Westport™ Fuel Systems

2021

ANNUAL REPORT TO SHAREHOLDERS

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Table of Contents

Letter to Shareholders

Dear Fellow Shareholders,

Following the COVID pandemic in 2020, and global supply chain disruptions in 2021, your Company is facing the future with a much stronger foundation. Despite the global challenges we and our industry faced, 2021 was a year of strong recovery for Westport Fuel Systems. With record annual revenue, we topped our prior record in 2019, due to growth in our OEM business driven by sales of our patented and proprietary HPDI fuel systems.

We are transforming our business to meet the needs of our OEM customers around the world. The demand for our products continues to grow significantly, as global emissions standards require cleaner transportation and markets are demanding affordable transportation. Our HPDI fuel systems are successfully being integrated into Heavy Duty OEM applications in Europe and China. As the leading alternative fuel systems provider in the passenger car and commercial vehicle segments in India, we continue to serve growing opportunities in this developing market. We are seeing an increased uptick in this key emerging market as government action is dramatically expanding natural gas filling stations, while regulations for lower emissions combined with customer demand for affordable transportation have made India an important growth market for natural gas vehicles. Our products are meeting the demand in countries across Europe, Africa and Asia. Our OEM sales now represent nearly 2/3 of our business, up from 50% before the pandemic.

In May 2021, we were pleased to add Stako to our growing global organization. Integrating their fantastic team members and product portfolio to Westport Fuel Systems continues our journey to supply completely integrated fuel systems. Stako is the world leader in LPG fuel storage for the OEM market as well as serving aftermarket and off-road applications.

At the end of 2021, we successfully concluded our joint venture with Cummins. We now look forward to working with them to conduct an initial technical assessment of our H_2 HPDI™ technology for potential use in Cummins' hydrogen applications.

Our balance sheet today is stronger than it's been since before the 2016 merger of Westport Innovations and Fuel Systems Solutions. Despite the challenges our industry currently faces, the need for clean, affordable transportation continues to be more important than ever. Decision-makers are not waiting for the next technological breakthrough or moonshot idea to make their next move. They are acting now, using our cost-competitive products to reduce their carbon profiles. Our proven track record speaks to the commercial viability of our technology. Westport Fuel Systems, now organized as one global company, is focused on meeting these needs and fulfilling our purpose: Delivering transportation technologies, products and services that are clean and affordable.

We are thrilled to have demonstrated in 2021 that our HPDI technology works brilliantly with zero-carbon hydrogen and enables the most affordable way to use green hydrogen in long haul, heavy-duty transportation applications, and other important high load applications like rail and mining. We believe we have a disruptive, game-changing technology using the internal combustion engine with hydrogen fuel and our HPDI fuel systems. I look forward to updating our shareholders in 2022 as we continue to make further development and commercialization progress.

I want to thank our Board of Directors for their continued guidance and support. And also, I thank my Executive Leadership Team, who together represents a robust set of impressive skills and experience, for their demonstrated endurance and resiliency through the many challenges we face. I'm grateful for their commitment to excellence in the pursuit of our objectives.

The future for your Company remains a strong one. This is our decade.

Sincerely,

David M. Johnson CEO

About Westport Fuel Systems

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

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

10 Brands	**70** Countries	**50+** Years in Business	**>100** Global Distributors	**1,797** Global Workforce

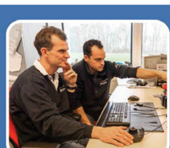
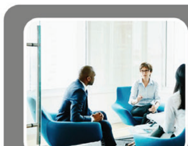
1,400+ Patents	**$312M +** in Revenue	**$13.7M +** in Net Income	**$125M** Cash Balance	**2** Strategic Joint Ventures

2021 Financial Highlights

(US$ millions, except where noted)

	2021	2020	2019	2018	2017
Operations					
Revenue	**$ 312.4**	$ 252.5	$ 305.3	$ 270.3	$ 229.8
Gross margin	**$ 48.2**	$ 39.5	$ 68.2	$ 64.2	$ 60.3
Gross margin %	***15%***	*16%*	*22%*	*24%*	*26%*
Net income (loss) for the year	**$ 13.7**	$ (7.4)	$ —	$ (31.5)	$ (10.0)
EBITDA	**$ 23.0**	$ 16.1	$ 24.9	$ (13.5)	$ (39.2)
Adjusted EBITDA	**$ 17.5**	$ 14.7	$ 28.4	$ 9.6	$ (19.7)
Basic Per Share Amounts (U.S.$ per common share)					
Net income (loss) per share - basic	**$ 0.09**	$ (0.05)	$ 0.00	$ (0.24)	$ (0.08)
Financial Position					
Cash and cash equivalents (including restricted cash)	**$ 124.9**	$ 64.3	$ 46.0	$ 61.1	$ 71.8
Total assets	**471.3**	346.3	279.9	269.9	313.6
Debt, including current portion	**69.4**	85.5	48.9	55.3	54.4
Royalty payable, including current portion	**9.8**	16.2	18.2	20.9	19.0
Shareholder's equity	**236.4**	104.1	89.4	90.7	118.0

ESG Performance Highlights

E		34% Reduction in GHG Emissions	20% Reduction in GHG Intensity	16% Reduction in Energy Intensity	Launched Climate Disclosure to CDP
S		10% Reduction in Lost-Time Injuries	9.8% Voluntary Turnover Rate	36% Global Workforce are Female	18% Senior Management are Female
G		100% Non-Employee Directors are Independent	Gender Diversity Target of Directors Achieved	2 Years Say-On-Pay Advisory Vote	90% Targeted Employees Trained in Anti-Bribery and Corruption

Source: Based on results published in the latest ESG Report September 20, 2021.

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;
- The broadening of our product offerings as Westport Fuel Systems implements its strategic plan;
- Future asset sales and right-sizing of Westport Fuel Systems 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 Fuel Systems 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; and
- the ability to provide the capital required for research, product development, operations and marketing;

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.

Management's Discussion and Analysis

Basis of Presentation

This Management's Discussion and Analysis ("MD&A") for Westport Fuel Systems Inc. ("Westport Fuel Systems", the "Company", "we", "us", "our") for the three months and year ended December 31, 2021 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, 2021 ("Annual Financial Statements"). Our Annual Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the United States dollar ("U.S. dollar"). This MD&A is dated as of March 14, 2022.

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 forward-looking statements include, but are not limited to, statements regarding the impact of the acquisition of Stako sp. zo.o. ("Stako") on our business, the orders or demand for our products (including from our HPDI 2.0™ fuel systems) supply agreement with Weichai Westport Inc. ("WWI"), the timing for the launch of WWI's HPDI 2.0 fuel systems engine, the variation of gross margins from our HPDI 2.0 fuel systems product and causes thereof, margin pressure in 2022 and the timing for amelioration of supply chain issues (including those related to semiconductor supply restrictions), opportunities available to sell and supply our products in North America, the impact of the COVID-19 pandemic (including variants thereof) and the supply and effectiveness of vaccines on future performance, earnings, supply, and demand for our products, consumer confidence levels, the recovery of our revenues and the timing thereof, our ability to strengthen our liquidity, growth in our heavy-duty business and improvements in our light-duty original equipment manufacturer ("OEM") business and timing thereof, improved aftermarket revenues, our capital expenditures, our investments, cash and capital requirements, the intentions of our partners and potential customers, monetization of joint venture intellectual property, the performance of our products, our future market opportunities, our ability to continue our business as a going concern and generate sufficient cash flows to fund operations, the availability of funding and funding requirements, our future cash flows, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, the timing of when we will adopt or meet certain accounting and regulatory standards and the alignment of our business segments.

These forward-looking statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to revenue growth, operating results, liquidity, our industry and products, the general economy, conditions of the capital and debt markets, government or accounting policies and regulations, regulatory investigations, climate change legislation or regulations, technology innovations, as well as other factors discussed below and elsewhere in this report, including the risk factors contained in the Company's most recent AIF filed on SEDAR at www.sedar.com. In addition, the impacts of the COVID-19 pandemic could cause actual results to differ materially from the forward-looking statements contained in this MD&A. The forward-looking statements contained in this MD&A are based upon a number of material factors and assumptions which include, without limitation, market acceptance of our products, product development delays in contractual commitments, the ability to attract and retain business partners, competition from other technologies, the impact of the COVID-19 pandemic, conditions or events affecting cash flows or our ability to continue as a going concern, price differential between compressed natural gas, liquefied natural gas, and liquefied petroleum gas relative to petroleum-based fuels, unforeseen claims, exposure to factors beyond our control as well as the additional factors referenced in our AIF. Readers should not place undue reliance on any such forward-looking statements, which are pertinent only as of the date they were made.

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

Full Year 2021 Highlights

- Revenues of $312.4 million, an increase of 24% as we continue to recover from COVID-19 pandemic's economic impact and global supply chain issues
- Net income of $13.7 million and net income per share of $0.09
- Completed Stako acquisition for a total purchase price of $7.1 million, for which we recognized a bargain purchase gain of $5.9 million.
- Total net proceeds of $120.7 million raised through equity offerings
- Refinanced the Export Development Canada ("EDC") COVID-19 credit facility and non-revolving term facility to a $20.0 million term loan with a maturity date of September 15, 2026
- On November 2, 2021, we announced the award of a tender issued by NAFTAL, a branch of SONATRACH, the national Algerian Oil and Gas company. Westport Fuel Systems will supply 60,000 liquefied petroleum gas systems over the next 18 months with related spare parts for a total value of €9 million
- Attributable Cummins Westport Inc. ("CWI") net income of $33.0 million. On February 7, 2022, we agreed to sell 100% of our shares in CWI to Cummins Inc. for proceeds of approximately $22.2 million, along with our interest in the joint venture's intellectual property for an additional $20.0 million. We received proceeds of $31.4 million, net of a $10.8 million holdback, after the closing date. See CWI section in this MD&A and note 7 in the Annual Financial Statements for more details

Business Overview and General Developments

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

The majority of our revenues are generated through the following businesses:

- Independent aftermarket ("IAM"): We sell systems and components across a wide range of brands, primarily through a global network of distributors that consumers can purchase and have installed onto their vehicles to use LPG or CNG fuels, in addition to gasoline.
- Delayed OEM ("DOEM"): We directly or indirectly convert new passenger cars for OEMs or importers, to address local market needs when a global LPG or CNG bi-fuel vehicle platform is not available directly from the OEM.

- Light-duty OEM: We sell systems and components to OEMs that are used to manufacture new, direct off the assembly line LPG or CNG-fueled vehicles.
- Heavy-duty OEM: We sell systems and components, including HPDI 2.0 fuel system products, to engine OEMs and commercial vehicle OEMs. Our fully integrated HPDI 2.0 fuel systems, enables diesel engines using primarily natural gas fuel to match the power, torque, and fuel economy benefits found in traditional compression ignition engines using only diesel fuel, resulting in reduced greenhouse gas emissions and the capability to cost-effectively run on renewable fuels.
- Electronics: We design, industrialize and assemble electronic control modules.
- Hydrogen: We design, develop, produce and sell hydrogen components for transportation and industrial applications. Also, we are adapting our HPDI fuel systems to use hydrogen or hydrogen/natural gas blends in internal combustion engines. This segment of our business saw substantial growth in 2021 and remained strong in the current quarter.
- Fuel Storage: We manufacture LPG fuel storage solutions and supply fuel storage tanks to the aftermarket, OEM, and other market segments.

HPDI™

Our HPDI™ technology is in the early stage of commercialization in the Heavy-duty OEM segment. Meaningful increases in sales volumes are required for the HPDI 2.0 fuel systems business to benefit from economies of scale. Sales volumes with our initial launch partner have grown year-over-year despite the economic impact of COVID-19 and the related global supply chain challenges. We anticipate additional growth in sales volumes in China, the largest market for natural gas powered commercial vehicles, from our supply arrangement with WWI, as well as additional OEMs entering into supply agreements for our HPDI 2.0 fuel systems technology. In March 2021, we entered into an investment agreement with our Tier 1 global injector manufacturing partner to expand production at their facility in Yantai, China in anticipation of increased demand for fuel injectors to the growing global market for HPDI 2.0 fuel systems. During the first quarter of 2021, WWI agreed to extend the term of the original supply agreement signed in 2018 to December 31, 2024 and increased the minimum purchase of HPDI 2.0 fuel systems components required to produce a minimum of 25,000 engines by the end of 2024, up from 18,000 engines.

Gross margin and gross margin percentage from our HPDI 2.0 fuel systems product will vary based on production and sales volumes, levels of development work, successful implementation of initiatives to reduce the cost input materials, and foreign exchange rates. Margin pressure is expected to continue through 2022 as production costs and contracted price discounts with the existing OEM customers are only partially offset by cost reductions of materials until higher scale is achieved. Although production challenges caused by supply chain issues experienced by our initial OEM launch partner negatively impacted our sales volumes of HPDI 2.0 fuel systems products in 2021, sales volumes to our initial OEM launch partner improved in the fourth quarter of 2021 as production increased to meet end-customer demand.

CWI

We generated a significant portion of our income from CWI, our 50:50 joint venture with Cummins, Inc. ("Cummins"), by selling spark-ignited natural gas engines. The joint venture term ended on December 31, 2021 as per the joint venture agreement. On February 7, 2022, we agreed to sell 100% of our shares in CWI for proceeds of approximately $22.2 million, with Cummins continuing to operate the business as the sole owner. As part of the agreement, Cummins also agreed to purchase our interest in the intellectual property for proceeds of $20.0 million. We received proceeds of $31.4 million, net of a $10.8 million holdback, after the closing date. The holdback will be retained by Cummins for a term of three years to satisfy any extended warranty obligations in excess of the current recorded extended warranty obligation. Any unused amounts will be repaid to us at the end of the three-year term. Cummins agreed to conduct an initial technical assessment of our hydrogen high pressure direct injection system for potential use on Cummins' hydrogen applications. We believe an integrated solution for natural gas and/or hydrogen using HPDI 2.0 fuel systems has an important role to play in the North American market as part of ongoing efforts to reduce carbon in heady-duty transportation applications.

