

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

WESTPORT FUEL SYSTEMS INC.

For the three and nine months ended September 30, 2018 and 2017

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Balance Sheets (unaudited)

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

September 30, 2018 and December 31, 2017

	September 30, 2018	December 31, 2017
		(Adjusted, note 5)
Assets		
Current assets:		
Cash and cash equivalents (including \$2,536 restricted cash, note 12(a))	\$ 54,243	\$ 71,842
Accounts receivable (note 6)	63,005	61,900
Inventories (note 7)	47,165	45,737
Prepaid expenses	5,958	4,726
Current assets held for sale (note 5)	3,042	16,992
Total current assets	173,413	201,197
Long-term investments (note 8)	11,230	9,302
Property, plant and equipment (note 9)	65,563	69,804
Intangible assets (note 10)	17,876	20,943
Deferred income tax assets	745	1,848
Goodwill	3,214	3,324
Other long-term assets	4,551	7,204
Total assets	\$ 276,592	\$ 313,622
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 88,163	\$ 86,225
Current portion of long-term debt (note 12)	7,448	8,993
Current portion of long-term royalty payable (note 13)	6,166	2,390
Current portion of warranty liability (note 14)	3,004	3,529
Current liabilities held for sale (note 5)	6,784	19,141
Total current liabilities	111,565	120,278
Long-term debt (note 12)	39,512	45,429
Long-term royalty payable (note 13)	14,045	16,641
Warranty liability (note 14)	2,662	2,772
Deferred income tax liabilities	3,929	4,616
Other long-term liabilities	5,689	5,854
Total liabilities	177,402	195,590
Shareholders' equity:		
Share capital (Unlimited common and preferred shares, no par value)(note 15):		
132,942,884 (2017 - 131,279,709) common shares	1,085,575	1,078,280
Other equity instruments	13,662	16,247
Additional paid in capital	10,079	10,079
Accumulated deficit	(989,157)	(966,869)
Accumulated other comprehensive loss	(20,969)	(19,705)
Total shareholders' equity	99,190	118,032
Total liabilities and shareholders' equity	\$ 276,592	\$ 313,622

Commitments and contingencies (note 17)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

Brenda J. Eprile

Director

Colin Johnston

Director

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss) (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017 (Adjusted, note 5)	2018	2017 (Adjusted, note 5)
Product revenue	\$ 65,413	\$ 55,768	\$ 208,291	\$ 166,776
Service and other revenue	111	643	1,554	5,551
	65,524	56,411	209,845	172,327
Cost of revenue and expenses:				
Cost of product revenue	49,918	42,747	157,859	126,050
Research and development	7,817	12,765	23,841	38,542
General and administrative	14,767	11,384	39,304	33,881
Sales and marketing	3,605	4,428	11,514	12,614
Restructuring costs (recoveries)	—	(162)	808	(133)
Foreign exchange loss	2,223	2,548	7,422	1,981
Depreciation and amortization	2,133	2,572	6,707	7,322
Loss on sale of investment and assets	36	706	95	639
	80,499	76,988	247,550	220,896
Loss from operations	(14,975)	(20,577)	(37,705)	(48,569)
Income from investments accounted for by the equity method	7,696	5,755	16,960	12,798
Interest on long-term debt and amortization of discount	(2,697)	(2,377)	(6,818)	(12,822)
Other income	442	1,417	744	2,190
Loss before income taxes	(9,534)	(15,782)	(26,819)	(46,403)
Income tax expense (recovery)	2,566	459	3,569	(4,292)
Net loss from continuing operations	(12,100)	(16,241)	(30,388)	(42,111)
Net income from discontinued operations (note 5)	8,971	602	8,100	46,222
Net income (loss) for the period	(3,129)	(15,639)	(22,288)	4,111
Cumulative translation adjustment	1,612	6,365	(1,264)	15,334
Comprehensive income (loss)	\$ (1,517)	\$ (9,274)	\$ (23,552)	\$ 19,445
Earnings (loss) per share:				
From continuing operations - basic and diluted	\$ (0.09)	\$ (0.15)	\$ (0.23)	\$ (0.38)
From discontinued operations - basic and diluted	0.07	0.01	0.06	0.42
Net income (loss) - basic and diluted	\$ (0.02)	\$ (0.14)	\$ (0.17)	\$ 0.04
Weighted average common shares outstanding:				
Basic and diluted	132,178,685	110,462,019	132,128,066	110,317,330

See accompanying notes to condensed consolidated interim financial statements.

