2022 ANNUAL REPORT

Westport™ Fuel Systems

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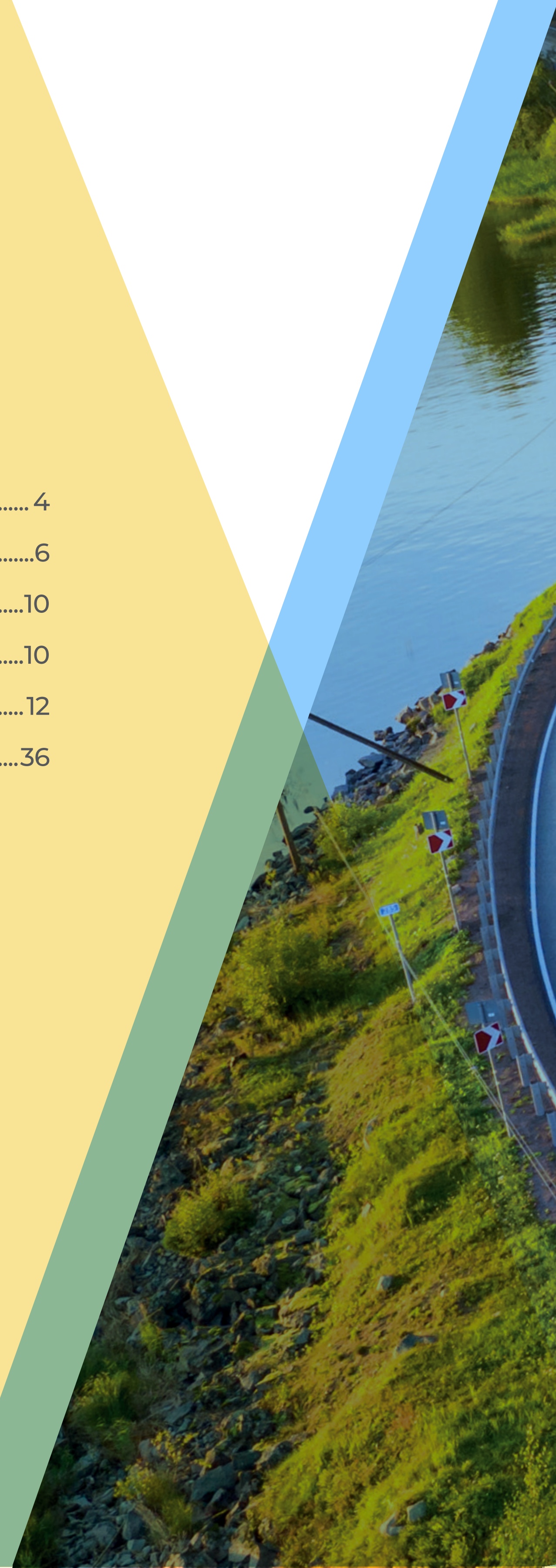
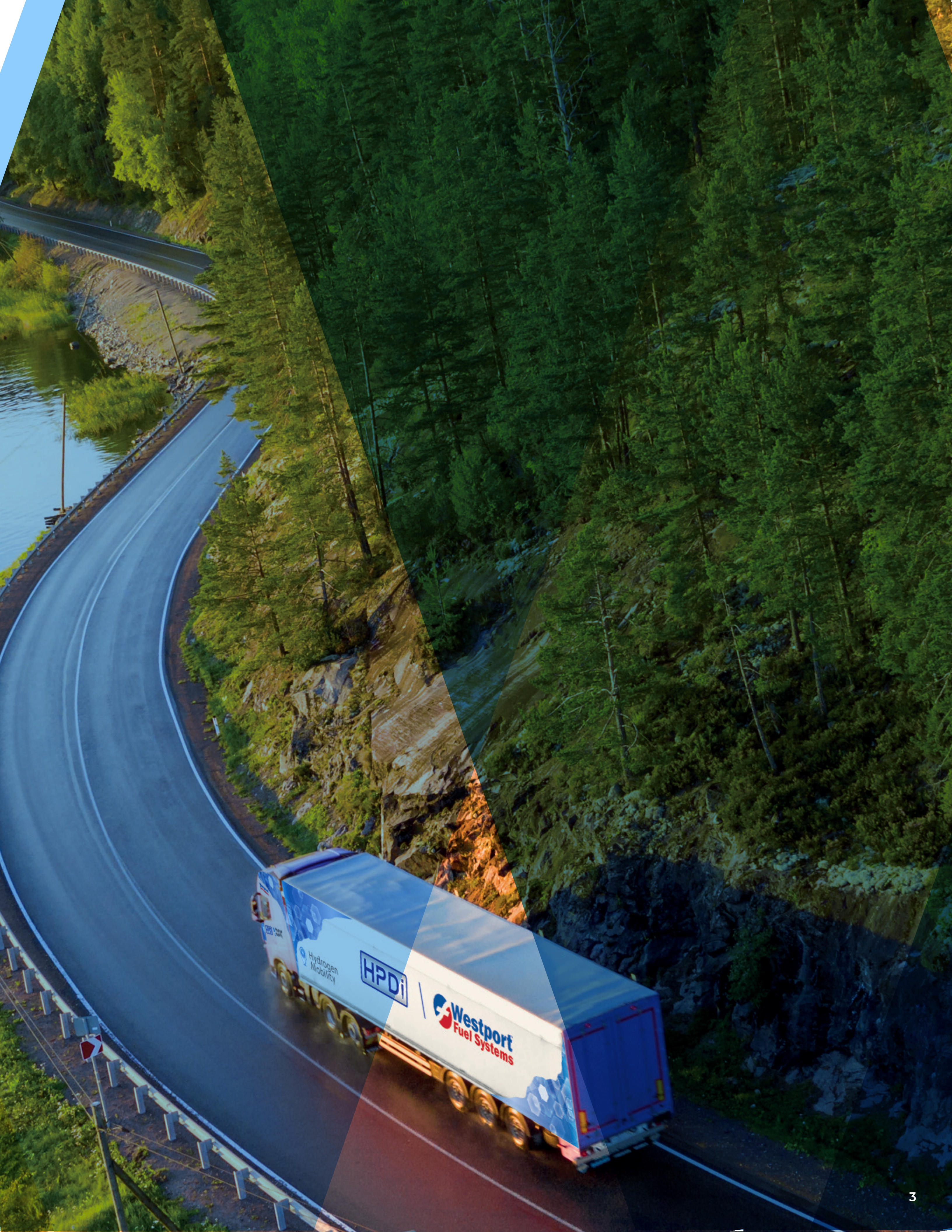



Hydrogen Mobility
HPDi
Westport Fuel Systems

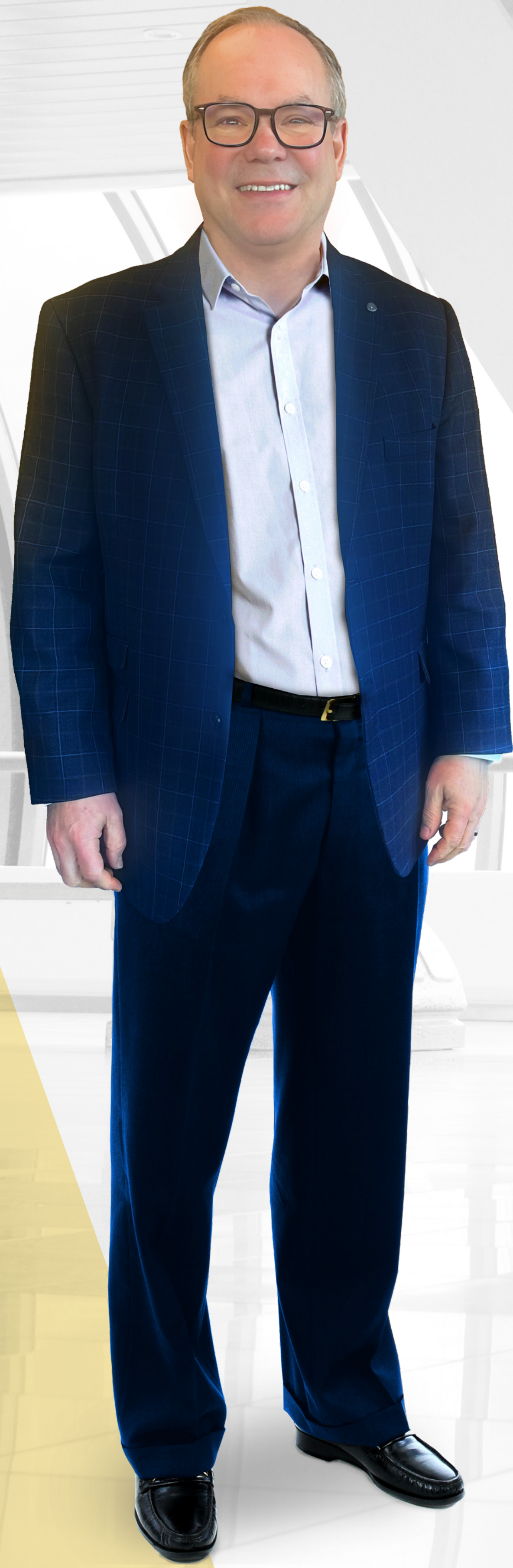
ABOUT WESTPORT

We are a leading supplier of advanced fuel delivery systems, components, and software for a wide range of affordable alternative low-carbon, renewable fuels. Our market-ready solutions are tested and proven. They help reduce emissions, meet greenhouse gas standards, and in most cases realize fuel cost savings for passenger cars and light-, medium-, and heavy-duty trucks.