Russia-Ukraine Conflict

We conduct a substantial portion of our LD OEM and IAM businesses in Russia by selling our products to numerous OEMs and other IAM customers. This Russian business has been a growing and important market for gaseous fuel systems and components. Due to the Russian invasion of Ukraine in late February 2022, the United States, European Union, Canada and other Western countries and organizations have announced and enacted numerous sanctions against Russia to impose severe economic pressure on the Russian economy and government. Potential consequences of the sanctions that could impact our business in Russia include but are not limited to: (1) limiting and/or banning the use of the SWIFT financial and payment system by Russian entities to buy and pay for our products; (2) devaluation of the Ruble and the related impact on applicable exchange rates to negatively impact the competitiveness of our products; (3) government-owned entities (or partially owned entities) being potentially limited by sanctions from purchasing our products; and (4) a general deterioration of the Russian economy which may limit the ability for end customers to purchase our products. The full impact of the commercial and economic consequences of the conflict are uncertain at this time, and we cannot provide assurance that future developments in the Russian-Ukraine conflict would not have an adverse impact on the ongoing operations and financial condition of our business in Russia.

Liquidity and Impact of COVID-19 on our Business

The COVID-19 pandemic has had a significant impact on our businesses since March 2020 which led to temporary closure of production plants in Northern Italy in the first half of 2020. Since the second half of 2020, our sales and customer demand have continued to recover and our production plants have since remained open and have been in normal production operations during the full year of 2021. We continue to face ongoing global supply chain disruptions commonly experienced throughout the automotive industry (including shortages of raw materials and semiconductors, and cost inflation).

While we are cautiously optimistic about 2022, the global supply and effectiveness of vaccines and spread of new virus variants may adversely affect customer demand going forward and have a negative impact on our supply chain.

Global Supply Chain Challenges and Shortage of Semiconductors

The automotive industry and Westport Fuel Systems are currently experiencing global supply chain challenges to source semiconductors and other inputs to production due to supply shortages. While demand for more climate-friendly vehicles with favorable fuel price economics is growing, the global shortage of semiconductors and raw materials is impacting automotive manufacturing and creating bottlenecks. We expect the global semiconductor supply and raw materials shortage affecting the automotive industry will continue to impact our business for the foreseeable future. We are closely monitoring and making efforts to mitigate the impact of COVID-19 and the global shortage of semiconductors, raw materials and parts on our businesses, however, we do not expect this shortage to impact our long-term growth.

Demand for medium- and heavy-duty trucks has increased due to an ongoing need for freight transportation and the growing demand for more climate-friendly vehicles in markets with favorable fuel price economics. Sales of our HPDI 2.0 fuel systems to our OEM launch partner continue to be adversely affected by the impact of the continued global shortage of semiconductors experienced by our OEM launch partner on its manufacturing production levels, that included temporary plant shutdowns during the third quarter of 2021. Although sales orders and production levels for trucks equipped with HPDI 2.0 fuel systems increased significantly in the fourth quarter of 2021 and are expected to ramp up in 2022, the risk of production delays due to supply chain challenges remain.

Further, we are experiencing supply chain challenges and high price inflation sourcing semiconductors, raw materials and parts for our other OEM and IAM businesses. The situation is evolving daily and could become material in the event of a prolonged supply chain disruption that results in production delays or end-customer demand declines.

Fuel Prices

There have been significant increases and continued global gaseous price fluctuations including LPG, LNG, and CNG for the year but also for liquid fuels including crude oil, diesel, and gasoline, which continue to persist due to uncertainty in supply levels and geopolitical risk. Fuel price increases of gaseous fuels that negatively impact the price differential of gaseous fuels versus diesel and gasoline, may impact our potential customers' decision to adopt such gaseous fuels as a transportation energy solution in the short term. Since the fourth quarter of 2021, we have observed softness in demand caused by the continued uncertainty of the elevated prices of gaseous fuels relative to diesel and gasoline. At this time, management is uncertain as to the duration of the price fluctuations and its impact on sales volumes, but remain cautiously optimistic that price differentials will return to historically normal ranges in the long term.

Long-term Profitability and Liquidity

During 2021, we raised $120.7 million through equity offerings to expand the production capacity of our HPDI 2.0 fuel systems products to meet customer demand, and to advance the research and development of our HPDI technology to decarbonize transportation economically and efficiently, including through the use of hydrogen fuel. The remainder of the proceeds will be allocated for potential acquisitions of bolt-on businesses that offer complementary capabilities or technologies to existing businesses and to further strengthen the balance sheet. We also successfully restructured $18.0 million of debt with EDC into a new five-year $20.0 million term loan with the support of the creditor to strengthen our liquidity and reduce our cost of capital through debt financing to align with our investment profile and expected cash flows of our HPDI business. Besides these financing activities, we participate in government wage-subsidy and other support programs in the countries where we operate when available. We have recorded $1.1 million in the year ended December 31, 2021 (December 31, 2020 - $6.1 million) related to these programs.

We believe that we have considered all possible impacts of known events arising from the COVID-19 pandemic in the preparation of the Annual Financial Statements for the year ended December 31, 2021. However, changes in circumstances due to COVID-19 could impact our judgments and estimates associated with the liquidity and impact of COVID-19 assessment and other critical accounting assessments.

We continue to sustain operating losses and negative cash flows from operating activities for the year. Despite the successful monetization of the CWI joint venture's intellectual property and the wind-up of CWI described above, the loss of income from the equity interest in the former CWI business will have a significant near-term impact on our annual cash flows from recurring operating losses as our Heavy-duty OEM business scales to profitable growth.

As at December 31, 2021, we have cash and cash equivalents of $124.9 million and cash used in operating activities of $43.8 million for the year ended December 31, 2021. The ability to continue as a going concern beyond March 2023 will be dependent on our ability to generate sufficient positive cash flows from operations specifically through profitable, sustainable growth of the HPDI business and on our ability to finance our long term strategic objectives and operations. If, as a result of future events, we were to determine we were no longer able to continue as a going concern, significant adjustments would be required to the carrying value of assets and liabilities in the accompanying Annual Financial Statements and the adjustments could be material.

Overview of Financial Results for 2021

Revenues of $312.4 million for the year ended December 31, 2021 were higher by 24%, compared to $252.5 million in the prior year, due to the continued recovery of sales volumes in our OEM and IAM businesses and the addition of $13.8 million in revenue from our recently acquired fuel storage business.

We reported net income of $13.7 million for the year ended December 31, 2021 compared to net loss of $7.4 million for the prior year. The $21.0 million increase was primarily the result of:

- increases in gross margin of $8.7 million from higher sales volumes,
- higher equity income from CWI of $9.2 million,
- bargain purchase gain of $5.9 million from the acquisition of Stako,

- income tax recovery of $8.1 million compared to an income tax expense of $1.4 million in the prior year,
- decrease in interest on long-term debt and accretion of royalty payable of $3.0 million and,
- higher interest and other income, offset by increases in expenditures in research and development and in general and administrative expenditures including lower government wage subsidy and support programs received, and lower foreign exchange gain.

We reported $17.5 million Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), see "Non-GAAP Measures" section in the MD&A) during the year ended December 31, 2021, compared to $14.7 million in the prior year.

Selected Annual Financial Information

Selected Consolidated Statements of Operations Data

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

SELECT CONSOLIDATED STATEMENTS OF OPERATIONS DATA

	Years ended Dec 31		
(expressed in millions of U.S. dollars, except per share amounts and shares outstanding)	2021	2020	2019
Revenue	$ 312.4	$ 252.5	$ 305.3
Gross margin[1]	$ 48.2	$ 39.5	$ 68.2
Gross margin %[1]	15 %	16 %	22 %
Loss from operations	$ (30.5)	$ (22.0)	$ (21.4)
Income from investments accounted for by the equity method	$ 33.7	$ 24.0	$ 26.7
Net income (loss)	$ 13.7	$ (7.4)	$ —
Net income (loss) per share - basic	$ 0.09	$ (0.05)	$ 0.00
Net income (loss) per share - diluted	$ 0.08	$ (0.05)	$ 0.00
Weighted average basic shares outstanding (millions)	160.2	137.1	134.2
Weighted average diluted shares outstanding (millions)	162.1	137.1	144.1
EBIT[1]	$ 9.0	$ 2.1	$ 8.6
EBITDA[1]	$ 23.0	$ 16.1	$ 24.9
Adjusted EBITDA[1]	$ 17.5	$ 14.7	$ 28.4

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

SELECT CONSOLIDATED STATEMENTS OF OPERATIONS DATA

(expressed in millions of U.S. dollars, except per share amounts and shares outstanding)	Three months ended Dec 31 2021	2020
Revenue	$ 82.7	$ 83.9
Gross margin[1]	$ 9.3	$ 13.0
Gross margin %[1]	11 %	15 %
Loss from operations	$ (10.0)	$ (0.7)
Income from investments accounted for by the equity method	$ 15.0	$ 9.9
Net income (loss)	$ 5.4	$ 4.1
Net income per share - basic	$ 0.04	$ 0.03
Net income per share - diluted	$ 0.03	$ 0.03
Weighted average basic shares outstanding (millions)	170.8	138.5
Weighted average diluted shares outstanding (millions)	172.7	143.5
EBIT[1]	$ 4.9	$ 9.3
EBITDA[1]	$ 8.4	$ 13.1
Adjusted EBITDA[1]	$ 10.0	$ 8.1

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

Selected Balance Sheet Data

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

SELECTED BALANCE SHEET DATA

(expressed in millions of U.S. dollars)	Years ended Dec 31 2021	2020
Cash and cash equivalents	$ 124.9	$ 64.3
Net working capital[1]	96.7	64.7
Total assets	471.3	346.3
Short-term debt	13.0	23.4
Long-term debt, including current portion	56.4	62.1
Royalty payable, including current portion	9.8	16.2
Non-current liabilities[1]	38.6	40.9
Total liabilities	234.9	242.2
Shareholder's equity	236.4	104.1

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

Results from Operations

Operating Segments

We manage and report the results of our business through three segments: OEM, IAM, and Corporate. This reflects the way operating decisions and the assessment of business performance is currently managed by the Chief Operating Decision Maker ("CODM"). As discussed in note 7 of the Annual Financial Statements, the CWI joint venture ended as at December 31, 2021 and our 50% share in the joint venture was sold to Cummins on February 7, 2022. We recorded the investment as asset held for sale as at December 31, 2021 and no longer considered it as an operating segment, however the income from the investment in the CWI joint venture remained as the Corporate equity income in 2021. The comparative segment information below was also adjusted.

OEM BUSINESS SEGMENT

Our OEM segment designs, manufactures, and sells alternative fuel systems, components and electronics, including the HPDI 2.0 fuel systems product and related engineering services, to OEMs and to supplier OEMs. Our diverse product offerings are sold under established global brands and utilize a broad range of alternative fuels, which have numerous environmental and economic advantages including: LPG, CNG, LNG, RNG, and hydrogen. The OEM business segment's products and services are available for passenger cars, light-, medium- and heavy-duty trucks, cryogenics, and hydrogen applications. The OEM group includes the light-duty and heavy-duty OEM product lines and the DOEM and electronic and fuel storage businesses.

IAM BUSINESS SEGMENT

Our IAM segment designs, manufactures, and sells alternative fuel systems and components that consumers can purchase and have installed onto their vehicles to use LPG or CNG fuels in addition to gasoline. Distribution of such products is realized through a comprehensive distribution network (in more than 70 countries) selling our products to the workshops that are responsible for conversion, maintenance and service.

CWI JOINT VENTURE

CWI was the leading supplier of natural gas engines to the North American medium and heavy-duty truck and transit bus industries. CWI engines were 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. The purpose of the joint venture was to engage in the business of developing, marketing and selling spark-ignited natural gas or propane engines for on-highway use. CWI utilizes Cummins' supply chain, back office systems and distribution and sales networks. CWI was a Delaware corporation owned 50% by Westport Fuel Systems Canada Inc., a wholly-owned subsidiary of Westport Fuel Systems, and 50% by Cummins.

On February 7, 2022, Westport Fuel Systems and Cummins agreed to a share purchase agreement for the sale of its stake in CWI with Cummins continuing to operate the business as the sole owner. As part of the agreement, Cummins also agreed to purchase our interest in the intellectual property with proceeds to us from the sale of such intellectual property of $20.0 million. We received proceeds of $31.4 million, net of $10.8 million holdback, after the closing date. The holdback fund will be retained by Cummins for a term of three years to satisfy any extended warranty obligations in excess of the current extended warranty obligation. Any unused amounts will be repaid to the Company at the end of the three-year term.

CORPORATE BUSINESS SEGMENT

The Corporate business segment is responsible for public company activities, corporate oversight, financing, capital allocation and general administrative duties, such as securing our intellectual property.

	Three months ended December 31, 2021			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income (loss)
OEM	$ 57.4	$ (5.0)	$ 2.1	$ 0.3
IAM	25.3	(1.3)	1.4	—
Corporate	—	(3.7)	0.1	14.7
Total consolidated	$ 82.7	$ (10.0)	$ 3.6	$ 15.0

	Three months ended December 31, 2020			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	$ 58.8	$ (3.0)	$ 2.2	$ 0.5
IAM	25.1	1.3	1.6	—
Corporate	—	0.9	—	9.4
Total consolidated	$ 83.9	$ (0.8)	$ 3.8	$ 9.9

Revenue

OEM

Revenue for the three months and year ended December 31, 2021 was $57.4 million and $195.5 million, respectively, compared with $58.8 million and $149.6 million for the three months and year ended December 31, 2020. OEM revenue decreased by $1.4 million in the fourth quarter mainly due to decrease in sales for our heavy-duty OEM impacted by year-over-year contractual HPDI 2.0 fuel systems price reductions to our initial OEM launch partner, partially offset by additional revenue of $6.7 million from the acquired fuel storage business.