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Statements of Shareholders' Equity (unaudited)

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

Nine months ended September 30, 2018 and 2017

	Common Shares Outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
January 1, 2017	110,109,092	\$ 1,042,410	\$ 20,926	\$ 10,079	\$ (956,890)	\$ (31,087)	\$ 85,438
Issue of common shares on exercise of share units	1,380,719	6,740	(6,740)	—	—	—	—
Issue of common shares on public offering, net of costs incurred	19,125,000	25,953	—	—	—	—	25,953
Stock-based compensation	—	—	4,642	—	—	—	4,642
Net income for the period	—	—	—	—	4,111	—	4,111
Other comprehensive income	—	—	—	—	—	15,334	15,334
September 30, 2017	130,614,811	\$ 1,075,103	\$ 18,828	\$ 10,079	\$ (952,779)	\$ (15,753)	\$ 135,478
January 1, 2018	131,279,709	\$ 1,078,280	\$ 16,247	\$ 10,079	\$ (966,869)	\$ (19,705)	\$ 118,032
Issue of common shares on exercise of share units	1,663,175	7,295	(7,295)	—	—	—	—
Stock-based compensation	—	—	4,710	—	—	—	4,710
Net loss for the period	—	—	—	—	(22,288)	—	(22,288)
Other comprehensive loss	—	—	—	—	—	(1,264)	(1,264)
September 30, 2018	132,942,884	\$ 1,085,575	\$ 13,662	\$ 10,079	\$ (989,157)	\$ (20,969)	\$ 99,190

See accompanying notes to condensed consolidated interim financial statements.

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(Expressed in thousands of United States dollars)

Three and nine months ended September 30, 2018 and 2017

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
		(Adjusted, note 5)		(Adjusted, note 5)
Cash flows from (used in) operating activities:				
Net loss for the period from continuing operations	\$ (12,100)	\$ (16,241)	\$ (30,388)	\$ (42,111)
Items not involving cash:				
Depreciation and amortization	4,207	3,865	12,527	11,000
Stock-based compensation expense	605	2,120	2,263	6,288
Unrealized foreign exchange loss	2,223	2,547	7,422	1,980
Deferred income tax	192	806	93	(1,242)
Income from investments accounted for by the equity method	(7,696)	(5,755)	(16,960)	(12,798)
Accretion of long-term debt	1,141	1,047	5,262	7,069
Inventory write-downs to net realizable value	—	590	162	866
Change in fair value of derivatives and bad debts expense	—	1,184	685	1,184
Loss on sale of asset or investments	36	706	95	639
Restructuring obligations	(188)	(6,325)	(3,775)	(10,993)
Changes in non-cash operating working capital:				
Accounts receivable	5,419	4,919	(2,623)	(2,531)
Inventories	(2,619)	1,829	(2,592)	(2,129)
Prepaid and other assets	949	93	(461)	(523)
Accounts payable and accrued liabilities	(5,555)	(3,876)	2,143	4,329
Deferred revenue	767	(445)	843	(1,440)
Warranty liability	358	(1,616)	623	(3,191)
Net cash used in operating activities of continuing operations	(12,261)	(14,552)	(24,681)	(43,603)
Net cash from (used in) operating activities of discontinued operations	143	(239)	(2,731)	(4,134)
Cash flows from (used in) investing activities:				
Purchase of property, plant and equipment and other assets	(1,914)	(3,810)	(7,247)	(17,207)
Sale of short-term investments, net	1	5	1	371
Proceeds on sale of investments and assets	—	—	—	67
Dividends received from joint ventures	7,746	5,323	15,017	10,856
Proceeds received from holdback (see note 5)	—	—	3,600	—
Net cash from (used in) investing activities of continuing operations	5,833	1,518	11,371	(5,913)
Net cash from investing activities of discontinued operations	14,050	—	14,050	77,148
Cash flows from (used in) financing activities:				
Repayment of operating lines of credit and long term facilities	(3,431)	(49,342)	(11,620)	(67,062)
Drawings on operating lines of credit	—	3,618	4,352	19,440
Repayment of royalty payable	—	(1,303)	(2,504)	(10,953)
Issuance of common shares	—	25,953	—	25,953
Net cash used in financing activities	(3,431)	(21,074)	(9,772)	(32,622)
Effect of foreign exchange on cash and cash equivalents	(1,278)	(2,435)	(5,836)	(320)
Increase (decrease) in cash and cash equivalents	3,056	(36,782)	(17,599)	(9,444)
Cash and cash equivalents, beginning of period	51,187	87,395	71,842	60,057
Cash and cash equivalents (including \$2,536 restricted cash, note 12(a)), end of period	\$ 54,243	\$ 50,613	\$ 54,243	\$ 50,613

WESTPORT FUEL SYSTEMS INC.

