiries—should contact our Transfer Agent and Registrar:

Computershare Trust Company of Canada

510 Burrard Street, 2nd Floor,
Vancouver, BC, Canada V6C 3B9
T 604-661-9400 F 604-661-9401

Legal Counsel

Bennett Jones LLP, Calgary, Alberta, Canada

Auditors

KPMG LLP, Independent Registered Public Accounting Firm, Vancouver, British Columbia, Canada

Annual Meeting Of Shareholders

WHEN: Wednesday, June 28, 2017 at 09:00 AM (Eastern)
WHERE: 100 Hollinger Crescent, Kitchener, Ontario

Westport Fuel Systems on the Net

Topics featured can be found on our websites:

WESTPORT FUEL SYSTEMS	wfsinc.com
FUEL FOR THOUGHT (blog)	blog.westport.com
YOUTUBE	youtube.com/westportdotcom
FACEBOOK	facebook.com/westportdotcom
TWITTER	twitter.com/westportdotcom
CUMMINS WESTPORT	cumminswestport.com

The information on these websites is not incorporated by reference into this Annual Report. Financial results, Annual Information Form, news, services, and other activities can also be found on the Westport Fuel Systems website, on SEDAR at sedar.com, or at the SEC at www.sec.gov. Shareholders and other interested parties can also sign up to receive news updates in a variety of formats including email, Twitter, and RSS feeds: westport.com/contact/subscriptions

Contact Information

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Forward-Looking Statements

Certain statements contained in this Annual Report 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 Annual Report contains forward-looking statements pertaining to the following:

- Our efforts to capture operating efficiencies and reduce our expenses and the results of such efforts in the future;
- Future asset sales and right-sizing of Westport's cost structure and the results of such activities; and
- The timing and effect of the launch of Westport HPDI 2.0 commercial components with OEM launch partners.

Such statements reflect management's 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 Westport's Annual Information Form and in the documents incorporated by reference into this Annual Report and other unforeseen risks. Such risks, uncertainties, factors and assumptions include, without limitation:

- 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;
- limitations in our ability to successfully integrate acquired businesses;
- the ability to provide the capital required for research, product development, operations and marketing; and
- risks related to the merger with Fuel Systems Solutions Inc., including, but not limited to: failure to realize the anticipated benefits of the merger with Fuel Systems and to successfully integrate the two companies.

You should not rely on any forward-looking statements. Any forward-looking statement is made only as of the date of this Annual Report. 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 Annual Report are expressly qualified by this cautionary statement.

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