OEM revenue increased by $45.9 million for the year. The increase was mainly due to higher sales in heavy-duty OEM, light-duty OEM, $13.8 million additional revenue from the acquired fuel storage business, and increased sales due to growth in our electronics business. The impact of COVID-19 was significant in the prior year period, which was impacted by plant shutdowns combined with lower light-duty OEM sales to German and Russian OEMs. Heavy-duty OEM revenue was higher year-over-year and reflects higher sales volume, partially offset by year-over-year HPDI contractual price reductions, the impact on customer demand due to manufacturing delays caused by the shortage of semiconductors on our initial OEM launch partner.

IAM

Revenue for the three months and year ended December 31, 2021 was $25.3 million and $116.9 million, respectively, compared with $25.1 million and $102.9 million for the three months and year ended December 31, 2020. Revenue for the three months and year ended December 31, 2021 for the IAM business segment increased by $0.2 million and $14.0 million, respectively, primarily due to higher sales to African and South American markets, offset by softness in demand from the Russian and Turkish markets due to the rapid increase in LPG prices. We expect to see continued improvement in revenues from the IAM business segment for the full year of 2022, but temper expectations in the near term due to the elevated LPG prices in our key markets.

REVENUE FOR THE THREE MONTHS AND YEARS ENDED

	Three months ended December 31		Change		Years ended December 31		Change	
(expressed in millions of U.S. dollars)	2021	2020	$	%	2021	2020	$	%
OEM	$ 57.4	58.8	(1.4)	(2)%	195.5	149.6	45.9	31 %
IAM	$ 25.3	$ 25.1	$ 0.2	1 %	$ 116.9	$ 102.9	$ 14.0	14 %
Total Revenue	$ 82.7	$ 83.9	$ (1.2)	(1)%	$ 312.4	$ 252.5	$ 59.9	24 %

Gross Margin for the Three Months Ended December 31, 2021

OEM

Gross margin decreased year-over-year by $1.5 million to $5.1 million, or 9% of revenue, for the three months ended December 31, 2021 compared to $6.6 million, or 11% of revenue, for the same prior year period. The decrease in the fourth quarter gross margin and gross margin as a percentage of revenue were mainly due to an increase in material costs stemming from the global supply chain disruption across all business segments, change in sales mix for light-duty OEM and aforementioned year-over-year HPDI contractual price reductions, partially offset by additional gross margin from the acquired fuel storage business.

IAM

Gross margin decreased year-over-year by $2.2 million to $4.2 million, or 17% of revenue, for the three months ended December 31, 2021 compared to $6.4 million, or 25% of revenue, for the same prior year period. The decrease in gross margin and gross margin percentage was due to change in sales mix toward lower margin in the African market and higher material costs due to the global supply chain disruption. The prior year also benefited from government subsidies, which resulted in a higher gross margin percentage.

GROSS MARGIN FOR THE THREE MONTHS ENDED

	Three months ended Dec 31				Change	
(expressed in millions of U.S. dollars)	2021	% of revenue	2020	% of revenue	$	%
OEM	$ 5.1	9 %	$ 6.6	11 %	$ (1.5)	(23)%
IAM	4.2	17%	6.4	25%	(2.2)	(34)%
Total gross margin	$ 9.3	11 %	$ 13.0	15 %	$ (3.7)	(28)%

Gross Margin for the Year Ended December 31, 2021

OEM

Gross margin increased year-over-year by $8.1 million to $20.4 million, or 10% of revenue, for the year ended December 31, 2021 compared to $12.3 million, or 8% of revenue, for the prior year. The increase in gross margin was due to higher sales volumes for HPDI 2.0 fuel system products and higher service revenue from heavy-duty OEM, increased sales volume in our light-duty OEM, and additional gross margin of $3.2 million from the acquired fuel storage business, partially offset by contractual HPDI price reductions and higher material costs. The prior year was impacted by a net warranty charge of $2.4 million related to the field service campaign of the pressure relief device for light-duty OEM vehicles.

IAM

Gross margin increased by $0.6 million to $27.8 million, or 24% of revenue, for the year ended December 31, 2021 compared to $27.2 million, or 26% of revenue, for the prior year. The decrease in gross margin as a percentage of revenue was due to change in sales mix toward lower margin African markets and higher material costs. The prior year also benefited from government subsidies, which resulted in a higher gross margin percentage.

GROSS MARGIN FOR THE YEARS ENDED

	Years ended Dec 31				Change	
(expressed in millions of U.S. dollars)	2021	% of revenue	2020	% of revenue	$	%
OEM	$ 20.4	10 %	$ 12.3	8 %	$ 8.1	66 %
IAM	27.8	24%	27.2	26%	0.6	2 %
Total gross margin	$ 48.2	15 %	$ 39.5	16 %	$ 8.7	22 %

Research and Development Expenses ("R&D")

OEM

R&D expenses for the three months and year ended December 31, 2021 were $3.1 million and $19.3 million, respectively, compared to $4.9 million and $16.4 million for the same prior year periods. The decrease in the current quarter R&D expenses of $1.8 million is due to an increase in R&D activity in the last quarter of 2020 from shutdowns and delayed projects during COVID-19 pandemic. The increase in R&D expenses of $2.9 million for the year is primarily due to investments in improving and evolving HPDI technology. The prior year comparative periods include lower compensation expense in response to COVID-19 pandemic.

IAM

R&D expenses for the three months and year ended December 31, 2021 were $1.7 million and $5.9 million, respectively, compared to $1.4 million and $4.2 million for the same prior year periods. The increase in R&D expenses of $0.3 million for the quarter and $1.7 million for the year are primarily due to higher compensation expense as R&D projects resumed in the current year. The prior year comparative periods include lower compensation expense in response to the COVID-19 pandemic and higher government wage subsidies received in 2020.

RESEARCH & DEVELOPMENT FOR THE THREE MONTHS AND YEARS ENDED

	Three months ended December 31		Change		Years ended December 31		Change	
(expressed in millions of U.S. dollars)	2021	2020	$	%	2021	2020	$	%
OEM	$ 3.1	$ 4.9	$ (1.8)	(37)%	$ 19.3	$ 16.4	$ 2.9	18 %
IAM	1.7	1.4	0.3	21 %	5.9	4.2	1.7	40 %
Corporate	—	0.1	(0.1)	(100)%	—	0.4	(0.4)	(100)%
Total R&D	$ 4.8	$ 6.4	$ (1.6)	(25)%	$ 25.2	$ 21.0	$ 4.2	20 %

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

OEM

SG&A expenses for the three months and year ended December 31, 2021 were $6.1 million and $20.5 million, respectively, compared to $3.6 million and $13.4 million for the same prior year periods. The increases of $2.5 million and $7.1 million for the respective periods are mainly due to resumption of activities to pre-COVID-19 levels, lower government wage subsidies and support programs received, and to a lesser extent, a 3.4% increase in the average Euro rate versus the U.S. dollar rate year-over-year that resulted in higher compensation expense.

IAM

SG&A expenses for the three months and year ended December 31, 2021 were $3.1 million and $16.8 million, respectively, compared to $3.0 million and $13.6 million for the same prior year periods. The increase of $3.2 million for the year is due to resumption of activities to pre-COVID-19 levels, lower government wage subsidies and support programs received, and to a lesser extent, a 3.4% increase in the average Euro rate versus the U.S. dollar rate year-over-year that resulted in higher compensation expense.

Corporate

SG&A expenses for the three months and year ended December 31, 2021 were $3.1 million and $12.5 million, respectively, compared to $4.3 million and $11.1 million for the same prior year periods. The decrease of $1.2 million in the current quarter is due to lower compensation expense. The increase of $1.4 million for the year is mainly due to resumption of activities to pre-COVID-19 levels, lower government wage subsidies and support programs received, and to a lesser extent, a 6.7% increase in the average Canadian dollar rate versus the U.S. dollar rate year-over-year that resulted in higher compensation expense.

SALES AND MARKETING, GENERAL AND ADMINISTRATIVE FOR THE THREE MONTHS AND YEARS ENDED

	Three months ended December 31		Change		Years ended December 31		Change	
(expressed in millions of U.S. dollars)	2021	2020	$	%	2021	2020	$	%
OEM	$ 6.1	$ 3.6	$ 2.5	69 %	$ 20.5	$ 13.4	$ 7.1	53 %
IAM	3.1	3	0.1	3 %	16.8	13.6	3.2	24 %
Corporate	3.1	4.3	(1.2)	(28)%	12.5	11.1	1.4	13 %
Total SG&A	$ 12.3	$ 10.9	$ 1.4	13 %	$ 49.8	$ 38.1	$ 11.7	31 %

Selected CWI Statements of Operations Data

We account for CWI using the equity method of accounting. However, due to its significance to our operating results, we disclose CWI's assets, liabilities and income statement in note 7 of our Annual Financial Statements and discuss revenue and gross margins in this MD&A. The following table sets forth a summary of the financial results of CWI for the years ended December 31, 2021 and 2020, and three months ended December 31, 2021 and 2020:

	Three months ended December 31,		Change		Years ended December 31,		Change	
	2021	2020	$	%	2021	2020	$	%
(expressed in millions of U.S. dollars except for number of units)								
Unit sales	2,648	2,288	360	16 %	8,290	7,065	1,225	17 %
Product revenue	$ 79.6	$ 70.9	$ 8.7	12 %	$252.1	$219.2	$ 32.9	15 %
Parts revenue	$ 32.1	$ 25.1	$ 7.0	28 %	$115.4	$104.3	$ 11.1	11 %
Total revenue	$111.7	$ 96.0	$ 15.7	16 %	$367.5	$323.5	$ 44.0	14 %
Gross margin	$ 39.2	$ 28.5	$ 10.7	38 %	$ 99.1	$ 87.3	$ 11.8	14 %
Gross margin %	35 %	30 %			27 %	27 %		
Net income before income taxes	$ 33.3	$ 24.5	$ 8.8	36 %	$ 78.9	$ 62.0	$ 16.9	27 %
Net income	$ 29.5	$ 18.7	$ 10.8	58 %	$ 65.9	$ 47.5	$ 18.4	39 %
Net income attributable to the Company	$ 14.8	$ 9.4	$ 5.4	57 %	$ 33.0	$ 23.8	$ 9.2	39 %

Revenue for the three months ended December 31, 2021

Revenue for the three months ended December 31, 2021 was $111.7 million compared to $96.0 million year-over-year. Unit sales for the three months ended December 31, 2021 were 2,648 compared to 2,288 year-over-year. The increase in unit sales was due to the timing of sales from the slowdown in Q3 2021 due to supply chain issues. Parts revenue for the three months ended December 31, 2021, was $32.1 million compared to $25.1 million year-over-year.

Revenue for the year ended December 31, 2021

Revenue for the year ended December 31, 2021 was $367.5 million compared to $323.5 million year-over-year. Unit sales for the year ended December 31, 2021 were 8,290 compared to 7,065 for the prior year. Unit sales were higher during the year ended December 31, 2021 compared to the prior year reflecting the impact of OEM factory shutdowns in April and May 2020 in response to the COVID-19 pandemic. Parts revenue for the year ended December 31, 2021 was $115.4 million compared to $104.3 million for the prior year.

Gross Margin for the three months ended December 31, 2021

Gross margin increased by $10.7 million to $39.2 million from $28.5 million, for the current quarter due to the favorable warranty adjustment in the current quarter. The increase in gross margin percentage from 30% to 35% of revenue in the current quarter is largely driven by increases in sales volume of high-margin parts revenue.

Gross Margin for the year ended December 31, 2021

Gross margin increased by $11.8 million to $99.1 million from $87.3 million, mainly due to higher revenue compared to the prior year period. The gross margin percentage has remained consistent year-over-year.

Other Significant Expense and Income Items

Foreign exchange gains and losses reflect net realized gains and losses on foreign currency transactions and net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly comprised of cash and cash equivalents, assets held for sale, accounts receivable and accounts payable. In addition, we have foreign exchange exposure on Euro denominated monetary assets and liabilities where the functional currency of the subsidiary is not the Euro. For the year ended December 31, 2021, we recognized a foreign exchange gain of $2.0 million compared to a foreign exchange gain of $4.3 million for the year ended December 31, 2020. The gain recognized in the current year primarily relates to unrealized foreign exchange gains that resulted from the translation of U.S. dollar cash balances partially offset by the translation of the U.S. dollar denominated debt in our Canadian legal entities.

Depreciation and amortization for the years ended December 31, 2021 and December 31, 2020 were $14.0 million for both periods. The amounts included in cost of revenue for the same periods were $8.7 million and $7.8 million, respectively. Depreciation and amortization has remained consistent year-over-year.

Income from investments primarily relates to our 50% interest in CWI, accounted for by the equity method. See the "Selected CWI Statements of Operations Data" section in this MD&A for more detail.

Interest on debt and amortization of discount

(expressed in millions of U.S. dollars)	**Three months ended December 31,**		**Years ended December 31,**	
	2021	2020	2021	2020
Interest expense on long-term debt	$ 0.7	$ 1.7	$ 3.6	$ 4.3
Royalty payable accretion expense	(0.1)	1.6	1.4	3.7
Total interest on long-term debt and accretion on royalty payable	$ 0.6	$ 3.3	$ 5.0	$ 8.0

The decrease in interest expense on long-term debt for the three months ended December 31, 2021 compared to prior year period was mainly due to our refinancing efforts during the COVID-19 pandemic, with lower cost of borrowing achieved through government-sponsored debt programs in Canada and Italy and the conversion of the convertible notes held by Cartesian (defined in note 15 in our Annual Financial Statements) on January 21, 2021 and August 31, 2021. The royalty payable accretion expense decreased as we continued to make repayments as scheduled and adjusted the current quarter accretion expense due to a change in estimate on future royalty repayments.

Bargain purchase gain from acquisition of Stako was $5.9 million as the fair value of assets acquired and liabilities assumed exceeded the total transaction date fair value of consideration paid. See note 4 in our Annual Financial Statements for more details.