Condensed Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of United States dollars)

Three and nine months ended September 30, 2018 and 2017

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Supplementary information:				
Interest paid	\$ 504	\$ 1,939	\$ 2,977	\$ 4,164
Taxes paid, net of refunds	—	—	27	—

See accompanying notes to condensed consolidated interim financial statements.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

1. Company organization and operations

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

2. Liquidity and going concern

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

At September 30, 2018, the Company's net working capital was \$61,848 including cash and cash equivalents of \$54,243, and its long-term debt, including the royalty payable, was \$67,171, of which \$13,614 matures or is payable in the next twelve months. The Company has incurred a loss from continuing operations of \$30,388 and negative cash flows from continuing operating activities of \$24,681 for the nine months ended September 30, 2018, and has accumulated a deficit of \$989,157 since inception. The Company continues to work towards its goals of increasing revenues and reducing expenditures, which has improved results from operations and operating cash flows in 2018 and 2019. In particular, with the Westport HPDI 2.0™ product now in production, the Company's engineering and development spend and the associated capital expenditures on this product have decreased significantly in 2018 and this reduction has improved cash flows. In addition, the Company continues to examine non-core assets to determine whether it is in the best interest of the Company to monetize these assets in the next year or to continue to hold and invest in these assets. Connected with this activity of assessing its non-core assets, the Company announced the sale of the compressed natural gas ("CNG") Compressor business during the second quarter of 2018, which closed on July 25, 2018 for gross proceeds of \$14,729 (€12,600).

The Company believes that the cash on hand at September 30, 2018 and the improvements to the operations expected for the fourth quarter of 2018 and beyond will provide the cash flow necessary to fund operations over the next year to November 2019. The ability of the Company to continue as a going concern beyond one year will be dependent on the Company's ability to generate positive results from operations and cash flows or on its ability to raise additional financings to fund future operations. If, as a result of future events, the Company was to determine it was no longer able to continue as a going concern, significant adjustments may be required to the carrying value of its assets and liabilities in the accompanying financial statements and the adjustments could be material.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

3. Basis of preparation:

(a) Basis of presentation:

These condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

These interim financial statements do not include all note disclosures required on an annual basis, and therefore, should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2017, filed with the appropriate securities regulatory authorities.

In the opinion of management, all adjustments, which include reclassifications and normal recurring adjustments necessary to present fairly the condensed consolidated balance sheets, condensed consolidated results of operations and comprehensive loss, condensed consolidated statements of shareholders' equity and condensed consolidated cash flows as at September 30, 2018 and for all periods presented, have been recorded. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the Company's full year results.

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

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

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

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

	Period ended		Average for the three months ended		Average for the nine months ended	
	September 30, 2018	December 31, 2017	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Canadian dollar	0.77	0.80	0.77	0.80	0.78	0.77
Australian dollar	0.72	0.78	0.73	0.79	0.76	0.77
Euro	1.16	1.20	1.16	1.18	1.19	1.11
Argentina Peso	0.02	0.06	0.03	0.06	0.04	0.06
RMB	0.15	0.15	0.15	0.15	0.15	0.15
Swedish Krona	0.11	0.12	0.11	0.12	0.12	0.12
Indian Rupee	0.0138	0.0157	0.0142	0.0156	0.0149	0.0153

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

3. Basis of preparation (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents include cash, term deposits, bankers acceptances and guaranteed investment certificates with maturities of ninety days or less when acquired. Cash equivalents are considered as held for trading and recorded at fair value with changes in fair value recognized in the consolidated statements of operations. The \$2,536 of restricted cash forms part of the security for the Export Development Canada ("EDC") loan. See note 12 for additional details.

(d) Cartesian:

Cartesian Capital Group is a global private equity firm based in New York that has investments in the Company. Various Cartesian entities are associated with these investments including Pangaea Two Management, LP; Pangaea Two Acquisition Holdings XIV, LLC; Pangaea Two Acquisition Holdings Parallel XIV, LLC. Collectively, these entities will be referred to as "Cartesian". In addition, Peter Yu, the founder and managing partner of Cartesian, was elected as a Director of the Company in January 2016. See notes 8(b), 12 and 13 for additional details of Cartesian's investments in the Company.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

4. Accounting changes:

- (a) New accounting pronouncements adopted in 2018:

Revenue:

In May 2014, Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue From Contracts With Customers* (“Topic 606”). Topic 606 removes inconsistencies and weaknesses in revenue accounting requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Accounting Standards Codification. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2017. The Company adopted the guidance using the modified retrospective method as at January 1, 2018 with no material impact to the financial statements.