We are Driving Cleaner Performance with advanced, alternative-fuel systems for today's combustion-powered vehicles and for future fuel cell and hydrogen-fuelled vehicles. Our systems reduce carbon emissions without compromise and without drastic or expensive change to vehicle architecture, manufacturing, and supply chains. Our fuel systems for gaseous fuels replace the fuel systems for traditional, high-carbon liquid fuels like gasoline and diesel, so the vehicle can be fuelled by hydrogen (H_2), liquefied natural gas (LNG), renewable natural gas (RNG), compressed natural gas (CNG), and liquefied petroleum gas (LPG). We are supporting today's internal combustion engines and tomorrow's fuel cells.

It's an easy, cost-effective change, and it's happening today.


BRC
HPDi
OMVL
Prins
Gfi
emer
TA
VALTEK
STAKO



Dear Fellow Shareholders,

2022 was an eventful year. We continued strengthening our market position by delivering valuable, impactful products and services to customers around the world. We navigated 2022's inflation and global supply chain issues, the strengthening of the Euro, and the end of the CWI joint venture; and as the year ended, our financial results fell short of our expectations. However, amid a difficult environment, we achieved several important milestones:

- Proved the efficiency of our hydrogen HPDI™ fuel system, based on our work with Scania
- Added significant new LPG business for both Euro 6 in the near-term and Euro 7 longer-term, with a leading OEM
- Globally introduced H_2 HPDI™ to numerous global OEM customers, fleet operators, regulatory bodies, policy makers, and investors who were able to see the higher torque and power that H_2 HPDI™ offers through our demonstrator trucks
- Educated regulatory bodies throughout North America and Europe on the advancements we have made with respect to CO_2 abatement

Our business and product offerings, remain diverse and resilient and we will turn the profitability trend back in our favour as we capture market share where the price advantage of clean lower carbon and renewable fuels is favourable.

2022 Performance

2022 was an operational success, even with the significant impact of foreign exchange translation, the Russia-Ukraine conflict, and inflation, which had a weighted impact on our 2022 results.

Our independent aftermarket business was impacted by the Russia-Ukraine conflict and rising CNG prices in markets like Argentina. However, the price advantage of alternative fuels in several of our key markets and the affordability of our products have driven growth in some of our existing markets and encouraged us to grow in markets like Peru, Bolivia, and Thailand. Both top-line and bottom-line enhancements continue to be a priority including entry into new markets and driving margin improvements in our independent aftermarket business.

Our hydrogen components business grew revenues by 50% in 2022, with future growth supported by a pipeline of approximately $100 million in OEM projects. Hydrogen will play a significant role in the future of transportation, and with our hydrogen components in addition to our H_2 HPDI™ fuel system solution, we are well positioned to lead this transition.

We remain encouraged by the LPG price advantage seen in many markets. The new contract we secured to supply Euro 6 and Euro 7 LPG fuel system to a global OEM demonstrate the long-term potential of our LPG fuel system business. This potential is supported by customer demand and is expected to drive Westport's European LPG market share to approximately 50%, strengthening the revenue profile through and beyond 2035.

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In 2022, order volumes for our heavy-duty OEM business were lower than expected, due to the challenging LNG pricing environment and differential to diesel. Despite a challenging 2022, our lead LNG HPDI™ customer continues to gain market share in a growing European market. As commodity natural gas prices have returned to pre-2020 lows, the economic benefit of LNG versus diesel, and the growing availability of biogas are positive indications of volume growth with our lead customer.

2023 Outlook

The headwinds with respect to inflation and supply chain concerns we faced in 2022 linger into 2023. However, investments into hydrogen production and distribution are growing, natural gas prices have returned to more normalized levels, and biogas continues to be recognized as a "ready now" alternative delivering net-zero carbon transport. Our business and product offerings remain diverse and resilient and we will turn the profitability trend back in our favour as we capture market share where the price advantage of clean lower carbon and renewable fuels is favourable, and as emissions regulations strengthen and propel the transition to clean fuels. Some of the ways we are doing this in 2023 include:

- HPDI™ development projects for both LNG and hydrogen are underway with heavy-duty OEMs representing approximately 70% of the European market
- Increasing market share with HPDI™ while advancing commercialization efforts of H_2 HPDI™
- Building on the introduction of our H_2 HPDI™ technology with demonstrator trucks to OEMs, policymakers, and regulators
- Optimizing and leveraging our distinctive IAM and OEM distribution channels and positioning Westport to deliver growth and innovation
- Substantial growth to continue for our fuel storage, hydrogen components, and electronics businesses
- Significant volume growth in our delayed-OEM business, driven by demand for clean, low-cost alternative fuel vehicles
- We're optimistic that the adoption trend for biomethane use for long-haul transportation will continue in 2023, spurring additional demand for HPDI™ which offers 30% less fuel consumption with more torque and better driveability when compared with products that don't use HPDI™ fuel systems

> ***"Step changes in 2023 position us for long-term growth in 2024 and beyond."***

We have a clear focus on prudent capital management including cost optimization and margin expansion throughout our entire business in addition to adding supply agreements. Step changes in 2023 will position us for long-term growth in 2024 and beyond.

In closing

Our strategic priorities continue to drive every business decision helping us build even more momentum as we continue to support the transition to clean energy.

Thank you to our shareholders and all our stakeholders. The developments made in 2022 have set us on the right path for 2023. As we continue to grow and prosper, we remain appreciative of your ongoing support.