Income tax recovery for the year ended December 31, 2021 was $8.1 million compared to $1.4 million of income tax expense in the prior year. This was primarily related to recognition of the tax benefits of a step up in the tax basis of certain of our Italian assets. This step up was a result of recent measures introduced in Italy by art. 110 of the Law Decree No. 104/2020 converted in the Law n. 126/2020, enacting "Urgent measures to support and relaunch the economy".

Capital Requirements, Resources and Liquidity

Our cash and cash equivalents, including restricted cash, increased by $60.6 million to $124.9 million from $64.3 million at December 31, 2020. The increase was directly attributed to the marketed public offering of common shares and the at-the-market ("ATM") offering conducted during the year, offset by the cash outflows described below. Refer to note 18 in our Annual Financial Statements for details on the marketed public offering and the ATM program for more details.

COVID-19 and its related economic impact on customer demand and our supply chain materially impacted our business. We were able to access various government supports related to the COVID-19 pandemic, and we have significantly strengthened our balance sheet by negotiating more attractive financing rates, and extending maturity of our debt to ensure sufficient liquidity to meet obligations.

Cash Flow from Operating Activities

For the year ended December 31, 2021, net cash flow used in operating activities increased by $8.7 million to $43.8 million, from the $35.1 million in the year ended December 31, 2020. The increase in cash used in operating activities is primarily due to the increase in inventory in anticipation for next year's customer demands and increases in operating expenditures.

Cash Flow from Investing Activities

Our net cash flows from investing activities consisted primarily of cash acquired through dividends received from joint ventures, offset by purchases of property, plant and equipment and the acquisition of Stako, net of acquired cash.

For the year ended December 31, 2021, our net cash flows received from investing activities were $2.3 million compared to $13.8 million for the year ended December 31, 2020. The decrease in net cash flows compared to the prior year is due to increase in capital expenditures by $7.3 million to $14.2 million, and the acquisition of Stako for $5.9 million. The dividends received from our joint ventures were comparable year-over-year.

Cash Flow from Financing Activities

For the year ended December 31, 2021, our net cash flows from financing activities were $104.7 million, an increase of $65.0 million compared to net cash flows from financing activities of $39.7 million during the year ended December 31, 2020. In 2021, we received $12.8 million in net proceeds from the issuance of 1,819,712 common shares through our ATM equity offering in the first quarter of 2021. We also received $107.9 million, net of transaction costs, from a marketed public offering which closed on June 8, 2021. We amended our term loan with EDC in the fourth quarter of 2021, which resulted in $1.0 million additional borrowings, net of repayments. This was offset by repayment of the royalty payable to Cartesian of $7.5 million and a net decrease of $4.5 million in the drawdown from our revolving financing facility with HSBC.

Contractual Obligations and Commitments

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	$ 99.2	$ 99.2	$ 99.2	$ —	$ —	$ —
Short-term debt[1]	13.0	13.0	13.0	—	—	—
Long-term debt, principal[2]	56.4	56.4	11.3	24.8	19.7	0.6
Long-term debt, interest[2]	—	6.0	2.2	2.9	0.9	—
Long-term royalty payable[3]	9.9	13.5	5.1	5.4	2.9	—
Operating lease commitments[4]	28.6	32.8	4.2	6.6	4.6	17.4
	$ 207.2	**$ 221.0**	**$ 135.0**	**$ 39.5**	**$ 28.2**	**$ 18.0**

1. *For details of our short-term debt, see note 14 of the Annual Financial Statements.*

2. *For details of our long-term debt, principal and interest, see note 15 of the Annual Financial Statements.*
3. *For additional information on the long-term royalty payable, see note 16 of the Annual Financial Statements.*
4. *For additional information on operating lease obligations, see note 13 of the Annual Financial Statements.*

Shares Outstanding

For the year ended December 31, 2021, the weighted average number of shares used in calculating the income per share was 160,232,742. During the year ended December 31, 2021, 875,703 share units were granted to directors, executives and employees (2020 - 525,807 share units). This included 417,719 Restricted Share Units ("RSUs") (2020 - 504,907 RSUs) and 457,984 Performance Share Units ("PSUs") (2020 - 20,900 PSUs). 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, 2021		Mar 14, 2022	
	Shares / units	WAEP	Shares / units	WAEP
Common Shares outstanding	170,799,325		171,180,056	
Share Units				
Outstanding	1,866,433	2.98	1,468,489	N/A
Exercisable	61,086	2.84	17,213	N/A

Critical Accounting Policies and Estimates

Our Annual 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 Annual Financial Statements. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include the assessment of liquidity and going concern, warranty liability, revenue recognition, inventories, and property, equipment, furniture and leasehold improvements. The application of these and other accounting policies are described in note 3 of the Annual Financial Statements. Actual amounts may vary significantly from estimates used.

We believe that we have taken into account all the possible impacts of known events arising from the COVID-19 pandemic in the preparation of our Annual Financial Statements. However, changes in circumstances due to COVID-19 could impact our judgments and estimates associated with our liquidity and going concern assessment, and other critical accounting assessments.

Warranty Liability

Estimated warranty costs are recognized at the time we sell our products and are included in cost of revenue. We provide warranty coverage on products sold from the date the products are put into service by customers. Warranty liability represents our best estimate of warranty costs expected to be incurred during the warranty period. Furthermore, the current portion of warranty liability represents our best estimate of the costs to be incurred in the next twelve-month period. We use historical failure rates and cost 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. We generally record warranty expense for new products using historical experience from previous engine generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. The amount payable by us and the timing will depend on actual failure rates and cost to repair failures of our products.

Revenue Recognition

We generate revenues primarily from product sales. Product revenues are derived primarily from standard product sales contracts and from long-term fixed price contracts. Under ASC 606, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment. On standard product sales contracts, revenues are recognized when customers obtain control of the product, that is when transfer of title and risks and rewards of ownership of goods have passed and when the obligation to pay is considered certain. Invoices are generated and revenue is recognized at that point in time. Provisions for warranties are made at the time of sale.

Inventories

Our inventories consist of our 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. We record inventory write-downs based on an analysis of excess and obsolete inventories determined primarily by future demand forecasts. In addition, we record a liability for firm, non-cancelable, and unconditional purchase commitments with manufacturers for quantities in excess of our future demand forecast consistent with our valuation of excess and obsolete inventory.

PP&E and Intangible Assets

We consider whether or not there has been an impairment in our long-lived assets, such as plant and 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 PP&E

During the year ended December 31, 2021, we recorded an impairment charge of $0.5 million related to the write-down of property, plant and equipment ("PPE") in Rohan BRC, our India subsidiary. We concluded that there were no other impairment indicators as of December 31, 2021 related to PP&E.

We have significant investments in PP&E related to our HPDI business. The HPDI business is still in the early stages of commercialization, and, as a result, is currently generating losses. Based on our current projections, meaningful increases in component sales are expected compared to 2021 levels, allowing the business to benefit from economies of scale and become profitable. If these assumptions are not realized, we may be required to record an impairment on these assets in future periods.

Intangible Assets

We concluded that there were no impairment indicators as of December 31, 2021 related to intangible assets. Therefore, no impairment on intangible assets was recorded in the year ended December 31, 2021.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act and applicable Canadian securities law requirements is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and applicable Canadian securities law requirements, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (our principal executive officer and principal financial officer, respectively), as appropriate to allow timely decisions regarding required disclosures. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of management, including our CEO and CFO, the effectiveness of the design and operation of our disclosure controls and procedures.

We evaluated the effectiveness of our internal controls over financial reporting as of December 31, 2021 with the participation, and under the supervision, of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2021, our internal controls over financial reporting were effective for the period. In the second quarter of 2021, we identified a material weakness described below:

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements may not be prevented or detected on a timely basis.

Specifically, in the second quarter of 2021 a control in the accounting function to reconcile the intercompany transactions to final general ledger was not in place for a non-routine transaction, and a review control did not operate on a timely basis. As a result, we failed to identify an adjustment needed to eliminate revenue and cost of revenue recorded for a non-routine intercompany inventory sale in the second quarter.

We have remediated the material weakness identified by implementing additional controls over the accounting for and financial reporting of intercompany transactions and enhancing management review controls and procedures to detect and prevent material misstatements related to intercompany transactions. Our internal auditors concluded operating effectiveness after testing the aforementioned internal controls over financial reporting.

KPMG LLP ("KPMG"), our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2021. KPMG's audit report on effectiveness of internal control over financial reporting is included in the Annual Financial Statements.

Limitation on scope of design

In accordance with the provisions of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Stako. We completed the acquisition of Stako on May 30, 2021. Stako's contribution to our Annual Financial Statements for the year ended December 31, 2021 was approximately 6% of consolidated sales and 4% of total assets.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with U.S. GAAP and the requirements of the SEC, as applicable. There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected.

Because of these inherent limitations, internal control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met, and no evaluation of controls can provide absolute assurance that all control issues have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under potential future conditions, regardless of how remote. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management, including the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting, based on the criteria in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has determined that our internal control over financial reporting was effective as of December 31, 2021.

Except for the additional controls implemented over the accounting for and financial reporting of intercompany transactions aforementioned above, during the year ended December 31, 2021, there were no changes to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Summary of Quarterly Results and Discussion of the Quarter Ended December 31, 2021

Our revenues and operating results can vary significantly from quarter to quarter depending on factors such as the timing of product deliveries, product mix, product launch dates, R&D project cycles, timing of related government funding, impairment charges, restructuring charges, stock-based compensation awards and foreign exchange impacts. Net loss has and can vary significantly from one quarter to another depending on operating results, gains and losses from investing activities, recognition of tax benefits and other similar events.

The following table provides summary unaudited consolidated financial data for our last eight quarters:

SELECTED CONSOLIDATED QUARTERLY OPERATIONS DATA

(expressed in millions of U.S. dollars, except for per share amounts)	**2020**				**2021**			
Three months ended:	Mar 31[1]	Jun 30[2]	Sep 30	Dec 31	Mar 31	Jun 30[3]	Sep 30	Dec 31
Total revenue	$ 67.2	$ 36.0	$ 65.4	$ 83.9	$ 76.4	$ 79.0	$ 74.3	$ 82.7
Cost of product and parts revenue	$ 62.9	$ 23.8	$ 55.4	$ 70.9	$ 63.4	$ 63.3	$ 64.2	$ 73.4
Gross margin	$ 4.3	$ 12.2	$ 10.0	$ 13.0	$ 13.0	$ 15.7	$ 10.1	$ 9.3
Gross margin percentage	*6.4 %*	*33.9 %*	*15.3 %*	*15.5 %*	*17.0 %*	*19.9 %*	*13.6 %*	*11.2 %*
Net income (loss)	$ (15.3)	$ 3.0	$ 0.8	$ 4.1	$ (3.1)	$ 17.2	$ (5.8)	$ 5.4
EBITDA [4]	$ (11.1)	$ 9.2	$ 4.9	$ 13.1	$ 1.9	$ 13.9	$ (1.2)	$ 8.4
Adjusted EBITDA [5]	$ (3.6)	$ 6.2	$ 4.0	$ 8.1	$ 2.7	$ 6.2	$ (1.4)	$ 10.0
U.S. dollar to Euro average exchange rate	0.91	0.91	0.85	0.84	0.83	0.83	0.85	0.87
U.S. dollar to Canadian dollar average exchange rate	1.35	1.39	1.33	1.30	1.27	1.23	1.26	1.26
Earnings (loss) per share								
Basic and diluted	$ (0.11)	$ 0.02	$ 0.01	$ 0.03	$ (0.02)	$ 0.11	$ (0.03)	$ 0.03
CWI net income attributable to the Company	$ 5.3	$ 4.2	$ 4.9	$ 9.4	$ 6.4	$ 8.0	$ 3.8	$ 14.8

(1) During the first quarter of 2020, we recorded a $10.0 million expense related to a field service campaign as discussed in the "Gross Margin" section of this MD&A.

(2) During the second quarter of 2020, we recorded a $7.7 million insurance recovery related to the field service campaign as discussed in the "Gross Margin" section of this MD&A.

(3) During the second quarter of 2021, we recorded a 5.9 million bargain purchase gain from the acquisition of Stako. See note 4 of the Annual Financial Statements for more details.

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

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

Non-GAAP Measures

We have included certain non-GAAP performance measures throughout this MD&A. These performance measures are employed by us internally to measure operating and economic performance and to assist in business decision-making, as well as providing key performance information to senior management. We believe that, in addition to conventional measures prepared in accordance with U.S. GAAP, certain investors and other stakeholders also use this information to evaluate our operating and financial performance; however, these non-GAAP performance measures do not have any standardized meaning. Accordingly, these performance measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. Other companies may calculate gross margin, gross margin as a percentage of revenue, net working capital, and non-current liabilities differently.