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

In August 2016, the FASB issued ASU 2016-15, which provides cash flow classification guidance on eight specific cash flow issues to reduce diversity in practice for which authoritative guidance did not previously exist. ASU 2016-15 is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this guidance in the first quarter of 2018 did not result in any material impact to the financial statements.

Income Taxes (Topic 740): Accounting for Income Taxes on Intercompany Transfers:

In October 2016, the FASB issued ASU 2016-16, which requires entities to recognize the income tax consequences of intercompany asset transfers in the period in which the transfer occurs, with the exception of inventory transfer. ASU 2016-16 is effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance in the first quarter of 2018 did not result in any material impact to the financial statements.

- (b) New accounting pronouncements to be adopted in the future:

Leases (Topic 842):

In February 2016, the FASB issued ASU 2016-02, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. It requires the recognition of right-of-use assets and lease liabilities by lessees for those leases with a lease term of greater than 12 months. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, and interim periods with early adoption permitted. The Company's future minimum lease payments at September 30, 2018 under operating leases are disclosed in note 17. The Company has commenced its evaluation of this new standard and expects to transition using the modified retrospective method as at January 1, 2019. The Company's significant leases relate to its leasing of operating premises.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

5. Sale of assets:

On July 25, 2018, the Company completed the sale of its CNG Compressor business for gross proceeds of \$14,729 (€12,600) and recorded a net gain of \$9,910. With effect from the second quarter of 2018, the assets and liabilities of the CNG Compressor business are accounted for as held for sale. The comparative balances of the discontinued CNG Compressor business were also reclassified as at December 31, 2017, with impact to the following balance sheet accounts: accounts receivable, inventories, property, plant and equipment, accounts payable and accrued liabilities, and warranty liability. The notes for these account balances have been adjusted for these reclassifications in these interim financial statements.

During the second quarter of 2017, substantially all of the former Industrial business segment (excluding the electronics and high pressure product lines) was sold.

As discussed in note 13, 15% of the net consideration received on the sales of the CNG Compressor and the Industrial businesses sales was paid or will be payable against the royalty payable due to Cartesian.

The carrying amounts of the major classes of assets and liabilities held for sale for both the CNG Compressor business and Industrial business segment at September 30, 2018 and December 31, 2017 are shown below:

	September 30, 2018	December 31, 2017
Cash	\$ —	\$ 5,924
Accounts receivable	3,042	5,267
Inventories	—	5,006
Property, plant, and equipment	—	795
Total assets classified as held for sale	<u>\$ 3,042</u>	<u>\$ 16,992</u>
Accounts payable and accrued liabilities	\$ 1,377	\$ 12,597
Restructuring obligations	667	—
Income taxes payable	3,448	3,448
Other current liabilities	—	1,462
Deferred income tax liabilities and other liabilities	1,292	1,634
Total liabilities classified as held for sale	<u>\$ 6,784</u>	<u>\$ 19,141</u>

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

5. Sale of assets (continued):

The following table presents financial results of the CNG Compressor business and Industrial business segment which are included in net income from discontinued operations for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Product and service revenue	\$ 1,238	\$ 5,380	\$ 8,849	\$ 39,569
Cost of product revenue	1,274	3,187	7,514	29,947
Research and development	77	296	603	2,768
General and administrative	37	1,373	850	4,039
Sales and marketing	209	445	644	2,407
	<u>1,597</u>	<u>5,301</u>	<u>9,611</u>	<u>39,161</u>
Operating income (loss) from discontinued operations	(359)	79	(762)	408
Restructuring cost (recovery) and other expenses	—	(480)	1,268	133
Gain on sale of assets	(9,910)	—	(10,710)	(54,884)
Income from discontinued operations before income tax	<u>9,551</u>	<u>559</u>	<u>8,680</u>	<u>55,159</u>
Income tax expense	580	(43)	580	8,937
Net income from discontinued operations	<u>\$ 8,971</u>	<u>\$ 602</u>	<u>\$ 8,100</u>	<u>\$ 46,222</u>

On January 1, 2018, the Company exited the portion of the facility related to the discontinued Industrial business segment and recorded a \$1,268 lease-exit restructuring obligation. The lease terminates in August of 2019.