Sincerely,

David Johnson,
Chief Executive Officer

WESTPORT AT A GLANCE

Over **70** countries being served

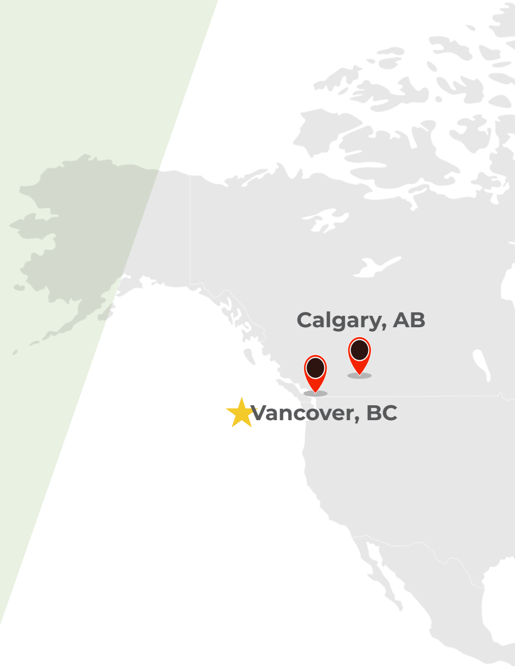
2022 revenue of **$306** million

More than **1,400** patents & applications

100+ distributors for our IAM business

23 OEM customers

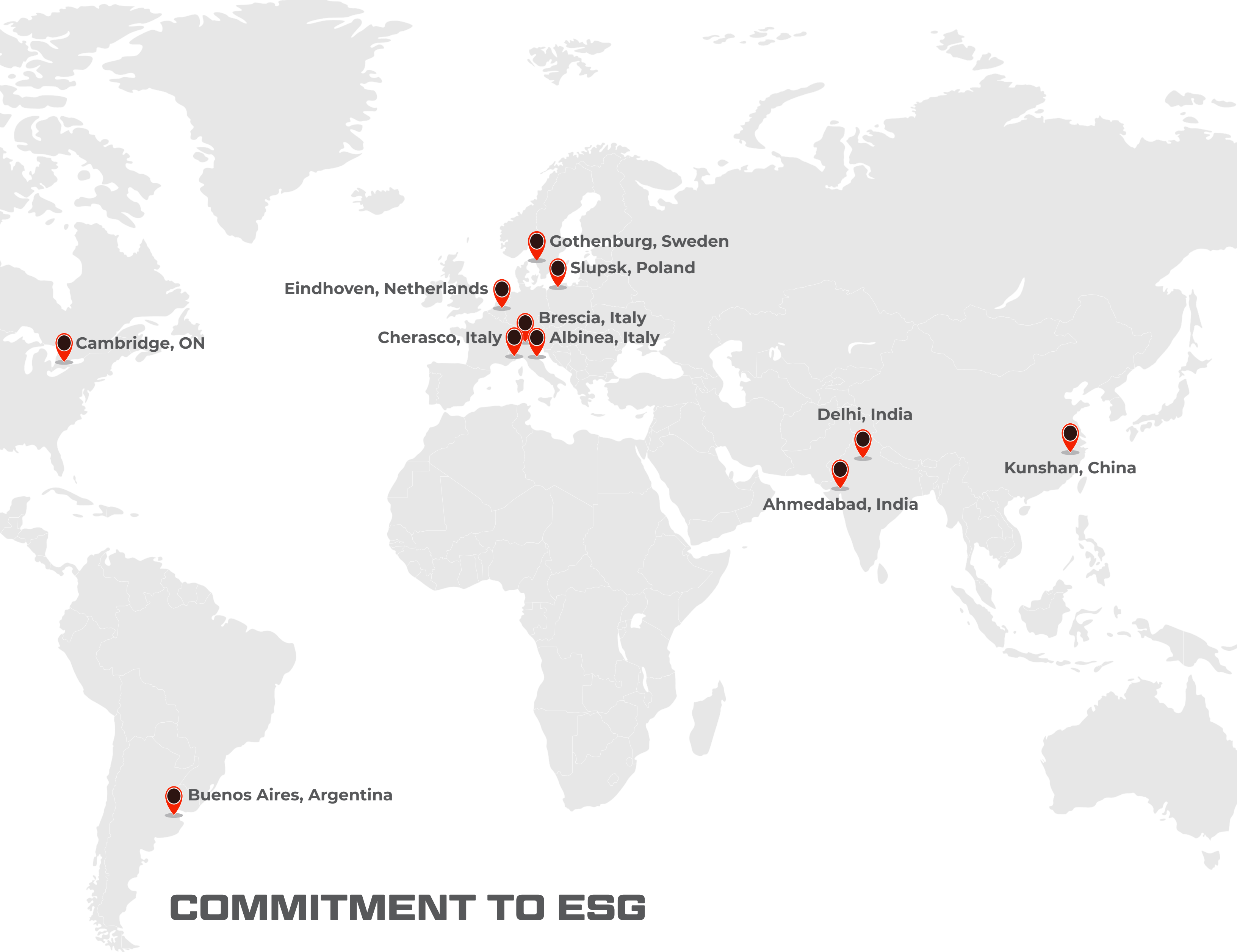
More than **64** years of innovation



2022 FINANCIAL HIGHLIGHTS

(US$ millions, except where noted)

Operations	**2022**	**2021**	**2020**	**2019**	**2018**
Revenue	305.7	312.4	252.5	305.3	270.3
Gross margin	36.2	48.2	39.5	68.2	64.2
Gross margin %	12%	15%	16%	22%	24%
Net income (loss) per year	-32.7	13.7	-7.4	0	-31.5
EBITDA	-17.5	23	16.1	24.9	-13.5
Adjusted EBITDA	-27.8	17.5	14.7	28.4	9.6
Basic per share amounts (US$ per common share)					
Net income (loss) per share - basic	-0.19	0.09	-0.05	0	-0.24
Financial position					
Cash and cash equivalents (including restricted cash)	86.2	124.9	64.3	46	61.1
Total assets	407.5	471.3	346.3	279.9	269.9
Debt, including current portion	53.0	69.4	85.5	48.9	55.3
Royalty payable, including current portion	5.5	9.8	16.2	18.2	20.9
Shareholders' equity	204.0	236.4	104.1	89.4	90.7



COMMITMENT TO ESG

Our 2022 ESG accomplishments continue to create a world where climate change is mitigated, and global air quality contributes to a healthy society.

We demonstrated our commitment to the decarbonization of transportation, announcing the promising results from our advanced studies on hydrogen-fuelled internal combustion engines. We understand that change comes through adoption by fleets and OEMs. We also know that our H_2 HPDI™ fuel system meets the needs of long-haul trucking applications. So, we continue to develop fuel systems that create a path to carbon neutrality by way of less emissions, and less cost.

Moving forward, we are taking concrete steps to ensure that Westport's products and business practices have positive impacts throughout the value chain. A principled growth approach drives our value-based leadership in a sound practice of achieving: affordable and clean energy, industry, innovation, infrastructure and climate action.

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, 2022 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, 2022 ("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 13, 2023.

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 engine equipped with Westport's HPDI 2.0 fuel systems, the variation of gross margins from our HPDI 2.0 fuel systems product and causes thereof, margin pressure in 2022 and the timing for relief of supply chain issues (including those related to semiconductor supply restrictions), opportunities available to sell and supply our products in North America, 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.

General Developments

- In May 2022, Westport received positive market feedback from Westport's Hydrogen fuelled HPDI fuel system equipped demonstrator truck, on display at the 2022 ACT Expo in Long Beach, California.
- In July 2022, Westport was awarded a program to develop and supply liquid petroleum gas ("LPG") fuel systems for several vehicle applications for a global OEM. The agreement is forecasted to provide €38.0 million in revenue through the end of 2025, with production expected to begin in Q4 2023.
- In October 2022, Westport announced test results for an HPDI fuel system equipped engine fuelled with hydrogen from the demonstration program with Scania. Scania's 13-Litre CBE1 platform equipped with Westport's HPDI fuel system and fuelled with hydrogen, demonstrated a peak Brake Thermal Efficiency of 51.5% complemented by 48.7% at road load conditions, with engine-out NOx similar to the base diesel engine.
- In December 2022, Westport was awarded a program to develop and supply liquefied petroleum gas ("LPG") fuel systems to a global original equipment manufacturer (OEM) to accommodate a number of its Euro 7 vehicle platforms. This program is forecasted to generate €40.0 million in annual revenue with production expected to begin in Q1 2025.
- In December 2022, Westport and Johnson Matthey, a global leader in sustainable technologies, announced collaboration to develop an emissions aftertreatment system tailored to Westport's hydrogen fuelled HPDI fuel system, with the goal of reducing or eliminating emissions.

Business Overview

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

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

Independent Aftermarket	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
OEM Businesses	
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, resulting in reduced greenhouse gas emissions and the capability to cost-effectively run on renewable fuels. Our HPDI fuel system products are in the early stage of commercialization with our initial OEM launch partner, primarily in Europe. We anticipate additional growth in the sales volumes in China, the largest market for natural gas powered commercial vehicles.
Delayed OEM	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.
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.
Fuel storage	We manufacture LPG fuel storage solutions and supply fuel storage tanks to the aftermarket, OEM, and other market segments.

RISKS, LONG-TERM PROFITABILITY & LIQUIDITY

Global Supply Chain Challenges and Inflationary Environment

We continue to experience supply chain challenges to source semiconductors and other inputs to production due to supply shortages plaguing the automotive industry. 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 that the global semiconductor supply and raw materials shortages affecting the automotive industry will continue to impact our business for the foreseeable future. Besides shortages, we are experiencing inflationary pressure on production input costs from sourcing semiconductors, raw materials and parts, higher energy costs in operating our factories, and increased labor costs that are impacting margins. The prolonged supply chain disruption continues to have material impacts on production delays and end-customer demand declines. We are closely monitoring and making efforts to mitigate the impact of 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

Russia-Ukraine conflict

We conduct a portion of our light-duty OEM and IAM businesses in Russia by selling our products to numerous OEMs and other IAM customers. Our 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. The sanctions have had a significant impact on our ability to conduct business with our Russian customers due to restrictions caused by ownership and the ability of some Russian customers to pay for goods because of banking restrictions. In addition, recent limitations and restrictions imposed on the export of Russian natural gas have had a significant impact on the price of natural gas (see "Fuel Prices" below). While the full impact of the commercial and economic consequences of the conflict are uncertain at this time, revenues generated in the Russian market were $7.6 million less in the year ended December 31, 2022 compared to same period in 2021. We cannot provide assurance that future developments in the Russian-Ukraine conflict will not continue to have an adverse impact on the ongoing operations and financial condition of our business in Russia.

Fuel Prices

During 2022, there have been significant increases and continued volatility in LNG and CNG pricing. This volatility extends to liquid fuels including crude oil, diesel, and gasoline, given uncertainty in supply levels and European geopolitical risk due to the Russia-Ukraine conflict. Gaseous fuel price increases that negatively impact the price differential of gaseous fuels versus diesel and gasoline, may impact our customers' decision to adopt such gaseous fuels as a transportation energy solution in the short-term. We continue to observe softness in demand in our heavy-duty and light-duty OEM sales volumes caused by the uncertainty over the elevated prices of CNG and LNG relative to diesel and gasoline in Europe. Despite pressure on CNG and LNG prices, the LPG price differential to gasoline in Europe continued to improve towards the end of the year and be favourable to customer demand, which supported increased sales in our IAM and our Fuel Storage businesses.

Long-term Profitability and Liquidity

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

We believe that we have considered all possible impacts of known events arising from the risks discussed above related to inflation, supply chain, fuel prices, and the Russian-Ukraine conflict in the preparation of the annual financial statements for the year ended December 31, 2022. However, changes in circumstances due to the aforementioned risks could affect our judgments and estimates associated with our liquidity and other critical accounting assessments.

We continue to generate operating losses and negative cash flows from operating activities primarily due to the lack of scale in our heavy-duty OEM business. Despite customer interest, sales of our HPDI 2.0 fuel systems to our OEM launch partner continue to be adversely affected by the impact of the continued volatility in natural gas prices, decreasing end-customer demand. Cash used in operating activities was $31.6 million for the year ended December 31, 2022. Despite the successful monetization of the CWI joint venture's intellectual property and the sale of our interest in CWI in the first quarter of 2022, the loss of income from the equity interest in the former CWI business had a significant impact on our annual cash flows.