Non-GAAP Financial Measures Reconciliation

GROSS MARGIN FOR THE YEARS ENDED

				Years ended December 31,		
		2021		**2020**		**2019**
(expressed in millions of U.S. dollars)						
Revenue	$	312.4	$	252.5	$	305.3
Less: Cost of revenue	$	264.2	$	213.0	$	237.1
Gross Margin	**$**	**48.2**	**$**	**39.5**	**$**	**68.2**

GROSS MARGIN AS A PERCENTAGE OF REVENUE FOR THE YEARS ENDED

				Years ended December 31,		
		2021		**2020**		**2019**
(expressed in millions of U.S. dollars)						
Revenue	$	312.4	$	252.5	$	305.3
Gross Margin	$	48.2	$	39.5	$	68.2
Gross Margin as a percentage of Revenue		**15 %**		**16 %**		**22 %**

NET WORKING CAPITAL FOR THE YEARS ENDED

	December 31, 2021	December 31, 2020
(expressed in millions of U.S. dollars)		
Accounts receivable	$ 101.5	$ 90.5
Inventories	83.1	51.4
Prepaid expenses	7.0	11.8
Assets held for sale	22.0	10.9
Accounts payable and accrued liabilities	(99.2)	(84.6)
Current portion of operating lease liabilities	(4.2)	(4.4)
Current portion of warranty liability	(13.5)	(10.7)
Net Working Capital	**96.7**	**64.7**

NON-CURRENT LIABILITIES FOR THE YEARS ENDED

	December 31, 2021	December 31, 2020
(expressed in millions of U.S. dollars)		
Total liabilities	$ 234.9	$ 242.2
Less:		
Total current liabilities	146.5	147.0
Long-term debt	45.1	45.7
Long-term royalty payable	4.7	8.6
Non-Current Liabilities	**38.6**	**40.9**

EBIT, EBITDA and Adjusted EBITDA

Our financial statements are prepared in accordance with U.S. GAAP. These U.S. GAAP financial statements include non-cash charges and other charges and benefits that may be unusual or infrequent in nature or that we believe may make comparisons to our prior or future performance difficult. In addition to conventional measures prepared in accordance with U.S. GAAP, Westport Fuel Systems and certain investors use EBIT, EBITDA and Adjusted EBITDA as an indicator of our ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligations and fund capital expenditures. Management also uses these non-GAAP measures in its review and evaluation of the financial performance of Westport Fuel Systems. EBITDA is also frequently used by investors and analysts for valuation purposes whereby EBITDA is multiplied by a factor or "EBITDA multiple" that is based on an observed or inferred relationship between EBITDA and market values to determine the approximate total enterprise value of a company. We believe that these non-GAAP financial measures also provide additional insight to investors and securities analysts as supplemental information to our U.S. GAAP results and as a basis to compare our financial performance period-over-period and to compare our financial performance with that of other companies. We believe that these non-GAAP financial measures facilitate comparisons of our core operating results from period to period and to other companies by, in the case of EBITDA, removing the effects of our capital structure (net interest income on cash deposits, interest expense on outstanding debt and debt facilities), asset base (depreciation and amortization) and tax consequences. Adjusted EBITDA provides this same indicator of Westport Fuel Systems' EBITDA from continuing operations and removing such effects of our capital structure, asset base and tax consequences, but additionally excludes any unrealized foreign exchange gains or losses, stock-based compensation charges and other one-time impairments and costs which are not expected to be repeated in order to provide greater insight into the cash flow being produced from our operating business, without the influence of extraneous events.

EBITDA and Adjusted EBITDA are intended to provide additional information to investors and analysts and do not have any standardized definition under U.S. GAAP, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA exclude the impact of cash costs of financing activities and taxes, and the effects of changes in operating working capital balances, and therefore are not necessarily indicative of operating profit or cash flow from operations as determined under U.S. GAAP. Other companies may calculate EBITDA and Adjusted EBITDA differently.

EBIT AND EBITDA

Westport Fuel Systems defines EBIT as net income or loss before taxes adjusted for net interest expense. Westport Fuel Systems defines EBITDA as EBIT adjusted for depreciation and amortization.

QUARTERLY EBIT AND EBITDA DATA

	2020				2021			
Three months ended:	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
continuing operations	$ (16.0)	$ 4.6	$ 0.2	$ 5.3	$ (2.8)	$ 9.1	$ (5.4)	$ 4.6
Interest expense, net[1]	1.5	1.2	1.3	4.0	1.2	1.1	0.9	0.3
EBIT	(14.5)	5.8	1.5	9.3	(1.6)	10.2	(4.5)	4.9
Depreciation and amortization	3.4	3.4	3.4	3.8	3.5	3.7	3.3	3.5
EBITDA	**$ (11.1)**	**$ 9.2**	**$ 4.9**	**$ 13.1**	**$ 1.9**	**$ 13.9**	**$ (1.2)**	**$ 8.4**

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

Adjusted EBITDA

Westport Fuel Systems defines Adjusted EBITDA as EBITDA from continuing operations adjusted for stock-based compensation, unrealized foreign exchange gains or losses, and non-cash and other adjustments.

QUARTERLY ADJUSTED EBITDA DATA

	2020				2021			
Three months ended:	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
EBITDA	$ (11.1)	$ 9.2	$ 4.9	$ 13.1	$ 1.9	$ 13.9	$ (1.2)	$ 8.4
Stock based compensation	0.6	0.6	0.9	0.3	0.1	0.5	0.7	0.6
loss	6.9	(3.6)	(2.3)	(5.3)	0.7	(2.3)	(0.9)	0.5
Asset impairment	—	—	0.5	—	—	—	—	0.5
Bargain purchase gain	—	—	—	—	—	(5.9)	—	—
Adjusted EBITDA	**$ (3.6)**	**$ 6.2**	**$ 4.0**	**$ 8.1**	**$ 2.7**	**$ 6.2**	**$ (1.4)**	**$ 10.0**

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, which, 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, 2021 under the heading "Risk Factors" and is available on SEDAR at www.sedar.com.

Reports

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Westport Fuel Systems Inc. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

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

Indicators of Impairment for Property, Plant and Equipment in the Company's heavy-duty Original Equipment Manufacturer business

As discussed in Note 9 to the consolidated financial statements, the carrying value of property, plant and equipment as of December 31, 2021 is $64,420 thousand, which includes the property, plant and equipment used in the Company's heavy-duty Original Equipment Manufacturer (OEM) business, including a specific fuel systems business, which is in the early stages of commercialization and has generated losses to date. As discussed in Note 3(k) to the consolidated financial statements, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company's determination of whether an indicator of impairment exists includes the preparation of a forecast of future cash flows of the specific fuel systems business. The significant assumptions used in the Company's forecast of future cash flows include, amongst others, estimates of component sales in the future.

We identified the assessment of indicators of impairment for property, plant and equipment related to this specific fuel systems business as a critical audit matter. A higher degree of subjective auditor judgment was required to assess the Company's evaluation of indicators of impairment due to the uncertainty in the estimates of component sales in the future.

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

KPMG LLP

Chartered Professional Accountants,

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

March 14, 2022

Vancouver, Canada

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited Westport Fuel Systems Inc.'s (and subsidiaries') (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated March 14, 2022 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Stako sp. z.o.o (Stako) during 2021, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, Stako's internal control over financial reporting associated with 4% of total assets and 6% of consolidated sales included in the consolidated financial statements of the Company as of and for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Stako.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

KPMG LLP

Chartered Professional Accountants,

March 14, 2022

Vancouver, Canada

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

	Years ended Dec 31	
	2021	2020
(expressed in thousands of United States dollars, except share amounts)		(Adjusted Note 7)
Assets		
Current assets:		
Cash and cash equivalents (including restricted cash, note 3(c))	$ 124,892	$ 64,262
Accounts receivable (note 5)	101,508	90,467
Inventories (note 6)	83,128	51,402
Prepaid expenses	6,997	11,767
Assets held for sale (note 7)	22,039	10,866
Total current assets	338,564	228,764
Long-term investments (note 8)	3,824	3,088
Property, plant and equipment (note 9)	64,420	57,507
Operating lease right-of-use assets (note 13)	28,830	27,962
Intangible assets (note 10)	9,286	11,784
Deferred income tax assets (note 19(b))	11,653	2,140
Goodwill (note 11)	3,121	3,397
Other long-term assets	11,615	11,621
Total assets	$ 471,313	$ 346,263
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	$ 99,238	$ 84,599
Current portion of operating lease liabilities (note 13)	4,190	4,476
Short-term debt (note 14)	12,965	23,445
Current portion of long-term debt (note 15)	11,277	16,302
Current portion of long-term royalty payable (note 16)	5,200	7,451
Current portion of warranty liability (note 17)	13,577	10,749
Total current liabilities	146,447	147,022
Long-term operating lease liabilities (note 13)	24,362	23,486
Long-term debt (note 15)	45,125	45,651
Long-term royalty payable (note 16)	4,747	8,591
Warranty liability (note 17)	5,214	8,187
Deferred income tax liabilities (note 19(b))	3,392	3,250
Other long-term liabilities	5,607	6,017
Total liabilities	234,894	242,204
Shareholders' equity:		
Share capital (note 18):		
Unlimited common and preferred shares, no par value		
170,799,325 (2020 - 144,069,972) common shares issued and outstanding	1,242,006	1,115,092
Other equity instruments	8,412	7,671
Additional paid-in-capital	11,516	11,516
Accumulated deficit	(992,021)	(1,005,679)
Accumulated other comprehensive loss	(33,494)	(24,541)
Total shareholders' equity	236,419	104,059
Total liabilities and shareholders' equity	$ 471,313	$ 346,263
Commitments and contingencies (note 21)		
Subsequent events (note 7)		

See accompanying notes to consolidated financial statements

Approved on behalf of the Board **Anthony Guglielmin** Director **Brenda J. Eprile** 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 2021	2020
Revenue	$ 312,412	$ 252,497
Cost of revenue and expenses:		
Cost of revenue	264,260	212,953
Research and development	25,194	20,976
General and administrative	36,290	26,629
Sales and marketing	13,495	11,510
Foreign exchange gain	(1,984)	(4,300)
Depreciation and amortization (notes 9 and 10)	5,390	6,239
Gain on sale of assets	(146)	—
Impairment on long-lived assets, net (note 9)	459	479
	342,958	**274,486**
Loss from operations	(30,546)	(21,989)
Income from investments accounted for by the equity method	33,741	24,047
Interest on long-term debt and accretion on royalty payable	(4,937)	(7,988)
Bargain purchase gain from acquisition (note 4)	5,856	—
Interest and other income	1,413	2
Income (loss) before income taxes	**5,527**	**(5,928)**
Income tax expense (recovery) (note 19):		
Current	2,172	2,438
Deferred	(10,303)	(1,007)
	(8,131)	**1,431**
Net income (loss) for the year	**13,658**	**(7,359)**
Other comprehensive income (loss):		
Cumulative translation adjustment	**(8,953)**	**(651)**
Comprehensive income (loss)	**$ 4,705**	**$ (8,010)**
Income (loss) per share:		
Net income (loss) per share - basic	$ 0.09	$ (0.05)
Net income (loss) per share - diluted	$ 0.08	$ (0.05)
Weighted average common shares outstanding:		
Basic	**160,232,742**	**137,092,854**
Diluted	**162,099,175**	**137,092,854**

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 loss	Total shareholders ' equity
January 1, 2020	136,416,981	$ 1,094,633	$ 6,857	$ 10,079	$ (998,320)	$ (23,890)	$ 89,359
Issuance of common shares on exercise of share units	829,553	1,433	(1,433)	—	—	—	—
Issuance of common shares on conversions of convertible debt	3,607,468	5,122	—	—	—	—	5,122
Issuance of common shares on at-the-market public offering, net of costs incurred	3,215,970	13,904	—	—	—	—	13,904
Change in fair value of the embedded conversion feature on convertible debt	—	—	—	1,437	—	—	1,437
Stock-based compensation	—	—	2,247	—	—	—	2,247
Net loss for the year	—	—	—	—	(7,359)	—	(7,359)
Other comprehensive loss	—	—	—	—	—	(651)	(651)
December 31, 2020	144,069,972	1,115,092	7,671	11,516	(1,005,679)	(24,541)	104,059
Issuance of common shares on exercise of share units	327,774	1,001	(1,001)	—	—	—	—
Issuance of common shares on conversions of convertible debt	3,651,867	5,186	—	—	—	—	5,186
Issuance of common shares on at-the-market public offering, net of costs incurred	1,819,712	12,806	—	—	—	—	12,806
Issuance of common shares on public offering, net of costs incurred	20,930,000	107,921	—	—	—	—	107,921
Stock-based compensation	—	—	1,742	—	—	—	1,742
Net income for the year	—	—	—	—	13,658	—	13,658
Other comprehensive loss	—	—	—	—	—	(8,953)	(8,953)
December 31, 2021	170,799,325	$ 1,242,006	$ 8,412	$ 11,516	$ (992,021)	$ (33,494)	$ 236,419

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of United States dollars)	Years ended Dec 31 2021	2020
Cash flows from (used in) operating activities:		
Net income (loss) for the year	$ 13,658	$ (7,359)
Items not involving cash:		
Depreciation and amortization	14,035	14,034
Stock-based compensation expense	1,911	2,368
Unrealized foreign exchange gain	(1,984)	(4,300)
Deferred income tax	(10,303)	(1,007)
Income from investments accounted for by the equity method	(33,741)	(24,047)
Interest on long-term debt and accretion of royalty payable	4,937	7,988
Impairment on long lived assets, net	459	479
Change in inventory write-downs to net realizable value (note 6)	914	507
Gain on sale of assets	(146)	—
Bargain purchase gain from acquisition	(5,856)	—
Change in bad debt expense	(326)	299
Net cash used before working capital changes	(16,442)	(11,038)
Changes in non-cash operating working capital:		
Accounts receivable	(11,117)	(22,721)
Inventories	(31,744)	(3,225)
Prepaid expenses	3,964	(8,685)
Accounts payable and accrued liabilities	11,313	(420)
Warranty liability	233	10,940
Net cash used in operating activities	(43,793)	(35,149)
Cash flows from (used in) investing activities:		
Purchase of property, plant and equipment	(14,158)	(7,123)
Acquisitions, net of acquired cash (note 5)	(5,948)	—
Proceeds on sale of assets	600	207
Dividends received from joint ventures	21,796	20,758
Net cash from investing activities	2,290	13,842
Cash flows from (used in) financing activities:		
Drawings on operating lines of credit and long-term facilities	74,408	85,258
Repayment of operating lines of credit and long-term facilities	(82,958)	(53,523)
Proceeds from share issuance, net	120,727	13,904
Repayment of royalty payable	(7,451)	(5,948)
Net cash from financing activities	104,726	39,691
Effect of foreign exchange on cash and cash equivalents	(2,593)	(134)
Increase in cash and cash equivalents	60,630	18,250
Cash and cash equivalents, beginning of year (including restricted cash)	64,262	46,012
Cash and cash equivalents, end of year (including restricted cash)	$ 124,892	$ 64,262

SUPPLEMENTARY CASH FLOW INFORMATION

	Years ended Dec 31 2021	2020
Supplementary information:		
Interest paid	$ 3,916	$ 4,699
Taxes paid, net of refunds	3,106	1,374

Refer to note 18 for non-cash transactions.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Company Organization and Operations

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

2. Liquidity and impact of COVID-19

The COVID-19 pandemic has impacted the Company's business since March 2020 which led to temporary closure of production plants in Northern Italy in the first half of 2020. Since the second half of 2020, the Company's sales and customer demand have continued to recover and the Company's production plants have since remained open and have been in normal production operations during the full year of 2021. However, the COVID-19 related global supply chain disruptions and inflationary pressures with rising prices for natural gas and liquid petroleum gas are ongoing challenges.