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

6. Accounts Receivable:

	September 30, 2018	December 31, 2017
Customer trade receivables	\$ 55,967	\$ 51,719
Holdback receivables	3,125	6,750
Other receivables	5,315	4,337
Income tax receivable	957	1,232
Due from related parties (note 8(a))	204	156
Allowance for doubtful accounts	(2,563)	(2,294)
	<u>\$ 63,005</u>	<u>\$ 61,900</u>

7. Inventories:

	September 30, 2018	December 31, 2017
Purchased parts	\$ 31,956	\$ 32,352
Work-in-process	2,317	2,187
Finished goods	12,213	10,505
Inventory on consignment	679	693
	<u>\$ 47,165</u>	<u>\$ 45,737</u>

During the three and nine months ended September 30, 2018, the Company recorded write-downs to net realizable value of nil (three months ended September 30, 2017 - \$590) and \$162 (nine months ended September 30, 2017- \$866).

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

8. Long-term investments:

	September 30, 2018	December 31, 2017
Cummins Westport Inc. (a)	\$ 8,761	\$ 6,799
Weichai Westport Inc. (b)	1,823	1,824
Other equity-accounted investees	646	679
	<u>\$ 11,230</u>	<u>\$ 9,302</u>

(a) Cummins Westport Inc. ("CWI"):

The Company and Cummins Inc. ("Cummins") each own 50% of the common shares of CWI. For the three and nine months ended September 30, 2018, the Company recognized its share of CWI's income of \$7,706 and \$16,978, respectively (three and nine months ended September 30, 2017 - \$5,777 and \$12,834, respectively) in income from investments accounted for by the equity method.

As of September 30, 2018, the Company has a related party accounts receivable balance of \$204 due from CWI.

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

	September 30, 2018	December 31, 2017
Current assets:		
Cash and short-term investments	\$ 88,397	\$ 91,720
Accounts receivable	2,399	10,925
	<u>90,796</u>	<u>102,645</u>
Long-term assets:		
Property, plant and equipment	1,026	1,245
Deferred income tax assets	24,246	28,096
	<u>25,272</u>	<u>29,341</u>
Total assets	<u>\$ 116,068</u>	<u>\$ 131,986</u>
Current liabilities:		
Current portion of warranty liability	\$ 19,330	\$ 25,866
Current portion of deferred revenue	21,839	22,157
Accounts payable and accrued liabilities	8,379	12,603
	<u>49,548</u>	<u>60,626</u>
Long-term liabilities:		
Warranty liability	16,254	16,253
Deferred revenue	29,747	38,321
Other long-term liabilities	2,985	3,175
	<u>48,986</u>	<u>57,749</u>
Total liabilities	<u>\$ 98,534</u>	<u>\$ 118,375</u>

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

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8. Long-term investments (continued):

(a) Cummins Westport Inc. (continued):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Product revenue	\$ 63,125	\$ 54,658	\$ 157,583	\$ 165,163
Parts revenue	23,054	20,816	67,717	60,548
	86,179	75,474	225,300	225,711
Cost of revenue and expenses:				
Cost of product and parts revenue	58,864	47,647	155,258	147,540
Research and development	4,184	7,555	14,665	25,443
General and administrative	496	199	1,189	845
Sales and marketing	1,977	5,060	9,919	15,284
Foreign exchange loss	—	4	12	17
Bank charges, interest and other	184	152	549	458
	65,705	60,617	181,592	189,587
Income from operations	20,474	14,857	43,708	36,124
Interest and investment income	484	298	1,259	700
Income before income taxes	20,958	15,155	44,967	36,824
Income tax expense	5,547	3,602	11,011	11,157
Net income	\$ 15,411	\$ 11,553	\$ 33,956	\$ 25,667

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8. Long-term investments (continued):

(b) Weichai Westport Inc.:

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

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

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9. Property, plant and equipment:

September 30, 2018	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 4,817	\$ 1,462	\$ 3,355
Computer equipment and software	8,266	7,484	782
Furniture and fixtures	4,116	3,598	518
Machinery and equipment	90,829	34,938	55,891
Leasehold improvements	12,156	7,139	5,017
	<u>\$ 120,184</u>	<u>\$ 54,621</u>	<u>\$ 65,563</u>

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

10. Intangible Assets:

September 30, 2018	Cost	Accumulated amortization	Net book value
Brands, patents and trademarks	\$ 21,442	\$ 7,780	\$ 13,662
Technology	5,222	4,304	918
Customer contracts	12,537	9,246	3,291
Other intangibles	339	334	5
Total	<u>\$ 39,540</u>	<u>\$ 21,664</u>	<u>\$ 17,876</u>

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

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11. Accounts payable and accrued liabilities:

	September 30, 2018	December 31, 2017
Trade accounts payable	\$ 62,228	\$ 56,309
Accrued payroll	14,239	16,292
Taxes payable	4,170	511
Deferred revenue	859	1,398
Restructuring obligation	—	2,969
Accrued interest	1,171	1,567
Other payables	5,496	7,179
	<u>\$ 88,163</u>	<u>\$ 86,225</u>

12. Long-term debt:

	September 30, 2018	December 31, 2017
Term loan facility, net of debt issuance costs (a)	\$ 17,400	\$ 18,987
Senior financing (b)	9,674	10,901
Convertible debt (c)	17,371	17,335
Other bank financing (d)	1,695	6,562
Capital lease obligations (e)	820	637
Balance, end of period	46,960	54,422
Current portion	(7,448)	(8,993)
Long-term portion	<u>\$ 39,512</u>	<u>\$ 45,429</u>

(a) On December 20, 2017, the Company entered into a loan agreement with EDC for a \$20,000 non-revolving term facility (the "Term Facility"). The loan bears interest at 9% plus monitoring fees, payable quarterly, as well as quarterly principal repayments over four years. The debt issuance costs related to the Term Facility were netted against the carrying value and are being amortized over the term using the effective interest rate method.

The loan is secured by share pledges over Westport Power, Inc., Fuel Systems Solutions, Inc., and MTM S.r.L., and 85% of the proceeds received from the holdback related to the sale of a portion of the Industrial business segment (as discussed in note 5). As at September 30, 2018, security of \$2,536 is held as restricted cash. On reaching certain milestones, the Company has the opportunity to reduce the interest rate to 6%.

(b) The €10,000 senior financing facility was renewed on March 24, 2017. The loan bears interest at the 6-month Euribor plus 3.3% and can increase or decrease by 30 basis points based on an annual leverage ratio calculation. Interest is paid semi-annually. The Company has pledged its interest in EMER S.p.A. as a general guarantee for its senior financing. The repayments are summarized in the table below, where the last repayment is on December 31, 2022.

(c) On January 11, 2016, the Company entered into a financing agreement ("Tranche 2 Financing") with Cartesian. As part of the agreement, on June 1, 2016, convertible debt was issued in exchange for 9% convertible unsecured notes due June 1, 2021, which are convertible into common shares of the Company in whole or in part, at Cartesian's option, at any time following the twelve month anniversary of the closing at a conversion price of \$2.17 per share. Interest is payable annually in arrears on December 31 of each year during the term. The convertible debt is held by a related party as Peter Yu, founder and managing partner of Cartesian, became a member of the Board of Directors of the Company in January 2016. Cartesian's debt is secured by an interest in the Company's Westport HPDI 2.0™ intellectual property and a priority interest in the Company's CWI joint venture interest. The Company may force conversion of up to half of the \$17,500 principal amount of the convertible debt at any time after June 1, 2018 if the Company's shares trade at a price equal to or greater than \$4.34 for 20 out of any 30 consecutive days.

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12. Long-term debt (continued):

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

(e) The Company has capital lease obligations with terms of three to five years at interest rates ranging from 3.1% to 12.0%.

The principal repayment schedule of the senior financings and convertible debt are as follows as at September 30, 2018:

	Term loan facility	Senior financing	Convertible debt	Other bank financing	Capital lease obligations	Total
Remainder of 2018	\$ 437	\$ 1,845	\$ —	\$ 303	\$ 246	\$ 2,831
2019	3,747	1,971	—	348	223	6,289
2020	5,747	2,161	—	348	199	8,455
2021	7,469	2,421	17,371	348	152	27,761
2022 and thereafter	—	1,276	—	348	—	1,624
	<u>\$ 17,400</u>	<u>\$ 9,674</u>	<u>\$ 17,371</u>	<u>\$ 1,695</u>	<u>\$ 820</u>	<u>\$ 46,960</u>

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13. Long-term royalty payable:

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

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

Holdback proceeds received from the sale of the Industrial business segment in the first quarter of 2018 resulted in royalty repayments to Cartesian of \$540.

In the third quarter of 2018, the Company completed the sale of the CNG Compressor business (as described in note 5). This sale will result in royalty prepayments to Cartesian of \$1,723. The Company recorded an additional finance charge of \$632 in the third quarter of 2018 on this early extinguishment of a portion of the long-term royalty payable. In 2017, an additional finance charge of \$5,236 was recorded on the sale of substantially all of the former Industrial business segment.

Including prepayment from the sale of the CNG Compressor business to be made in fourth quarter of 2018, total payments made to Cartesian as a result of the Consent Agreement total \$11,698.