As at December 31, 2022, we had cash and cash equivalents of $86.2 million. Although we believe we have sufficient liquidity to continue as a going concern beyond March 2024, the long-term financial sustainability of the Company will depend on our ability to generate sufficient positive cash flows from all of our operations specifically through profitable, sustainable growth and on the ability to fund our long-term strategic objectives and operations. In addition to new customer announcements and entering new markets, the Company is focused on improving profitability through growth in our heavy-duty OEM business driving economies of scale and improvements in our light-duty OEM and IAM businesses, including pricing measures and manufacturing strategies driving margin expansion. If, as a result of future events, we were to determine we were no longer able to continue as a going concern, significant adjustments would be required to the carrying value of assets and liabilities in the accompanying annual financial statements and the adjustments could be material.

Overview of Financial Results for 2022

Revenues of $305.7 million for the year ended December 31, 2022 were lower by 2%, compared to $312.4 million in the prior year, primarily driven by the weakening of the Euro against the U.S. dollar when translating our financial statements into U.S. dollars. Excluding the negative impact of foreign currency translation, total revenue would have increased by $27.7 million or 9%. The full year impact of the acquisition of our fuel storage business in June 2021, increased sales volumes of our hydrogen and electronics products, and increased sales volumes to OEMs in India of our light-duty OEM products contributed to the growth in revenues. These were offset by the negative impact of the fuel price volatility, lower sales volumes to Russian customers in the independent aftermarket and OEM businesses from the ongoing Russian-Ukraine conflict, and lower sales of CNG and LNG products due to higher natural gas prices in the European market.

We reported a net loss of $32.7 million for the year ended December 31, 2022 compared to net income of $13.7 million for the prior year. This change was primarily the result of:

- decreases in our FY2022 gross margin of $12.0 million compared to FY2021 due to translating our consolidated financial statements to USD resulting in lower revenue, and reduction in our gross margin percentage from the impact of increasing material, manufacturing and labor costs because of global inflation;
- loss of equity income from the termination and sale of the Cummins Westport Inc. ("CWI") joint venture resulting in a $33.0 million reduction in FY2022 compared to FY2021, which was partially offset by a gain of $19.1 million recognized for the sale of our interest in the CWI joint venture including the monetization of the related intellectual property;
- recognition of $5.9 million bargain purchase gain related to the acquisition of the fuel storage business acquired in 2021 which did not reoccur in 2022;
- increases in sales and marketing expenditures due to increased central marketing communication to introduce the future HPDI H_2 technology to the markets;
- foreign exchange loss of $6.4 million compared to a foreign exchange gain of $2.0 million in the prior year, which is related to the revaluation of U.S. dollar denominated debt in our Canadian legal entities and, is offset by the revaluation of our U.S. dollar cash and accounts receivable; and
- income tax expense of $1.4 million compared to an income tax recovery of $8.1 million recognized for COVID-19 tax relief ruling from the Government of Italy in the prior year.

Cash and cash equivalents were $86.2 million as of December 31, 2022. Cash used in operating activities during the year was $31.6 million, due to operating losses of $32.7 million, and net cash used in working capital of $1.1 million. Investing activities included the purchase of fixed and intangible assets of $14.5 million and net proceeds from the sale of our interest in CWI. Financing activities were attributed to net debt repayments of $22.5 million in the year.

We reported adjusted EBITDA loss of $27.8 million, (see "Non-GAAP Measures" section in the MD&A) during the year ended December 31, 2022, compared to adjusted EBITDA of $17.5 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

(expressed in millions of U.S. dollars, except per share amounts and shares outstanding)	Years ended Dec 31 2022	2021	2020
Revenue	$ 305.7	$ 312.4	$ 252.5
Gross margin[1]	$ 36.2	$ 48.2	$ 39.5
Gross margin %[1]	12 %	15 %	16 %
Loss from operations	$ (50.3)	$ (30.5)	$ (22.0)
Income from investments accounted for by the equity method	$ 0.9	$ 33.7	$ 24.0
Net income (loss)	$ (32.7)	$ 13.7	$ (7.4)
Net income (loss) per share - basic	$ (0.19)	$ 0.09	$ (0.05)
Net income (loss) per share - diluted	$ (0.19)	$ 0.08	$ (0.05)
Weighted average basic shares outstanding (millions)	171.2	160.2	137.1
Weighted average diluted shares outstanding (millions)	171.2	162.1	137.1
EBIT[1]	$ (29.3)	$ 9.0	$ 2.1
EBITDA[1]	$ (17.5)	$ 23.0	$ 16.1
Adjusted EBITDA[1]	$ (27.8)	$ 17.5	$ 14.7

(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 2022	2021
Revenue	$ 78.0	$ 82.7
Gross margin[1]	$ 4.6	$ 9.3
Gross margin %[1]	6 %	11 %
Loss from operations	$ (17.2)	$ (10.0)
Income from investments accounted for by the equity method	$ —	$ 15.0
Net income (loss)	$ (16.9)	$ 5.4
Net income per share - basic	$ (0.10)	$ 0.04
Net income per share - diluted	$ (0.10)	$ 0.03
Weighted average basic shares outstanding (millions)	171.3	170.8
Weighted average diluted shares outstanding (millions)	171.3	172.7
EBIT[1]	$ (16.3)	$ 4.9
EBITDA[1]	$ (13.5)	$ 8.4
Adjusted EBITDA[1]	$ (12.9)	$ 10.0

(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

	Years ended Dec 31	
(expressed in millions of U.S. dollars)	2022	2021
Cash and cash equivalents	$ 86.2	$ 124.9
Net working capital[1]	77.5	96.7
Total assets	407.5	471.3
Short-term debt	9.1	13.7
Long-term debt, including current portion	43.9	55.7
Royalty payable, including current portion	5.5	9.9
Non-current liabilities[1]	31.3	38.6
Total liabilities	203.5	234.9
Shareholder's equity	204.0	236.4

(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.

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 an asset held for sale as at December 31, 2021 and no longer considered it as an operating segment, however, income from our investment in the CWI joint venture remained in Corporate equity income in 2021.

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, including: LPG, CNG, LNG, RNG, and hydrogen, which have numerous environmental and economic advantages. 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, DOEM, 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.

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.

(in millions of U.S. dollars)	Three months ended December 31, 2022			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income (loss)
OEM	$ 47.8	$ (12.8)	$ 1.8	$ —
IAM	30.2	0.6	0.8	—
Corporate	—	(5.0)	0.1	—
Total consolidated	$ 78.0	$ (17.2)	$ 2.7	$ —

(in millions of U.S. dollars)	Three months ended December 31, 2021			
	Revenue	Operating income (loss)	Depreciation & amortization	Equity income
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

REVENUE FOR THE THREE MONTHS AND YEARS ENDED

(in millions of U.S. dollars)	Three months ended December 31		Change		Years ended December 31		Change	
	2022	2021	$	%	2022	2021	$	%
OEM	$ 47.8	57.4	(9.6)	(17)%	198.0	195.5	2.5	1 %
IAM	$ 30.2	$ 25.3	$ 4.9	19 %	$ 107.7	$ 116.9	$ (9.2)	(8)%
Total Revenue	$ 78.0	$ 82.7	$ (4.7)	(6)%	$ 305.7	$ 312.4	$ (6.7)	(2)%

Revenue

OEM

Revenue for the three months and year ended December 31, 2022 was $47.8 million and $198.0 million, respectively, compared with $57.4 million and $195.5 million for the three months and year ended December 31, 2021.

OEM revenue decreased by $9.6 million in the fourth quarter of 2022 compared to the prior year period and was primarily driven by the decrease in average Euro rate versus the U.S. dollar and decrease in sales for our light-duty OEM business, which was partially offset by higher sales volumes of our fuel storage, DOEM, hydrogen, and electronics businesses. Our heavy-duty OEM sales volumes decreased by 50% in the fourth quarter of 2022 compared to the prior year period mainly due to the unfavorable fuel price differential between LNG and diesel in Europe driven by the shortage of LNG supply, which caused a reduction in volumes.

OEM revenue for the year ended December 31, 2022 increased by $2.5 million compared to the prior year, primarily driven by increased sales volumes to OEMs in India of our light-duty CNG products where we continue to see strong government support and policies in place for the significant expansion of CNG vehicles, increased sales volumes of electronics, fuel storage, hydrogen and DOEM products. This was partially offset by lower sales volumes in Western Europe for our light-duty OEM products, lower year-over-year revenues in our heavy-duty OEM business, and foreign exchange impact from the strengthening of U.S. dollar against the Euro when translating our financial statements.

IAM

Revenue for the three months and year ended December 31, 2022 was $30.2 million and $107.7 million, respectively, compared with $25.3 million and $116.9 million for the three months and year ended December 31, 2021.

The increase in revenue for the three months ended December 31, 2022 compared to the prior year period was primarily driven by increased sales to Eastern Europe, Western Europe, and Asia Pacific. This was partially offset by the aforementioned foreign exchange impact of the Euro versus U.S. dollars.