The Company is closely monitoring and making efforts to mitigate the impact on the business from COVID-19 and the related global supply chain shortages of semiconductors, raw materials and other parts. Like other automotive manufacturers or suppliers, the Company sources components globally and has been impacted along with its customers by global supply chain disruptions. At this time, management does not see a material impact to its business; however, the situation not yet stabilized and could become material in case of a prolonged supply chain disruption that results in production delays or end-customer demand declines.

During the year, the Company raised $120,727 through equity offerings which strengthened the Company's liquidity position (Refer to note 18 in these consolidated financial statements for more details). Further, the Company restructured its existing non-revolving term facility and COVID-19 credit facility with Export Development Canada ("EDC") into a new 5-year $20,000 term loan. Besides these financing activities, the Company applies, when appropriate, for government wage-subsidy and other support programs in the countries where it operates. The Company has recorded $1,065 in the year ended December 31, 2021 ($6,093 in the year ended December 31, 2020), related to these programs.

On February 7, 2022, the Company agreed to sell 100% of its shares in Cummins Westport Inc. ("CWI") to Cummins Inc. for proceeds of approximately $22,200, along with its interest in the intellectual property of CWI for proceeds of $20,000 (Refer to note 7 in these consolidated financial statements for more details).

The Company believes that it has considered all possible impacts of known events arising from the COVID-19 pandemic in the preparation of the consolidated financial statements; however, changes in circumstances due to COVID-19 could impact management's judgments and estimates associated with the liquidity and impact of COVID-19 assessment and other critical accounting assessments.

The Company continues to sustain operating losses and negative cash flows from operating activities. As at December 31, 2021, the Company has cash and cash equivalents of $124,892 and during the year ended December 31, 2021, the Company used cash in operating activities of $43,793. The ability to continue as a going concern beyond March 2023 will depend on the Company's ability to generate sufficient positive cash flows from operations specifically through profitable, sustainable growth of Westport's HPDI 2.0™ fuel systems business, and on the Company's ability to finance its long term strategic objectives and operations. Westport’s HPDI™ fuel system is designed to directly inject a fuel into the combustion chamber of an internal combustion engine.

3. Significant Accounting Policies

A. BASIS OF PRESENTATION

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

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

B. FOREIGN CURRENCY TRANSLATION

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

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

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

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

FOREIGN EXCHANGE RATES

	Year end exchange rate		**Avg. for yr. ended**	
	2021	2020	2021	2020
Canadian dollar	1.27	1.27	1.25	1.34
Euro	0.88	0.82	0.85	0.88
RMB	6.35	6.53	6.45	6.90
Polish Zloty	4.04	3.72	3.92	3.90
Swedish Krona	9.05	8.19	8.57	9.18
Indian Rupee	74.45	73.00	73.92	74.08
Argentina Peso	102.54	84.06	94.79	69.59

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, term deposits, banker acceptances and guaranteed investment certificates with maturities of ninety days or less when acquired. Cash equivalents are considered as held for trading and recorded at fair value with changes in fair value recognized in the consolidated statements of operations. Cash and cash equivalents at December 31, 2021 include restricted cash of $104 (2020 - $75). Restricted cash at December 31, 2021 and 2020 is related to cash used to secure a letter of credit.

D. ACCOUNTS RECEIVABLE, NET

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

E. INVENTORIES

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

F. PROPERTY, PLANT AND EQUIPMENT

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

PROPERTY, PLANT AND EQUIPMENT DEPRECIATION

Assets	Basis	Rate
Buildings	Straight-line	10 years
Computer equipment and software	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Machinery and equipment	Straight-line	5-10 years
Leasehold improvements	Straight-line	Lease term

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

G. LONG-TERM INVESTMENTS

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

H. FINANCIAL LIABILITIES

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

I. RESEARCH AND DEVELOPMENT COSTS

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

J. INTANGIBLE ASSETS

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

K. IMPAIRMENT OF LONG-LIVED ASSETS

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

The Company has significant investments in property, plant and equipment used in its heavy-duty OEM business, relating to the HPDI 2.0 fuel systems that is in the early stages of commercialization, and, as a result, is currently generating losses. Based on the Company's current projections, meaningful increases in component sales, compared to 2021 levels, are expected, allowing the business to benefit from economies of scale and become profitable. If these assumptions are not realized, the Company may be required to record an impairment on these assets in future periods.

L. GOODWILL

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

M. WARRANTY LIABILITY

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

N. REVENUE RECOGNITION

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

O. INCOME TAXES

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

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

4. Business Combination

Acquisition of Stako sp. z.o.o ("Stako"):

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

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

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

Consideration allocated to:		
Cash and cash equivalents	$	1,180
Accounts receivable[(1)]		5,609
Inventory[(2)]		4,217
Property, plant and equipment[(3)]		6,435
Other assets		319
Accounts payable and accrued liabilities[(4)]		(4,678)
Deferred income tax liabilities		(96)
Total net identifiable assets	$	12,986
Bargain purchase gain		(5,856)
Total consideration	$	7,130

(1) The fair value of $5,609 of accounts receivable was based on the cash flows expected to be collectible.

(2) The fair value of inventory of $4,217 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.

(3) Property, plant and equipment of $6,435 was determined based on their estimated fair market values.

(4) The fair value of $4,678 of accounts payable and accrued liabilities acquired was based on the expected amount to be paid. No contingent liabilities were identified subsequent to the acquisition date.

Proforma Results

The following unaudited supplemental proforma information presents the consolidated financial results as if the acquisition of Stako had occurred on January 1, 2020. 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, 2020, nor are they indicative of any future results. Included in revenue and net income for the year ended December 31, 2021 are $13,791 and $1,601 related to the operations of Stako, respectively.

	Years ended December 31			
		2021		2020
Revenue				
Revenue for the period	$	312,412	$	252,497
Stako for the period (prior to acquisition)		10,217		19,263
Proforma revenue for the period	$	322,629	$	271,760
Net income (loss)				
Net income (loss) for the period	$	13,658	$	(7,359)
Stako for the period (prior to acquisition)		722		1,260
Proforma adjustments (1)		(5,377)		—
Adjusted proforma net income (loss) for the period	$	9,003	$	(6,099)

(1) Includes adjustment of the bargain purchase gain and transaction costs incurred for the acquisition during the year.

5. Accounts Receivable

ACCOUNTS RECEIVABLE

	Years Ended Dec 31	
	2021	2020
Customer trade receivables	$ 90,324	$ 80,972
Other receivables	14,504	14,967
Income tax receivable	872	52
Due from related parties (notes 7 and 20)	1,651	1,070
Allowance for credit losses	(5,843)	(6,594)
	$ 101,508	**$ 90,467**

6. Inventories

INVENTORIES

	Years ended Dec 31	
	2021	2020
Purchased parts and materials	$ 62,896	$ 36,066
Work-in-process	3,681	3,203
Finished goods	16,551	12,133
Total	**$ 83,128**	**$ 51,402**

During the year ended December 31, 2021, the Company recorded write-downs to net realizable value of approximately $914 (year ended December 31, 2020 - $507).

7. Assets held for sale

The Company, indirectly through one of its wholly-owned subsidiary, entered into a joint venture with Cummins Inc. ("Cummins") on March 7, 2001.

On February 19, 2012, the joint venture agreement ("JVA") was amended and restated to provide for, among other things, clarification concerning the scope of products within CWI. In addition, the parties revised certain economic terms of the JVA. Prior to February 19, 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 joint venture term ended December 31, 2021 as per the terms of the joint venture agreement.

The investment was presented as assets held for sale as at December 31, 2021, with the comparative period balance reclassified accordingly. On February 7, 2022, the Company agreed to sell 100% of its shares in CWI to Cummins for proceeds of approximately $22,200, with Cummins continuing to operate the business as the sole owner. As part of the agreement, Cummins also agreed to purchase the Company's interest in the intellectual property with proceeds to the Company of $20,000. The Company received proceeds of $31,445, net of a $10,800 holdback, after the closing date. The holdback will be retained by Cummins for a term of three years to satisfy any extended warranty obligations in excess of the current recorded extended warranty obligation. Any unused amounts will be repaid to the Company at the end of three-year term.

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

	Years ended Dec 31	
	2021	2020
Investment income from CWI	$ 32,969	$ 23,774
Dividends received	21,796	20,758

As at December 31, 2021, the Company has a related party accounts receivable balance of $58 (2020 - $74) due from CWI. During the year ended December 31, 2021, total expense recoveries from CWI were $791 (2020 - $1,611).

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

	Balance at Dec 31			
	2021		2020	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment in CWI	$ 22,039	$ 22,039	$ 10,866	$ 10,866
Accounts receivable due from CWI	58	58	74	74

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

CWI ASSETS & LIABILITIES

		Years ended Dec 31	
		2021	2020
Current assets:	Cash and short-term investments	$ 113,936	$ 94,984
	Accounts receivable	9,999	5,681
Long-term assets:	Property, plant and equipment	259	605
	Deferred income tax assets	22,584	21,651
Total assets		**$ 146,778**	**$ 122,921**
Current liabilities:	Accounts payable and accrued liabilities	$ 5,509	$ 5,557
	Current portion of warranty liability	26,105	19,485
	Current portion of deferred revenue	12,374	13,628
		43,988	38,670
Long-term liabilities:	Warranty liability	36,267	34,737
	Deferred revenue	20,122	23,802
	Other long-term liabilities	2,312	3,969
		58,701	62,508
Total liabilities		**$ 102,689**	**$ 101,178**

CWI REVENUE AND EXPENSES

	Years ended Dec 31	
	2021	2020
Product revenue	252,135	219,141
Parts revenue	115,371	104,339
	367,506	323,480
Cost of revenue and expenses:		
Cost of product and parts revenue	268,440	236,154
Research and development	6,084	12,185
General and administrative	1,778	1,650
Sales and marketing	12,865	12,567
	289,167	262,556
Income from operations	78,339	60,924
Interest and investment income	522	1,074
Income before income taxes	78,861	61,998
Income tax expense (recovery):		
Current	13,857	14,779
Deferred	(933)	(329)
	12,924	14,450
Income for the year	**$ 65,937**	**$ 47,548**

8. Long-term Investments

LONG-TERM INVESTMENTS

	Years Ended Dec 31	
	2021	2020
Weichai Westport Inc.	1,824	1,824
Minda Westport Technologies Limited	1,852	1,116
Other equity accounted investees	148	148
Total long-term investments	**$ 3,824**	**$ 3,088**

WEICHAI WESTPORT INC. ("WWI")

The Company, indirectly through its wholly-owned subsidiary, Westport Innovations (Hong Kong) Limited ("Westport HK"), is currently the registered holder of a 23.33% equity interest in WWI. In April 2016, the Company sold to Cartesian Capital Group ("Cartesian") a derivative economic interest granting it the right to receive an amount of future income received by Westport HK from WWI equivalent to having an 18.78% equity interest in WWI and concurrently granted a Cartesian entity an option to acquire all of the equity securities of Westport HK for a nominal amount. The Company retained the right to transfer any equity interest held by Westport HK in WWI that was in excess of an 18.78% interest in the event that such option was exercised. As a result of such transactions, the Company's residual 23.33% equity interest in WWI currently corresponds to an economic interest in WWI equivalent to just 4.55%.

Cartesian had financing arrangements with the Company through convertible debt and a royalty payable described in notes 15(b) and 16. Various Cartesian entities are associated with these investments including Pangaea Two Management, LP; Pangaea Two Acquisition Holdings XIV, LLC, Pangaea Two Acquisition Holdings Parallel XIV, LLC. Collectively, these entities will be referred to as "Cartesian".

9. Property, Plant & Equipment

PROPERTY, PLANT & EQUIPMENT

	Cost	Accumulated depreciation	Net book value
December 31, 2021			
Land and buildings	$ 8,843	$ 1,883	$ 6,960
Computer equipment and software	7,965	6,054	1,911
Furniture and fixtures	6,223	5,149	1,074
Machinery and equipment	113,479	62,320	51,159
Leasehold improvements	13,502	10,186	3,316
	$ 150,012	**$ 85,592**	**$ 64,420**
December 31, 2020			
Land and buildings	$ 5,303	$ 1,701	$ 3,602
Computer equipment and software	7,045	5,570	1,475
Furniture and fixtures	4,968	4,148	820
Machinery and equipment	102,834	54,387	48,447
Leasehold improvements	12,479	9,316	3,163
	$ 132,629	**$ 75,122**	**$ 57,507**

From the acquisition of Stako in 2021, the Company had additions in land and buildings, furniture and fixtures, and machinery and equipment of $4,155, $75, and $2,205, respectively.

During the year ended December 31, 2021, an impairment charge of $459 was recorded related to property, plant and equipment in Rohan BRC Gas Equipment Pvt. Ltd., one of the Company's subsidiaries in India (December 31, 2020 - $479).

Total depreciation expense for the year ended December 31, 2021 was $12,437 (year ended December 31, 2020 - $12,288). The amount of depreciation expense included in cost of revenue for the year ended December 31, 2021 was $8,645 (year ended December 31, 2020 - $7,795).