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

	September 30, 2018	December 31, 2017
Balance, beginning of period	\$ 19,031	\$ 21,562
Accretion expense	3,052	3,168
Repayment	(2,504)	(10,935)
Prepayment finance charge	632	5,236
Balance, end of period	20,211	19,031
Current portion	(6,166)	(2,390)
Long-term portion	\$ 14,045	\$ 16,641

The minimum repayments are as follows, for the years ending September 30:

2019	\$ 6,166
2020	6,002
2021	7,333
2022	5,344
2023	1,162
2024 and thereafter	6,758
	<u>\$ 32,765</u>

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14. Warranty liability:

A continuity of the warranty liability is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 5,666	\$ 9,367	\$ 6,570	\$ 11,598
Warranty claims paid	(614)	(236)	(1,997)	(1,336)
Warranty accruals	592	190	1,604	570
Change in estimate	145	(698)	(1,121)	(1,815)
Impact of foreign exchange changes	(123)	(544)	610	(938)
Balance, end of period	5,666	8,079	5,666	8,079
Less: current portion	(3,004)	(4,718)	(3,004)	(4,718)
Long-term portion	\$ 2,662	\$ 3,361	\$ 2,662	\$ 3,361

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

During the nine months ended September 30, 2018, the Company issued 1,663,175 common shares, net of cancellations, upon exercises of share units (nine months ended September 30, 2017 – 1,380,719 common shares). The Company issues shares from treasury to satisfy share unit exercises.

During the nine months ended September 30, 2017, the Company issued 19,125,000 common shares at \$1.50 per share, for gross proceeds of \$28,688. Transaction costs of \$2,735 were incurred for net proceeds of \$25,953.

(a) Share Units ("Units"):

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

During the nine months ended September 30, 2018, the Company recognized \$2,263 (nine months ended September 30, 2017 - \$6,288) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of September 30, 2018 and September 30, 2017 are as follows:

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)
Outstanding, beginning of period	4,509,990	\$ 6.00	6,664,591	\$ 6.75
Granted	474,936	3.54	993,659	2.18
Exercised	(1,663,175)	5.68	(1,380,719)	6.41
Forfeited/expired	(730,000)	3.62	(182,879)	6.01
Outstanding, end of period	2,591,751	\$ 4.61	6,094,652	\$ 6.09
Units outstanding and exercisable, end of period	2,316,665	\$ 4.75	1,655,042	\$ 6.24

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

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's share units at September 30, 2018 as follows:

	September 30, 2018
	(CDN \$)
Share units:	
Outstanding	\$ 9,952
Exercisable	8,896

(c) Stock-based compensation:

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

	Nine months ended September 30,	
	2018	2017
Research and development	\$ 405	\$ 999
General and administrative	1,583	4,153
Sales and marketing	275	1,136
	<u>\$ 2,263</u>	<u>\$ 6,288</u>

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16. Related party transactions:

The Company enters into related party transactions with the CWI joint venture and Cartesian. Refer to note 8(a) for the related party transactions with CWI, and notes 3(d), 5, 8(b), 12(c) and 13 for transactions with Cartesian.

17. Commitments and contingencies:

(a) Contractual Commitments

Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises:

Remainder of 2018	\$	1,539
2019		4,110
2020		2,768
2021		1,026
2022		839
Thereafter		413
	\$	<u>10,695</u>

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

(b) Contingencies

As disclosed in the Company's previously filed interim financial statements and management's discussion and analysis, on June 15, 2017, the Enforcement Division of the SEC issued a subpoena to the Company for information concerning its investment in WWI and compliance with the Foreign Corrupt Practices Act ("FCPA") and securities laws related to disclosure in SEC filings in connection with the Company's operations in China. The SEC Enforcement Division issued follow up subpoenas on February 14, 2018, June 25, 2018, and August 2, 2018. The Company is cooperating with these requests and cannot predict the duration, scope or outcome of the SEC's investigation. To date the Company has devoted significant time and attention to these matters, and the Company may be required to devote even more time, attention and financial resources to these matters in the future. The SEC's investigation and the requirements in response thereto could have a material adverse impact on the Company's results of operations, financial condition, liquidity and cash flows. While the Company cannot estimate its potential exposure, if any, in these matters at this time, the Company has already expended significant amounts investigating and responding to the subpoenas in respect of this investigation, including funding the expense of independent legal representation, and expects to continue to need to expend significant amounts to respond to the SEC investigation. During the three months ended September 30, 2018, the Company recorded expenses related to the SEC investigation of \$3,548, net of insurance recoveries, and to date has recorded aggregate net expenses related to such investigation of \$8,819. Although the Company maintains insurance that may cover some of these expenses, and has given notice to the insurers of the matter, there is a risk that a substantial portion of the overall expenses and costs relating to such SEC investigation will not be covered by such policies. In the event of future proceedings arising out of the SEC investigation, to the extent covered, our ultimate liability may possibly exceed the available insurance.