The decrease in revenue for the year ended December 31, 2022 compared to the prior year was primarily driven by lower sales volumes to the Russian market due to the ongoing Russia-Ukraine conflict, lower sales volumes to Argentina due to CNG prices and government support to petrol prices, and the aforementioned foreign exchange impact. Revenue for the year ended December 31, 2021 included a large one-time infrastructure project of $5.3 million in Tanzania to build fueling infrastructure to enable the sale and operation of gaseous fueled vehicles.

Gross Margin for the Three Months Ended December 31, 2022

GROSS MARGIN FOR THE THREE MONTHS ENDED

(in millions of U.S. dollars)	**Three months ended Dec 31**				**Change**	
	2022	% of revenue	2021	% of revenue	$	%
OEM	$ (0.8)	(2)%	$ 5.1	9 %	$ (5.9)	(116)%
IAM	5.4	18%	4.2	17%	1.2	29 %
Total gross margin	$ 4.6	6 %	$ 9.3	11 %	$ (4.7)	(51)%

OEM

Gross margin for the three months ended December 31, 2022 decreased by $5.9 million to $(0.8) million, or (2)% of revenue, compared to $5.1 million, or 9% of revenue, for the same prior year period.

The decrease in gross margin for the three months ended December 31, 2022 was driven primarily by decreased sales volumes in multiple OEM business, negative sales mix, higher production input costs stemming from global supply chain challenges and inflation in logistics, utilities, labor and other costs, which we have only partially been able to pass on to our OEM customers, and an annual contractual price reduction year over year to our initial OEM launch partner. This was partially offset by increased volume in the Indian and commercial vehicles markets.

IAM

Gross margin for the three months ended December 31, 2022 increased by $1.2 million to $5.4 million, or 18% of revenue, compared to $4.2 million, or 17% of revenue, for the same prior year period.

The increase in gross margin for the three months ended December 31, 2022 was primarily driven by higher sales volumes in Eastern and Western Europe. This was partially offset by the lower sales volume in Russia, Turkey, and Egypt, and higher production input costs incurred in materials, transportation, and energy costs.

Gross Margin for the Year Ended December 31, 2022

GROSS MARGIN FOR THE YEARS ENDED

(in millions of U.S. dollars)	**Years ended Dec 31**				**Change**	
	2022	% of revenue	2021	% of revenue	$	%
OEM	$ 13.6	7 %	$ 20.4	10 %	$ (6.8)	(33)%
IAM	22.6	21%	27.8	24%	(5.2)	(19)%
Total gross margin	$ 36.2	12 %	$ 48.2	15 %	$ (12.0)	(25)%

OEM

Gross margin for the year ended December 31, 2022 decreased by $6.8 million to $13.6 million, or 7% of revenue, compared to $20.4 million, or 10% of revenue, for the prior year.

The decrease in gross margin and gross margin percentage was primarily driven by an annual contractual price reduction year over year to our initial OEM launch partner, decrease in heavy-duty OEM sales volumes, negative product mix impact due to higher sales in India, and higher production input costs incurred in materials, transportation, and energy costs.

IAM

Gross margin for the year ended December 31, 2022 decreased by $5.2 million to $22.6 million, or 21% of revenue, compared to $27.8 million, or 24% of revenue, for the prior year.

The decrease in gross margin and gross margin percentage was primarily driven by lower sales volumes and lower product margins from higher production input costs incurred in materials, transportation, and energy costs caused by the global supply chain shortage, inflation, and labor costs. This was partially offset by a positive mix impact due to higher sales in the European market.

Research and Development Expenses ("R&D")

RESEARCH & DEVELOPMENT FOR THE THREE MONTHS AND YEARS ENDED

(n millions of U.S. dollars)	**Three months ended December 31**		**Change**		**Years ended December 31**		**Change**	
	2022	2021	$	%	2022	2021	$	%
OEM	$ 4.9	$ 3.1	$ 1.8	58 %	$ 19.5	$ 19.3	$ 0.2	1 %
IAM	0.9	1.7	(0.8)	(47)%	4.0	5.9	(1.9)	(32)%
Total R&D	$ 5.8	$ 4.8	$ 1.0	21 %	$ 23.5	$ 25.2	$ (1.7)	(7)%

OEM

R&D expenses for the three months and year ended December 31, 2022 were $4.9 million and $19.5 million, respectively, compared to $3.1 million and $19.3 million for the same prior year periods.

R&D expenses for the three months ended December 31, 2022 increased by $1.8 million due to increased testing and engineering resources for HPDI fuel systems.

IAM

R&D expenses for the three months and year ended December 31, 2022 were $0.9 million and $4.0 million, respectively, compared to $1.7 million and $5.9 million for the same prior year periods.

The decrease in R&D expenses is primarily driven by a decrease in outside services related to IAM projects and lower depreciation due to lower capital expenditures. This was partially offset by an increase in utility costs.

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

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

(in millions of U.S. dollars)	**Three months ended December 31**		**Change**		**Years ended December 31**		**Change**	
	2022	2021	$	%	2022	2021	$	%
OEM	$ 6.5	$ 6.1	$ 0.4	7 %	$ 23.9	$ 20.5	$ 3.4	17 %
IAM	3.3	3.1	0.2	6 %	14.4	16.8	(2.4)	(14)%
Corporate	4.4	3.1	1.3	42 %	13.8	12.5	1.3	10 %
Total SG&A	$ 14.2	$ 12.3	$ 1.9	15 %	$ 52.1	$ 49.8	$ 2.3	5 %

OEM

SG&A expenses for the three months and year ended December 31, 2022 were $6.5 million and $23.9 million, respectively, compared to $6.1 million and $20.5 million for the same prior year periods. The increases of $0.4 million and $3.4 million for the respective periods were primarily driven by additional expenses from our fuel storage business acquired in June 2021, higher compensation costs and travel-related costs, which is partially offset by the aforementioned foreign exchange impact.

IAM

SG&A expenses for the three months and year ended December 31, 2022 were $3.3 million and $14.4 million, respectively, compared to $3.1 million and $16.8 million for the same prior year periods. The decrease of $2.4 million for the year was mainly due to recoveries of excess benefit contribution paid from prior years and lower labor cost due to lower headcount compared to prior year.

Corporate

SG&A expenses for the three months and year ended December 31, 2022 were $4.4 million and $13.8 million, respectively, compared to $3.1 million and $12.5 million for the same prior year periods. The increase of $1.3 million for the year was mainly due to higher consulting costs compared to prior year.

Other Significant Expense and Income Items for the year ended December 31, 2022

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, 2022, we recognized a foreign exchange loss of $6.4 million compared to a foreign exchange gain of $2.0 million for the year ended December 31, 2021. The loss recognized in the current year primarily relates to unrealized foreign exchange loss 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, 2022 and December 31, 2021 were $11.8 million and $14.0 million respectively. The amounts included in cost of revenue for the same periods were $7.3 million and $8.7 million, respectively. Depreciation and amortization has decreased year-over-year due to machinery and equipment disposals for the year and the net weakening of the Euro against the U.S. dollar, which decreased reported U.S. dollar depreciation and amortization.

Interest on debt and amortization of discount

(in millions of U.S. dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Interest expense on long-term debt	$ 0.7	$ 0.7	$ 2.6	$ 3.6
Royalty payable accretion expense	—	(0.1)	0.8	1.4
Total interest on long-term debt and accretion on royalty payable	$ 0.7	$ 0.6	$ 3.4	$ 5.0

The decrease in interest expense on long-term debt for the year ended December 31, 2022 compared to prior year period was mainly due to the conversion of the convertible notes held by Cartesian (defined in note 15 in our Annual Financial Statements). 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.

Income tax expense for the year ended December 31, 2022 was $1.4 million compared to $8.1 million of income tax recovery 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 position decreased by $38.7 million to $86.2 million at December 31, 2022 compared to $124.9 million at December 31, 2021. The decrease was primarily driven by the net cash used in our operating activities, purchases of fixed assets and net debt repayments, partially offset by net changes to working capital and net proceeds from the sale of our interest in CWI.

Cash Flow from Operating Activities

The Russia-Ukraine conflict, higher natural gas prices, especially in Europe, global supply chain disruptions and high inflation continue to challenge the automotive industry with rising manufacturer costs, this is causing pressure on the gross margin in the near term. We are responding with pricing and productivity countermeasures to manage our profitability. For further discussion, see the "Russia-Ukraine Conflict" and "Risk, Long-term Profitability, and Liquidity" sections in this MD&A. These conditions continue to persist. Consequently, the duration and severity of the impact on future quarters is currently uncertain.

For the year ended December 31, 2022, net cash used in operating activities was $31.6 million compared to $43.8 million for the year ended December 31, 2021, a $12.2 million decrease in net cash used in operating activities. The decrease in cash used in operating activities was primarily driven by an increase in our net loss offset by net changes in working capital, specifically in inventory and accounts receivable. We had built up inventory in the third quarter of 2021 to manage against supply chain risk against shortages of raw materials and components. We continue to take actions to monetize the existing inventory and optimize our inventory levels. Net cash inflows from accounts receivable resulted from improved collections on key customer accounts compared to the prior year, which was offset by net cash outflows from a reduction in accounts payable and accrued liabilities due to lower accruals compared to the prior year.