10. Intangible Assets

INTANGIBLE ASSETS

	Cost	Accumulated depreciation	Net book value
December 31, 2021			
Patents and trademarks	$ 20,748	$ 11,823	$ 8,925
Technology	4,202	3,894	308
Customer contracts	11,954	11,901	53
	$ 36,904	**$ 27,618**	**$ 9,286**
December 31, 2020			
Patents and trademarks	$ 21,763	$ 11,513	$ 10,250
Technology	6,040	5,613	427
Customer contracts	13,234	12,283	951
Other intangibles	477	321	156
	$ 41,514	**$ 29,730**	**$ 11,784**

During the year ended December 31, 2021, amortization of $1,598 (year ended December 31, 2020 - $1,746) was recognized in the consolidated statement of operations.

11. Goodwill

A continuity of goodwill is as follows:

GOODWILL

	Years ended Dec 31	
	2021	2020
Balance, beginning of year	$ 3,397	$ 3,110
Impact of foreign exchange changes	(276)	287
Balance, end of year	$ 3,121	$ 3,397

Goodwill of $3,121 (December 31, 2020 - $3,397), relates to the acquisition of Prins Autogassystemen Holding B.V. in 2014. The Company completed its annual assessment of impairment and concluded that goodwill of $3,121 related to the IAM business segment was not impaired as at December 31, 2021.

12. Accounts Payable and Accrued Liabilities

ACCOUNTS PAYABLE & ACCRUED LIABILITIES

	Years ended Dec 31	
	2021	2020
Trade accounts payable	$ 73,388	$ 57,307
Accrued payroll	16,591	14,737
Accrued interest	—	137
Taxes payable	4,621	3,905
Deferred revenue	3,503	8,008
Other payables	1,135	505
	$ 99,238	**$ 84,599**

13. Operating Lease Right-of-Use Assets

The Company has entered into various non-cancellable operating lease agreements primarily for its manufacturing facilities and offices. The Company's leases have lease terms expiring between 2021 and 2033. Many leases include one or more options to renew. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. The average remaining lease term is approximately five years and the present value of the outstanding operating lease liability was determined applying a weighted average discount rate of 3.0% based on incremental borrowing rates applicable in each location.

The components of lease cost are as follows:

OPERATING LEASE COST

	2021	2020
Amortization of right-of-use assets	$ 3,620	$ 3,874
Interest	891	813
Total lease cost	$ 4,511	$ 4,687

The maturities of lease liabilities as of December 31, 2021 are as follows:

OPERATING LEASE COST

2022	$ 4,190
2023	3,499
2024	3,088
2025	2,549
2026	2,048
Thereafter	17,449
Total undiscounted cash flows	32,823
Less: imputed interest	(4,271)
Present value of operating lease liabilities	28,552
Less: current portion	(4,190)
Long term operating lease liabilities	$ 24,362

14. Short-Term Debt

SHORT-TERM DEBT

	2021	2020
Revolving financing facility (a)	$ 12,965	$ 17,428
Credit facility (b)	—	6,017
Total short-term debt	$ 12,965	$ 23,445

(a) The Company has a revolving financing facility with HSBC. This facility is secured by certain receivables of the Company and the maximum draw amount is $20,000, based on the receivables outstanding. As the Company collects these secured receivables, the facility is repaid. The interest rate for this facility was the LIBOR rate plus 2.5%. On December 22, 2021, the Company and HSBC amended the revolving financing facility's advances denominated in U.S. Dollars' and Euros' interest rates to the secured overnight financing rate plus 2.66% per annum and Euro short-term rate plus 2.5%, respectively.

(b) On July 23, 2020, the Company entered into a one-year $10,000 non-revolving term credit facility with EDC to provide working capital support in response to short-term liquidity shortfalls as a result of the COVID-19 pandemic. This credit facility's interest rate was U.S. Prime Rate plus 3.0% per annum on amounts drawn and had no prepayment penalty or standby charge. On December 13, 2021, the Company and EDC amended the credit facility and non-revolving term facility and refinanced the $6,000 as part of the EDC non-revolving term facility. Refer to note 15 (a) for the details of the amendment.

15. Long-Term Debt

LONG-TERM DEBT

	Years Ended Dec 31			
		2021		2020
Term loan facilities, net of debt issuance costs (a)		53,516		53,731
Convertible debt (b)		—		4,362
Other bank financing (c)		1,231		1,325
Capital lease obligations (d)		1,655		2,535
Balance, end of period	**$**	**56,402**	**$**	**61,953**
Current portion		**(11,277)**		**(16,302)**
Long-term portion	**$**	**45,125**	**$**	**45,651**

(a) On December 20, 2017, the Company entered into a loan agreement with EDC for a $20,000 non-revolving term facility. The Company incurred debt issuance costs of $1,013 related to this loan, which are being amortized over the loan term using the effective interest rate method. The loan bore interest at 6% (prior to March 1, 2019, 9% plus monitoring fees), payable quarterly, as well as quarterly principal repayments. On December 13, 2021, the credit facility and non-revolving term facility were refinanced to a $20,000 term loan. The refinanced term loan provides an extension of the maturity of the indebtedness to EDC to September 15, 2026 and reduced the interest rate to U.S. Prime rate plus 2.01% per annum. The Company incurred transaction costs of $300 related to this amendment, which are being amortized over the remainder of the loan term from the debt modification date using the effective interest rate method.

As at December 31, 2021 the amount outstanding for this loan was $18,583, net of transaction costs, compared to $13,618, net of transaction costs, as at December 31, 2020. The loan is secured by share pledges over Westport Fuel Systems Canada Inc., Fuel Systems Solutions, Inc., Westport Luxembourg S.a.r.l and by certain of the Company's property, plant and equipment.

On October 9, 2018, and November 28, 2019, the Company entered into Euro denominated loan agreements with UniCredit S.p.A. ("UniCredit"). These loan bears interest at an annual rate of 2.3% and 1.8%, respectively, and interest is paid quarterly. The loans matures on December 31, 2023 and September 30, 2023, respectively. On April 29, 2021, the Company and UniCredit amended the terms of the above Euro denominated loan agreements to combine the facilities into one $8,803 loan facility. This loan matures on March 31, 2027, bears interest at an annual rate of 1.65% and interest is paid quarterly. The cash pledge is removed after the amendment. As at December 31, 2021, the amount outstanding for this loan was $8,470 compared to $7,246 as at December 31, 2020.

On May 20, 2020, the Company entered into a third Euro denominated loan agreement with UniCredit. The effective interest rate of this loan is 1.82% with a maturity date of May 31, 2025. As at December 31, 2021, the amount outstanding for this loan was $4,000 compared to $5,558 as at December 31, 2020. There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità to help Italian companies to secure liquidity to continue operating while mitigating some of the impact of COVID-19.

On July 17, 2020, the Company entered into a fourth Euro denominated loan agreement with UniCredit. The effective interest rate of this loan is 1.75% with a maturity date of July 31, 2026. As at December 31, 2021, the amount outstanding for this loan was $15,335 compared to $18,650 as at December 31, 2020. There is no security on the loan as it was made as part of the Italian government’s COVID-19 Decreto Liquidità.

On August 11, 2020, the Company entered into a Euro denominated loan agreement with Deutsche Bank. The effective interest rate of this loan is 1.7% with a maturity date of August 31, 2026. As at December 31, 2021, the amount outstanding for this loan was $7,128 compared to $8,659 as at December 31, 2020. There is no security on the loan as it was made as part of the Italian government’s COVID-19 Decreto Liquidità.

(b) On January 11, 2016, the Company entered into a financing agreement ("Tranche 2 Financing") with Cartesian. As part of the agreement, on June 1, 2016, convertible debt was issued in exchange for 9.0% convertible unsecured notes due June 1, 2021, which are convertible into common shares of the Company in whole or in part, at Cartesian's option, at any time following the twelve month anniversary of the closing at a conversion price of $2.17 per share. Interest is payable annually in arrears on December 31 of each year during the term. On July 24, 2020, Westport restructured the Tranche 2 Financing agreement and entered into a new financing agreement with Cartesian. Under the terms of the agreement, the Company agreed to pay down the principal amount of the existing convertible notes from $17,500 to $10,000. Concurrent with such repayment, the maturity of the remaining amended notes was extended three years to July 30, 2023, the coupon rate was reduced from 9.0% annually to 6.5% annually, and the conversion price was revised from $2.17 per share to $1.42 per share.

During the fourth quarter of 2020, Cartesian exercised its option to convert principal amounts of $5,000, plus accrued but unpaid interest on such principal amounts, into common shares of the Company.

On January 21, 2021, and August 31, 2021, respectively, Cartesian exercised its options to convert a principal amount of $2,500, plus accrued and unpaid interest on such principal amount, into 1,815,117 common shares of the Company and the final principal balance of $2,500, plus accrued and unpaid interest on such principal amount, into 1,836,750 common shares of the Company, respectively. As at December 31, 2021, the convertible note was fully repaid and converted into common shares of the Company.

(c) Other bank financing consists of various secured and unsecured bank financing arrangements that carry rates of interest ranging from 0.75% to 3.8% and have various maturities out to 2025. Security includes a building owned by the Company in the Netherlands and certain accounts receivable.

(d) The Company has capital lease obligations that have terms of two to five years at interest rates ranging from 1.3% to 5.7%.

Throughout the term of certain of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2021, the Company is in compliance with all covenants under the financing arrangements.

The principal repayment schedule of long-term debt is as follows as at December 31, 2021:

LONG-TERM DEBT REPAYMENT SCHEDULE

	Term loan facilities	Other bank financing	Capital lease obligations	Total
2022	10,057	687	517	11,261
2023	11,582	—	460	12,042
2024	12,167	136	427	12,730
2025	11,609	136	228	11,973
2026 and thereafter	8,101	272	23	8,396
	$ 53,516	$ 1,231	$ 1,655	$ 56,402

16. Long-term Royalty Payable

LONG TERM ROYALTY PAYABLE SCHEDULE

	Years ended Dec 31	
	2021	2020
Balance, beginning of year	$ 16,042	$ 18,258
Accretion expense	1,356	3,732
Repayment	(7,451)	(5,948)
Balance, end of year	9,947	16,042
Current portion	(5,200)	(7,451)
Long-term portion	**$ 4,747**	**$ 8,591**

On January 11, 2016, the Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided $17,500 in cash (the “Tranche 1 Financing”). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments based on the greater of (i) a percentage of amounts received by the Company on select HPDI 2.0 fuel systems and CWI joint venture income through 2025 and (ii) stated fixed amounts per annum subject to adjustment for asset sales. The carrying value is being accreted to the expected redemption value using the effective interest method, which is approximately 23% per annum. Amounts due to Cartesian are secured by an interest in the Company's HPDI 2.0 fuel systems intellectual property and a priority interest in the Company's CWI joint venture interest.

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

As of December 31, 2021, the total royalty prepayments paid to Cartesian as a result of the Consent Agreement was $11,912.

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

MINIMUM REPAYMENTS INCLUDING INTEREST

2022	5,200
2023	1,320
2024	1,848
2025	2,270
2026	2,851
	$ 13,489

17. Warranty Liability

A continuity of the warranty liability is as follows:

WARRANTY LIABILITY

	Years ended Dec 31	
	2021	2020
Balance, beginning of year	$ 18,936	$ 8,901
Warranty claims	(5,322)	(6,906)
Warranty accruals	7,025	16,191
Change in estimate	(337)	(291)
Impact of foreign exchange changes	(1,511)	1,041
Balance, end of year	**18,791**	**18,936**
Less: Current portion	**(13,577)**	**(10,749)**
Long-term portion	**$ 5,214**	**$ 8,187**

During the year ended December 31, 2020, the Company recorded a $11,224 warranty accrual related to a field service campaign for the replacement of a pressure release device that the Company manufactures and sells to OEM customers. No safety events or field performance issues have been identified from this product. The Company recorded an insurance recovery of $8,865 related to this issue during the year ended December 31, 2020, including $3,521 in other receivables and $5,344 as an other long-term assets. As at December 31, 2021, the Company had a remaining balance of $655 and $6,931 in other receivables and other long-term assets, respectively, for the aforementioned insurance recovery.

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

On November 9, 2020, the Company filed a prospectus supplement to establish an at-the-market equity offering program (the "ATM Program") which allowed the Company to issue up to $50,000 of common shares from treasury to the public from time to time, at the Company's discretion and subject to regulatory requirements. In the first quarter of 2021, the Company issued 1,819,712 common shares at weighted average share price of $7.26 per share for gross proceeds of $13,211, net of total transaction costs of $405, including commission of $264, resulting in net proceeds of $12,806. The ATM Program was completed as of March 20, 2021 and the Company raised a total of $27,586 gross proceeds through this ATM Program.

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

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

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

During the year ended December 31, 2021, the Company issued 327,774 common shares, net of cancellations, upon exercises of share units (year ended December 31, 2020 – 829,553 common shares). The Company issues shares from treasury to satisfy share unit exercises.

(a) Share Units ("Units"):

The value assigned to issued Units and the amounts accrued are recorded as other equity instruments. As Units are exercised or vested and the underlying shares are issued from treasury of the Company, the value is reclassified to share capital.

During the year ended December 31, 2021, the Company recognized $1,911 (year ended December 31, 2020 - $2,368) of stock-based compensation associated with the Westport Omnibus Plan.

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

UNIT ISSUED SUMMARY

	Years ended Dec 31					
	2021			2020		
	#		WAEP	#		WAEP
Outstanding, beginning of year	1,452,378	$	3.29	1,777,941	$	3.19
Granted	875,703		4.87	525,807		2.09
Vested and exercised	(327,774)		3.86	(829,553)		2.31
Forfeited/expired	(133,874)		1.62	(21,817)		3.37
Outstanding, end of year	1,866,433	$	2.98	1,452,378	$	3.29
Units outstanding and exercisable, end of year	61,086	$	2.84	22,588	$	5.69

WAEP = weighted average exercise price (C$)

During the year ended December 31, 2021, 875,703 share units were granted to directors, executives and employees (2020 - 525,807). This included 417,719 Restricted Share Units ("RSUs") (2020 - 504,907) and 457,984 Performance Share Units ("PSUs") (2020 - 20,900). Values of RSU awards are generally determined based on the fair market value of the underlying common shares on the date of grant. RSUs typically vest over a three-year period so the actual value received by the individual depends on the share price on the day such RSUs are settled for common shares, not the date of grant. PSU awards do not have a certain number of common shares that will be issued over time, but are based on future performance and other conditions tied to the payout of the PSU.