Cash Flow from Investing Activities

For the year ended December 31, 2022, our net cash flows from investing activities were $17.6 million compared to $2.3 million for the year ended December 31, 2021. The increase in net cash flows from investing activities compared to the prior year was primarily driven by the proceeds on the sale of the CWI investment of $31.4 million in 2022. In the prior year, we received dividends of $21.8 million while no dividends received this year. The capital expenditures were comparable year-over-year.

Cash Flow from Financing Activities

For the year ended December 31, 2022, our net cash flows used in financing activities were $22.5 million, compared to net cash flows from financing activities of $104.7 million during the year ended December 31, 2021. In 2021, we received $12.8 million in net proceeds from the issuance of 1,819,712 common shares through our at-the-market ("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. Net payments on our operating lines of credit and long-term facilities increased to $17.3 million for the year ended December 31, 2022 compared to $8.6 million in the prior year.

Contractual Obligations and Commitments

CONTRACTUAL CASH FLOWS

(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	$ 98.9	$ 98.9	$ 98.9	$ —	$ —	$ —
Short-term debt[1]	9.1	9.1	9.1	—	—	—
Long-term debt, principal[2]	43.9	41.9	11.2	22.9	7.8	—
Long-term debt, interest[2]	—	8.4	3.6	4.1	0.7	—
Long-term royalty payable[3]	5.5	7.9	1.1	3.9	2.9	—
Operating lease commitments[4]	23.4	27.0	3.4	5.3	4.5	13.9
	$ 180.8	**$ 193.2**	**$ 127.3**	**$ 36.2**	**$ 15.7**	**$ 13.9**

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, 2022, the weighted average number of shares used in calculating the income per share was 171,225,305. During the year ended December 31, 2022, 2,541,098 share units were granted to directors, executives and employees (2021 - 875,703 share units). This included 994,700 Restricted Share Units ("RSUs") (2021 - 417,719 RSUs), 1,221,398 Performance Share Units ("PSUs") (2021 - 457,984 PSUs) and 325,000 Deferred Share Units (2021 - 0 DSUs). The common shares, share options and share units outstanding and exercisable as at the following dates are shown below:

SHARES OUTSTANDING

	Dec 31, 2022		**Mar 13, 2023**	
(weighted average exercise prices are presented in Canadian dollars)	**Number**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
		$		**$**
Common Shares outstanding	171,303,165		171,714,900	
Share Units				
Outstanding	3,174,321	2.41	2,535,313	N/A
Exercisable	—	0	4,437	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 accounts receivable, liquidity and going concern, warranty liability, revenue recognition, inventories, and property, plant and equipment. The application of these and other accounting policies are described in note 3 of the Annual Financial Statements. Actual amounts may vary significantly from estimates used.

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.

Accounts Receivable

We make assumptions and have established 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. When we become aware of a customer’s inability to meet its financial obligation, we record a specific credit loss provision to reduce the customer's related accounts receivable to its estimated net realizable value.

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.

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. 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

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 2022 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.

As of December 31, 2022, we have concluded that there are no impairment indicators.

Intangible Assets

We concluded that there were no impairment indicators as of December 31, 2022 related to intangible assets. Therefore, no impairment on intangible assets was recorded in the year ended December 31, 2022.

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.

We evaluated the effectiveness of our internal controls over financial reporting as of December 31, 2022 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, 2022, our internal controls and procedures over financial reporting were effective for the period.

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, 2022.

During the year ended December 31, 2022, there were no changes to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

KPMG LLP ("KPMG"), our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2022. KPMG's audit report on effectiveness of internal control over financial reporting is included in the Annual Financial Statements.

Summary of Quarterly Results and Discussion of the Quarter Ended December 31, 2022

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 income (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)	**2021**				**2022**			
Three months ended:	Mar 31	Jun 30(1)	Sep 30	Dec 31	Mar 31(2)	Jun 30	Sep 30	Dec 31
Total revenue	$ 76.4	$ 79.0	$ 74.3	$ 82.7	$ 76.5	$ 80.0	$ 71.2	$ 78.0
Cost of product and parts revenue	$ 63.4	$ 63.3	$ 64.2	$ 73.4	$ 66.6	$ 69.5	$ 59.9	$ 73.4
Gross margin	$ 13.0	$ 15.7	$ 10.1	$ 9.3	$ 9.9	$ 10.5	$ 11.3	$ 4.6
Gross margin percentage	*17.0 %*	*19.9 %*	*13.6 %*	*11.2 %*	*12.9 %*	*13.1 %*	*15.9 %*	*5.9 %*
Net income (loss)	$ (3.1)	$ 17.2	$ (5.8)	$ 5.4	$ 7.7	$ (11.6)	$ (11.9)	$ (16.9)
EBITDA (3)	$ 1.9	$ 13.9	$ (1.2)	$ 8.4	$ 11.7	$ (7.7)	$ (8.0)	$ (13.5)
Adjusted EBITDA (3)	$ 2.7	$ 6.2	$ (1.4)	$ 10.0	$ (6.1)	$ (4.3)	$ (4.5)	$ (12.9)
U.S. dollar to Euro average exchange rate	0.83	0.83	0.85	0.87	0.89	0.94	0.99	0.98
U.S. dollar to Canadian dollar average exchange rate	1.27	1.23	1.26	1.26	1.27	1.28	1.31	1.36
Earnings (loss) per share								
Basic	$ (0.02)	$ 0.11	$ (0.03)	$ 0.04	$ 0.05	$ (0.07)	$ (0.07)	$ (0.10)
Diluted	$ (0.02)	$ 0.11	$ (0.03)	$ 0.03	$ 0.04	$ (0.06)	$ (0.07)	$ (0.10)

Notes

(1) During the second quarter of 2021, we recorded a $5.9 million bargain purchase gain from the acquisition of Stako.

(2) During the first quarter of 2022, we recorded a $19.1 million gain on sale of investment from the sale of our interest in CWI and the monetization of the related intellectual property.

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

Non-GAAP Financial Measures

In addition to the results presented in accordance with U.S. GAAP, we used EBIT, EBITDA, Adjusted EBITDA, gross margin, gross margin as a percentage of revenue, net working capital, and non-current liabilities (collectively, the “Non-GAAP Measures") throughout this MD&A. We believe these non-GAAP measures provide additional information that is useful to stakeholders in understanding our underlying performance and trends through the same financial measures employed by our management. We believe that EBIT, EBITDA, and Adjusted EBITDA are useful to both management and investors in their analysis of our ability to generate liquidity by producing operating cash flow to fund working capital needs, service debt obligations and fund capital expenditures. Management also uses these non-GAAP measures in its review and evaluation of the financial performance of the Company. EBITDA is also frequently used by stakeholders for valuation purposes whereby EBITDA is multiplied by a factor or "EBITDA multiple" that is based on an observed or inferred relationship between EBITDA and market values to determine the approximate total enterprise value of a company. We believe these non-GAAP financial measures also provide additional insight to stakeholders as supplemental information to our U.S. GAAP results and as a basis to compare our financial performance period-over-period and to compare our financial performance with that of other companies. We believe that these non-GAAP financial measures facilitate comparisons of our core operating results from period to period and to other companies by, in the case of EBITDA, removing the effects of our capital structure (net interest income on cash deposits, interest expense on outstanding debt and debt facilities), asset base (depreciation and amortization) and tax consequences. Adjusted EBITDA provides this same indicator of Westport's EBITDA from operations and removing such effects of our capital structure, asset base and tax consequences, but additionally excludes any unrealized foreign exchange gains or losses, stock-based compensation charges and other one-time impairments and costs that are not expected to be repeated in order to provide greater insight into the cash flow being produced from our operating business, without the influence of extraneous events. Readers should be aware that non-GAAP measures have no standardized meaning under U.S. GAAP and accordingly may not be comparable to the calculation of similar measures by other companies. Non-GAAP measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP.

Non-GAAP Financial Measures Reconciliation

GROSS MARGIN

					Years ended December 31,	
		2022		**2021**		**2020**
(expressed in millions of U.S. dollars)						
Revenue	$	305.7	$	312.4	$	252.5
Less: Cost of revenue	$	269.5	$	264.2	$	213.0
Gross Margin	**$**	**36.2**	**$**	**48.2**	**$**	**39.5**

GROSS MARGIN AS A PERCENTAGE OF REVENUE

					Years ended December 31,	
		2022		**2021**		**2020**
(expressed in millions of U.S. dollars)						
Revenue	$	305.7	$	312.4	$	252.5
Gross Margin	$	36.2	$	48.2	$	39.5
Gross Margin as a percentage of Revenue		**12** %		**15** %		**16** %

NET WORKING CAPITAL

	December 31, 2022	December 31, 2021
(expressed in millions of U.S. dollars)		
Accounts receivable	$ 101.6	$ 101.5
Inventories	81.6	83.1
Prepaid expenses	7.8	7.0
Assets held for sale	—	22.0
Accounts payable and accrued liabilities	(98.9)	(99.2)
Current portion of operating lease liabilities	(3.4)	(4.2)
Current portion of warranty liability	(11.3)	(13.5)
Net Working Capital	**77.5**	**96.7**