As at December 31, 2021, $2,709 of compensation expense related to Units has yet to be recognized in results from operations and will be recognized ratably over two years.

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units at December 31, 2021 and 2020 are as follows:

AGGREGATE INTRINSIC VALUES OF SHARE UNITS

	Years ended Dec 31	
(values in CDN$)	2021	2020
Share units:		
Outstanding	$ 5,434	$ 9,787
Exercisable	173	153

(c) Stock-based compensation:

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

STOCK-BASED COMPENSATION

	Years ended Dec 31	
	2021	2020
Cost of revenue	$ 91	$ 140
Research and development	$ 217	$ 365
General and administrative	1,502	1,621
Sales and marketing	101	242
Total	$ 1,911	$ 2,368

19. Income Taxes

(a) The Company's income tax provision differs from that calculated by applying the combined enacted Canadian federal and provincial statutory income tax rate of 27% for the year ended December 31, 2021 (year ended December 31, 2020 – 27%) as follows:

INCOME TAX PROVISION

	Years ended Dec 31	
	2021	2020
Income (loss) before income taxes	$ 5,527	$ (5,928)
Expected income tax expense (recovery)	1,492	(1,601)
Increase (reduction) in income taxes resulting from:		
Non-deductible stock-based compensation	389	244
Other permanent differences	4,559	3,819
Withholding taxes and other foreign taxes	76	804
Change in enacted tax rates	61	(189)
Foreign tax rate differences, foreign exchange and other adjustments	457	(1,177)
Non-taxable income from equity investment	(8,902)	(6,418)
Change in valuation allowance	2,970	5,949
Bargain purchase gain	(1,579)	—
Tax realignment due to Italian tax law changes	(7,654)	—
Income tax expense (recovery)	$ (8,131)	$ 1,431

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

DEFERRED INCOME TAX ASSETS & LIABILITIES

	Years Ended Dec 31	
	2021	2020
Deferred income tax assets:		
Net loss carry forwards	$ 223,129	$ 218,323
Intangible assets	4,571	4,629
Property, plant and equipment	18,225	17,155
Warranty liability	4,785	4,752
Foreign tax credits	620	620
Inventory	1,614	1,631
Research and development	7,537	6,316
Tax realignment due to Italian tax law changes	8,705	—
Other	10,858	10,592
Total gross deferred income tax assets	**280,044**	**264,018**
Valuation allowance	(268,391)	(261,878)
Total deferred income tax assets	**11,653**	**2,140**
Deferred income tax liabilities:		
Intangible assets	(430)	(430)
Property, plant and equipment	(12)	(22)
Other	(2,950)	(2,798)
Total deferred income tax liabilities	(3,392)	(3,250)
Total net deferred income tax assets (liabilities)	**$ 8,261**	**$ (1,110)**

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

INCOME TAX EXPENSE (RECOVERY)

	Net income (loss) before income taxes	Current	Deferred	Total
Year ended December 31, 2021				
Italy	$ 921	1,417	(10,373) $	(8,956)
United States	31,476	(3)	—	(3)
Canada	(35,809)	69	—	69
Other	8,939	689	70	759
	$ 5,527	**$ 2,172**	**$ (10,303)**	**$ (8,131)**
Year ended December 31, 2020				
Italy	$ 5,244	2,007	(1,146) $	861
United States	21,400	(274)	—	(274)
Canada	(31,429)	80	—	80
Other	(1,143)	625	139	764
	$ (5,928)	**$ 2,438**	**$ (1,007)**	**$ 1,431**

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

LOSS CARRY-FORWARDS

Expiring in:	2022	2023	2024	2025 and later	Total
Canada	$ —	$ —	$ —	$ 619,313	$ 619,313
Italy	—	—	—	3,254	3,254
United States	—	—	—	97,233	97,233
Sweden	—	—	—	13,241	13,241
Other	3,966	1,660	1,030	15,722	22,378
Total	**$ 3,966**	**$ 1,660**	**$ 1,030**	**$ 748,763**	**$ 755,419**

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

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

(f) The Company records uncertain tax positions in accordance with ASC No. 740, Income Taxes. As at December 31, 2021, the total amount of the Company's uncertain tax benefits was $5,152 (year ended December 31, 2020 - $3,852). 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 2018 to 2021 taxation years remain open to examination by the Internal Revenue Service and the 2016 to 2021 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's related parties are CWI, Minda Westport Technologies Limited, directors, officers and shareholders which own greater than 10% of the Company's shares.

(a) Pursuant to the amended and restated JVA, the Company engages in transactions with CWI (see note 7). Amounts receivable relate to costs incurred by the Company on behalf of CWI. The amounts are generally reimbursed by CWI to the Company in the month following the month in which the payable is incurred.

(b) The Company engages in transactions with Minda Westport Technologies Limited and recorded $1,593 of accounts receivable as at December 31, 2021 (December 31, 2020 - $996). During the year ended December 31, 2021, the Company sold inventory to Minda Westport Technologies Limited for $2,232 (December 31, 2020 - $1,927).

21. Commitments and Contingencies

(a) Contractual commitments

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

(b) Contingencies

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

22. Segment Information

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

As discussed in note 7 of these consolidated financial statements, the CWI joint venture ended as at December 31, 2021 and the Company's 50% share in the joint venture was sold to Cummins on February 7, 2022. The Company recorded the investment as an asset held for sale as at December 31, 2021 and no longer considered it as an operating segment, however the income from the investment in the CWI joint venture remained as the Corporate equity income in 2021. The comparative segment information below was also adjusted.

Financial information by business segment as follows:

Year ended December 31, 2021

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

Year ended December 31, 2020	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
OEM	$ 149,632	$ (21,214)	$ 8,225	$ 273
IAM	102,865	6,624	5,562	—
Corporate	—	(7,399)	247	23,774
Total consolidated	**$ 252,497**	**$ (21,989)**	**$ 14,034**	**$ 24,047**

ADDITIONS TO LONG-LIVED ASSETS

	Years ended Dec 31	
	2021	2020
Total additions to long-lived assets, excluding business combinations:		
OEM	$ 9,878	$ 2,477
IAM	2,493	3,403
Corporate	1,787	1,243
Total consolidated	**$ 14,158**	**$ 7,123**

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 revenue, years ended Dec 31	
	2021	2020
Europe	66 %	70 %
Americas	11 %	13 %
Asia	12 %	9 %
Africa	7 %	3 %
Others	4 %	5 %

During the year ended December 31, 2021, total revenue of 49,683 (2020 - 51,580), or 16% (2020 - 20%) of total revenue, was generated from our OEM launch partner.

As at December 31, 2021, total goodwill of $3,121 (December 31, 2020 - $3,397) was allocated to the IAM segment.

As at December 31, 2021, total long-term investments of $1,972 (December 31, 2020 - $1,972) were allocated to the Corporate segment and $1,852 (December 31, 2020 - $1,116) to the OEM segment.

Total assets are allocated as follows:

TOTAL ASSETS BY OPERATING SEGMENT

	Years ended Dec 31	
	2021	2020
OEM	$ 193,928	$ 148,959
IAM	148,745	156,967
Corporate	128,640	40,337
Total consolidated assets	**$ 471,313**	**$ 346,263**

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

Long-lived assets information by geographic area:

LONG-LIVED ASSETS BY REGION

	Property, plant and equipment	Intangible Assets and Goodwill	Total
December 31, 2021			
Italy	$ 21,140	$ 9,131	$ 30,271
Canada	29,095	155	29,250
United States	—	—	—
Rest of Europe	9,480	3,121	12,601
Asia Pacific	4,705	—	4,705
Total consolidated long-lived assets	$ 64,420	$ 12,407	$ 76,827
December 31, 2020			
Italy	$ 24,490	$ 11,613	$ 36,103
Canada	28,557	171	28,728
United States	719	—	719
Rest of Europe	3,713	3,397	7,110
Asia Pacific	633	—	633
Total consolidated long-lived assets	$ 57,507	$ 15,181	$ 72,688

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 a history of losses and negative cash flows from operations since inception. At December 31, 2021, the Company has $124,892 of cash, cash equivalents and short-term investments, including of $104 restricted cash (see note 3(c)).

The following are the contractual maturities of financial obligations as at December 31, 2021:

CONTRACTUAL OBLIGATIONS

	Carrying amount	Contractual cash flows	Years < 1	1–3	4–5	5+
Accounts payable and accrued liabilities	$ 99,238	$ 99,238	$ 99,238	$ —	$ —	$ —
Short-term debt (note 14)	12,965	12,965	12,965	—	—	—
Term loan facilities (note 15(a))	53,516	59,514	12,189	26,713	20,075	537
Other bank financing (note 15(c))	1,231	1,236	690	137	273	136
Capital lease obligations (note 15(d))	1,655	1,726	587	888	251	—
Long-term royalty payable (note 16)	9,947	13,489	5,200	5,438	2,851	
Operating lease commitments (note 13)	28,552	32,823	4,190	6,587	4,597	17,449
	$ 207,104	$ 220,991	$ 135,059	$ 39,763	$ 28,047	$ 18,122

(c) Credit risk:

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and accounts receivable. The

Company manages credit risk associated with cash and cash equivalents by regularly investing primarily in liquid short-term paper issued by major banks. The Company monitors its portfolio and its policy is to diversify its investments to manage this potential risk.

The Company is also exposed to credit risk with respect to uncertainties as to timing and amount of collectability of accounts receivable and other receivables. As at December 31, 2021, 83% (December 31, 2020 - 83%) of accounts receivable relates to customer receivables, and 17% (December 31, 2020 - 17%) relates to amounts due from related parties and income tax authorities for value added taxes and other tax related refunds. In order to minimize the risk of loss for customer receivables, the Company's extension of credit to customers involves review and approval by senior management as well as progress payments as contracts are executed. Most sales are invoiced with payment terms in the range of 30 days to 90 days. Refer to note 3(d) for the Company's policy with respect to an allowance for credit losses.

(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 U.S. dollar and the Euro. We are subject to foreign currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, since our consolidated financial statements are denominated in U.S. dollars, changes in foreign currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations, financial condition and cash flows.

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

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

A 5% increase/decrease in the relative value of the U.S. dollar against the Canadian dollar and Euro compared to the exchange rates in effect for the year ended December 31, 2021 would have resulted in lower/higher income from operations of approximately $1,851. This assumes a consistent 5% appreciation in the U.S. dollar against the Canadian dollar and the Euro throughout the fiscal year. The timing of changes in the relative value of the U.S. dollar can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

(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 short-term and long-term debt with variable rates of interest. The Company limits its exposure to interest rate risk by continually monitoring and adjusting portfolio duration to align to forecasted cash requirements and anticipated changes in interest rates.

If interest rates for the year ended December 31, 2021 had increased or decreased by 100 basis points, with all other variables held constant, net loss for the year ended December 31, 2021 would have increased or decreased by $694.

(f) Fair value of financial instruments:

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term period to maturity of these instruments.

The long-term investments represent our interest in WWI, Minda Westport Technologies Limited, and other investments. CWI was accounted for as assets held for sale. WWI and other investments are accounted for at fair value.

The carrying values reported in the consolidated balance sheet for obligations under capital and operating leases, which are based upon discounted cash flows, approximate their fair values.

The carrying value of the term loan facilities, and other bank financing included in the long-term debt (note 15) do not materially differ from their fair value as at December 31, 2021, as the majority of the term loan facilities, and other bank financing were raised or amended recently.

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, 2021, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

Our Leadership

Board of Directors

DANIEL HANCOCK
Chair of the Board of Directors and of the HRC Committee, and member of the NCG and TPS Committee
Board Member since July 2017

MICHELE BUCHIGNANI
Chair of the NCG Committee
Member of the HRC Committee
Board Member since March 2018

BRENDA EPRILE
Chair of the Audit Committee
Member of the HRC Committee
Board Member since October 2013

RITA FORST
Member of the Audit, HRC and TPS Committees
Board Member since April 2020

ANTHONY GUGLIELMIN
Member of the Audit, HRC and TPS Committees
Board Member since January 2021

PHILIP HODGE
Member of the Audit Committee
Board Member since January 2022

DAVID JOHNSON
Chief Executive Officer
Board Member since January 2019

KARL-VIKTOR SCHALLER
Chair of the TPS Committee
Member of the Audit and NCG Committees
Board Member since April 2020

EILEEN WHEATMAN
Member of the HRC Committee
Board Member since April 2020

Named Executive Officers

DAVID JOHNSON
Chief Executive Officer

RICHARD ORAZIETTI
Chief Financial Officer

NICOLA COSCIANI
Executive Vice President, Global Operations

LANCE FOLLETT
Chief Legal Officer and Executive Vice President

BART VAN AERLE
Vice President, Product and Business Strategy

Corporate Information

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invest@wfsinc.com | www.wfsinc.com

Shareholders and other interested parties can also sign up to receive news updates, stock quotes, events and presentations by email at:

investors.wfsinc.com/resources/investor-email-alerts

Legal Counsel

Bennett Jones LLP, Calgary, Alberta, Canada

Auditors

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

Shares Listed

Toronto Stock Exchange - WPRT
NASDAQ Global Select Market - WPRT

Transfer Agent

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

Annual General and Special Meeting

The Annual General and Special Meeting will be held via live online audio webcast on Thursday May 5, 2022 at 10:00 a.m. (Pacific Time). For more information on how to attend and vote online, please refer to the Information Circular dated March 14, 2022.

Annual Information Form (AIF)

The company's AIF can be found online at www.sedar.com.

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