NON-CURRENT LIABILITIES

	December 31, 2022	December 31, 2021
(expressed in millions of U.S. dollars)		
Total liabilities	$ 203.5	$ 234.9
Less:		
Total current liabilities	135.5	146.5
Long-term debt	32.2	45.1
Long-term royalty payable	4.4	4.7
Non-Current Liabilities	**31.3**	**38.6**

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

	2022				2021			
Three months ended:	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Income (loss) before income taxes from continuing operations	$ (2.8)	$ 9.1	$ (5.4)	$ 4.6	$ 7.6	$ (11.5)	$ (11.0)	$ (16.4)
Interest expense, net[1]	1.2	1.1	0.9	0.3	1.0	0.7	0.2	0.1
EBIT	(1.6)	10.2	(4.5)	4.9	8.6	(10.8)	(10.8)	(16.3)
Depreciation and amortization	3.5	3.7	3.3	3.5	3.1	3.1	2.8	2.8
EBITDA	**$ 1.9**	**$ 13.9**	**$ (1.2)**	**$ 8.4**	**$ 11.7**	**$ (7.7)**	**$ (8.0)**	**$ (13.5)**

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

	2022				2021			
Three months ended:	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
EBITDA	$ 1.9	$ 13.9	$ (1.2)	$ 8.4	$ 11.7	$ (7.7)	$ (8.0)	$ (13.5)
Stock based compensation	0.1	0.5	0.7	0.6	0.5	0.9	0.8	0.2
Unrealized foreign exchange (gain) loss	0.7	(2.3)	(0.9)	0.5	0.8	2.5	2.7	0.4
Asset impairment	—	—	—	—	—	—	—	—
Bargain purchase gain	—	—	—	—	—	—	—	—
Adjusted EBITDA	**$ 2.7**	**$ 6.2**	**$ (1.4)**	**$ 10.0**	**$ (6.1)**	**$ (4.3)**	**$ (4.5)**	**$ (12.9)**

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

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

Basis for Opinion

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

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

Critical Audit 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, 2022, is $62,641 thousand, which includes the property, plant and equipment used in the Company’s heavy-duty Original Equipment Manufacturer (OEM) business, including a specific fuel systems business, which is in the early stages of commercialization and has generated losses to date. As discussed in Note 3(k) to the consolidated financial statements, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company’s determination of whether an indicator of impairment exists includes the preparation of a forecast of future cash flows of the specific fuel systems business. The significant assumptions used in the Company’s forecast of future cash flows include, amongst others, estimates of component sales in the future. We identified the assessment of indicators of impairment for property, plant and equipment related to this specific fuel systems business as a critical audit matter. A higher degree of subjective auditor judgment was required to assess the Company’s evaluation of indicators of impairment due to the uncertainty in the estimates of component sales in the future.

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

KPMG LLP

Chartered Professional Accountants,

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

Vancouver, Canada
March 13, 2023

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, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

KPMG LLP

Chartered Professional Accountants,

Vancouver, Canada
March 13, 2023

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

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

See accompanying notes to consolidated financial statements

Approved on behalf of the Board **Anthony Guglielmin** Director **Brenda J. Eprile** Director

CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME (LOSS)

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

See accompanying notes to consolidated financial statements.

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

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

SUPPLEMENTARY CASH FLOW INFORMATION

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

See accompanying notes to consolidated financial statements.

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

2. Liquidity and Going Concern

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

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

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

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

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

3. Significant Accounting Policies

A. BASIS OF PRESENTATION

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

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

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

B. FOREIGN CURRENCY TRANSLATION

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

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

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

FOREIGN EXCHANGE RATES

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

C. CASH AND CASH EQUIVALENTS (including restricted cash):

Cash and cash equivalents include cash on hand, term deposits, banker acceptances and guaranteed investment certificates with maturities of ninety days or less when acquired. Cash and cash equivalents at December 31, 2022 include restricted cash of $98 (2021 - $104). Restricted cash at December 31, 2022 and 2021 is related to cash used to secure a letter of credit.

D. ACCOUNTS RECEIVABLE, NET

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

E. INVENTORIES

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

F. PROPERTY, PLANT AND EQUIPMENT

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

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	Shorter of lease term or estimated useful life

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

G. LONG-TERM INVESTMENTS

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

H. FINANCIAL LIABILITIES

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

I. RESEARCH AND DEVELOPMENT COSTS

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

J. INTANGIBLE ASSETS

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

K. IMPAIRMENT OF LONG-LIVED ASSETS

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

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

L. GOODWILL

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

M. WARRANTY LIABILITY

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

N. REVENUE RECOGNITION

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

O. INCOME TAXES

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

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

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

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

P. LEASES

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

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

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

The Company has entered into various non-cancellable operating lease agreements primarily for its manufacturing facilities and offices. The Company's leases have lease terms expiring between 2023 and 2038. Many leases include one or more options to renew. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. The average remaining lease term is approximately five years and the present value of the outstanding operating lease liability was determined applying a weighted average discount rate of 3.0% based on incremental borrowing rates applicable in each location.

Q. STOCK-BASED COMPENSATION

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

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

R. EARNINGS (LOSS) PER COMMON SHARE

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

4. Business Combinations

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

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

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

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

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

5. Accounts Receivable

ACCOUNTS RECEIVABLE

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

6. Inventories

INVENTORIES

	December 31, 2022	December 31, 2021
Purchased parts and materials	$ 61,213	$ 62,896
Work-in-process	2,423	3,681
Finished goods	17,999	16,551
Total	**$ 81,635**	**$ 83,128**

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

7. Sale of Investment

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

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

	December 31, 2022
Proceeds from sale of investment	$ 31,445
Holdback receivable[1]	9,713
Carrying value of investment	22,039
Gain on sale of investment	$ 19,119

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

8. Long-term Investments

LONG-TERM INVESTMENTS

	December 31,			
		2022		2021
Weichai Westport Inc.		1,824		1,824
Minda Westport Technologies Limited		2,657		1,852
Other equity accounted investees		148		148
Total long-term investments	**$**	**4,629**	**$**	**3,824**

WEICHAI WESTPORT INC. ("WWI")

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

9. Property, Plant & Equipment

PROPERTY, PLANT & EQUIPMENT

		Cost		Accumulated depreciation		Net book value
December 31, 2022						
Land and buildings	$	8,455	$	2,107	$	6,348
Computer equipment and software		8,756		6,740		2,016
Furniture and fixtures		7,283		5,606		1,677
Machinery and equipment		115,235		66,272		48,963
Leasehold improvements		13,874		10,237		3,637
	$	**153,603**	**$**	**90,962**	**$**	**62,641**

December 31, 2021		Cost		Accumulated depreciation		Net book value
Land and buildings	$	8,843	$	1,883	$	6,960
Computer equipment and software		7,965		6,054		1,911
Furniture and fixtures		6,223		5,149		1,074
Machinery and equipment		113,479		62,320		51,159
Leasehold improvements		13,502		10,186		3,316
	$	**150,012**	**$**	**85,592**	**$**	**64,420**

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

10. Intangible Assets

INTANGIBLE ASSETS

December 31, 2022	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Patents and trademarks	$ 19,799	$ 12,189	$ 7,610
Technology	3,952	3,745	207
Customer contracts	11,242	11,242	—
	$ 34,993	**$ 27,176**	**$ 7,817**

December 31, 2021	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
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**

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

11. Goodwill

Changes in the carrying amount of goodwill are as follows:

GOODWILL

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

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

12. Accounts Payable and Accrued Liabilities

ACCOUNTS PAYABLE & ACCRUED LIABILITIES

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

13. Operating Lease Right-of-Use Assets

The components of lease cost are as follows:

OPERATING LEASE COST

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

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

OPERATING LEASE COST

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

14. Short-Term Debt

SHORT-TERM DEBT

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

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

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

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

15. Long-Term Debt

LONG-TERM DEBT

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

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

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

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

On May 20, 2020, the Company entered into a Euro denominated loan agreement with UniCredit. The effective interest rate of this loan is 1.82% with a maturity date of May 31, 2025. As at December 31, 2022, the amount outstanding for this loan was $2,699 (December 31, 2021 - $4,000). There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità to help Italian companies to secure liquidity to continue operating while mitigating some of the impact of COVID-19.

On July 17, 2020, the Company entered into a Euro denominated loan agreement with UniCredit. The effective interest rate of this loan is 1.75% with a maturity date of July 31, 2026. As at December 31, 2022, the amount outstanding for this loan was $11,273 (December 31, 2021 - $15,335). There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità.

On August 11, 2020, the Company entered into a Euro denominated loan agreement with Deutsche Bank. The effective interest rate of this loan is 1.7% with a maturity date of August 31, 2026. As at December 31, 2022, the amount outstanding for this loan was $5,235 (December 31, 2021 - $7,128). There is no security on the loan as it was made as part of the Italian government's COVID-19 Decreto Liquidità.

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

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

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

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

LONG-TERM DEBT REPAYMENT SCHEDULE

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

16. Long-term Royalty Payable

LONG TERM ROYALTY PAYABLE SCHEDULE

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

On January 11, 2016, the Company entered into a financing agreement with Cartesian to support the Company's global growth initiatives. The financing agreement immediately provided $17,500 in cash (the “Tranche 1 Financing”). In consideration for the funds provided to the Company, Cartesian is entitled to royalty payments based on the greater of (i) a percentage of amounts

received by the Company on select HPDI systems and CWI joint venture income through 2025 and (ii) stated fixed amounts per annum (subject to adjustment for asset sales). The carrying value is being accreted to the expected redemption value using the effective interest method, which is approximately 23% per annum. Pursuant to the sale of CWI, amounts due to Cartesian are solely secured by an interest in the Company's HPDI 2.0™ fuel systems intellectual property.

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

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

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

MINIMUM REPAYMENTS INCLUDING INTEREST

2023		1,162
2024		1,637
2025		2,270
2026		2,851
	$	**7,920**

17. Warranty Liability

A continuity of the warranty liability is as follows:

WARRANTY LIABILITY

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

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

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

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

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

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

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

During the year ended December 31, 2022, the Company issued 503,840 common shares, net of cancellations, upon exercises of share units (year ended December 31, 2021 – 327,774 common shares). The Company issues shares from treasury to satisfy share unit exercises.

(a) Share Units ("Units"):

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

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

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

UNIT ISSUED SUMMARY

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

During the year ended December 31, 2022, 2,541,098 share units were granted to directors, executives and employees (year ended December 31, 2021 - 875,703). This included 994,700 Restricted Share Units ("RSUs") (year ended December 31, 2021 - 417,719) and 1,221,398 Performance Share Units ("PSUs") (year ended December 31, 2021 - 457,984) and 325,000 Deferred Share Units ("DSUs") (year ended December 31, 2021 - 0 DSUs). Values of PSUs awards are determined using either the Monte – Carlo averaging technique or the Black Scholes model. RSUs typically vest over a three-year period so the actual value received by the individual depends on the share price on the day such RSUs are settled for common shares, not the date of grant. PSU awards do not have a certain number of common shares that will be issued over time but are based on future performance and other conditions tied to the payout of the PSU. Vesting of DSUs shall occur, immediately prior to the resignation, retirement or termination of directorship, in accordance with the terms of Westport's Omnibus Plan.

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

(b) Aggregate intrinsic values:

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

AGGREGATE INTRINSIC VALUES OF SHARE UNITS

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

(c) Stock-based compensation:

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

STOCK-BASED COMPENSATION

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

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

19. Income Taxes

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

INCOME TAX PROVISION

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

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

DEFERRED INCOME TAX ASSETS & LIABILITIES

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

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

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

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

INCOME TAX EXPENSE (RECOVERY)

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

(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:	**2023**	**2024**	**2025**	**2026 and later**	**Total**
Canada	$ —	$ —	$ —	$ 616,437	$ 616,437
Italy					—
United States	—	—	—	90,475	90,475
Sweden	—	—	—	10,656	10,656
China	1,528	948	2,267	1,994	6,737
Other				7,382	7,382
Total	**$ 1,528**	**$ 948**	**$ 2,267**	**$ 731,853**	**$ 736,596**

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

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

(f) The Company records uncertain tax positions in accordance with ASC No. 740, Income Taxes. As at December 31, 2022, the total amount of the Company's uncertain tax benefits was $5,352 (December 31, 2021 - $5,152). If recognized in future periods, the uncertain tax benefits would affect our effective tax rate. The Company files income tax returns in Canada, the U.S., Italy, and various other foreign jurisdictions. All taxation years remain open to examination by the Canada Revenue Agency, the 2019 to 2022 taxation years remain open to examination by the Internal Revenue Service, the 2017 to 2022 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 Minda Westport Technologies Limited, directors, officers and shareholders that own greater than 10% of the Company's shares.

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

21. Commitments and Contingencies

(a) Contractual commitments

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

(b) Contingencies

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

22. Segment Information

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

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

Financial information by business segment as follows:

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

	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**

ADDITIONS TO LONG-LIVED ASSETS

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

Revenues are attributable to geographical regions based on the location of the Company's customers and are presented as a percentage of the Company's revenues, as follows:

REVENUE BY REGION

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

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

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

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

Total assets are allocated as follows:

TOTAL ASSETS BY OPERATING SEGMENT

	Years ended December 31,	
	2022	2021
OEM	$ 241,795	$ 193,928
IAM	145,377	148,745
Corporate	20,279	128,640
Total consolidated assets	**$ 407,451**	**$ 471,313**

The Company's long-lived assets consist of property, plant and equipment, 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, 2022			
Italy	$ 20,382	$ 7,688	$ 28,070
Canada	25,199	129	25,328
Rest of Europe	9,032	2,958	11,990
Asia Pacific	8,028	—	8,028
Total consolidated long-lived assets	$ 62,641	$ 10,775	$ 73,416
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

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

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

CONTRACTUAL OBLIGATIONS

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

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

(d) Foreign currency risk:

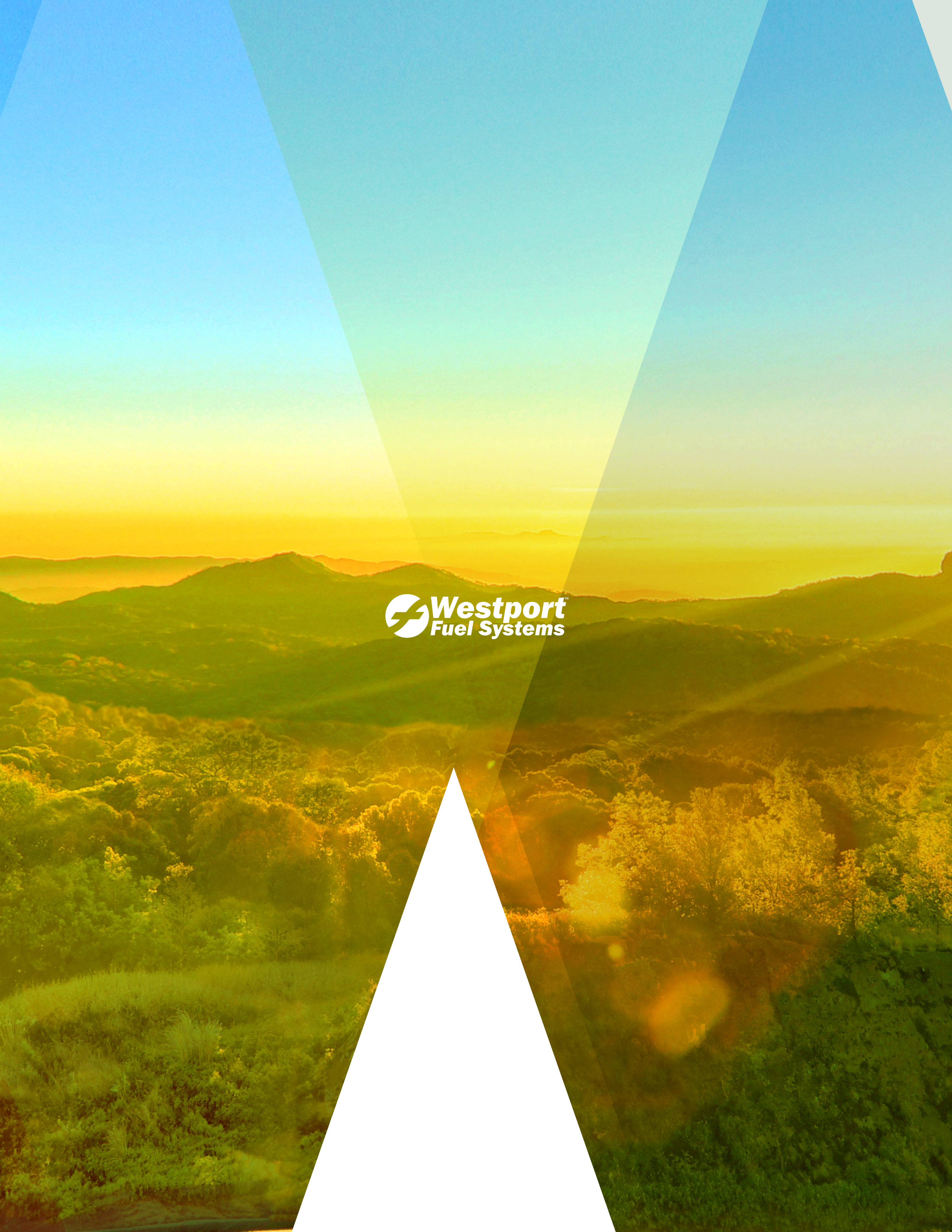
Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company conducts a significant portion of its business activities in foreign currencies, primarily the U.S. dollar and the Euro.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

Cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and long-term debt that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies. The Company's functional currency is the Canadian dollar.
The fluctuation in the average U.S. dollar in recent years has resulted in material impacts on our revenues in those years. If the U.S. dollar continues to fluctuate against other currencies, the Company will experience additional volatility in our financial statements.
A 5% increase/decrease in the relative value of the U.S. dollar against the Canadian dollar and Euro compared to the exchange rates in effect for the year ended December 31, 2022 would have resulted in lower/higher income from operations of approximately $1,129. This assumes a consistent 5% appreciation in the U.S. dollar against the Canadian dollar and the Euro throughout the fiscal year. The timing of changes in the relative value of the U.S. dollar can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

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