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

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18. Segment information:

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

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

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

Transportation Business Segment

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

The Transportation group includes the Westport HPDI 2.0™ product line, technologies such as high efficiency spark ignited ("HESI") and electronics, current and advanced research and development programs, supply chain, and product planning activities.

The Company announced the sale of its CNG Compressor business on May 17, 2018 and the sale was completed on July 25, 2018 (see note 5 for details). As a result, the revenues and expenses related to this business have been recorded in discontinued operations for the current and prior periods.

Cummins Westport Inc. Joint Venture

CWI, the 50:50 joint venture with Cummins, serves the medium and heavy-duty on highway engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers.

Corporate Segment

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

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18. Segment information (continued):

Financial information by business segment as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue:				
Transportation	\$ 65,524	\$ 56,411	\$ 209,845	\$ 172,327
CWI	86,179	75,474	225,300	225,711
Total segment revenues	151,703	131,885	435,145	398,038
Less: equity investees' revenue	(86,179)	(75,474)	(225,300)	(225,711)
Consolidated revenue from continuing operations	\$ 65,524	\$ 56,411	\$ 209,845	\$ 172,327
Consolidated revenue from discontinued operations	\$ 1,238	\$ 5,380	\$ 8,849	\$ 39,569

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Operating income (loss):				
Transportation	\$ (2,693)	\$ (11,976)	\$ (5,075)	\$ (29,432)
Corporate	(10,023)	(5,509)	(24,305)	(16,650)
CWI	20,474	14,857	43,708	36,124
Restructuring recoveries (costs)	—	162	(808)	133
Foreign exchange gain (loss)	(2,223)	(2,548)	(7,422)	(1,981)
Gain (loss) on sale of investment and assets	(36)	(706)	(95)	(639)
Total segment operating income (loss)	5,499	(5,720)	6,003	(12,445)
Less: equity investees' operating income	(20,474)	(14,857)	(43,708)	(36,124)
Consolidated operating loss from continuing operations	\$ (14,975)	\$ (20,577)	\$ (37,705)	\$ (48,569)
Consolidated operating income (loss) from discontinued operations	\$ (359)	\$ 79	\$ (762)	\$ 408

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18. Segment information (continued):

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide it by geographical regions. Revenues are attributable to geographical regions based on location of the Company's customers presented as follows:

	% of total revenue from continuing operations			
	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Europe	60%	60%	62%	60%
Americas	20%	21%	17%	19%
Asia	9%	12%	10%	13%
Other	10%	7%	11%	7%

As at September 30, 2018, total long-term investments of \$10,719 (December 31, 2017 - \$8,756) were allocated to the Corporate segment and \$511 (December 31, 2017 - \$546) to the Transportation segment.

Total assets are allocated as follows:

	September 30, 2018	December 31, 2017
Transportation	\$ 242,610	\$ 254,037
CWI	116,068	131,986
Corporate	30,940	42,593
	389,618	428,616
Add: assets held for sale	3,042	16,992
Less: equity investees' total assets	(116,068)	(131,986)
Total consolidated assets	\$ 276,592	\$ 313,622

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19. Financial instruments:

(a) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company has sustained losses and negative cash flows from operations since inception. At September 30, 2018, the Company had \$54,243 of cash, cash equivalents and short-term investments, including \$2,536 of restricted cash (see note 12(a)).

The following are the contractual maturities of financial obligations as at September 30, 2018:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	\$ 88,163	\$ 88,163	\$ 88,163	\$ —	\$ —	\$ —
Term loan facility (note 12 (a))	17,400	22,453	1,206	13,128	8,119	—
Senior financing (note 12 (b))	9,674	10,344	2,160	4,445	3,739	—
Convertible debt (note 12 (c))	17,371	21,699	1,575	20,124	—	—
Other bank financing (note 12 (d))	1,695	1,724	317	708	699	—
Long-term royalty payable (note 13)	20,211	32,765	6,166	13,335	6,506	6,758
Capital lease obligations (note 12 (e))	820	852	160	428	264	—
Operating lease commitments	—	10,695	4,622	4,565	1,406	102
	<u>\$ 155,334</u>	<u>\$ 188,695</u>	<u>\$ 104,369</u>	<u>\$ 56,733</u>	<u>\$ 20,733</u>	<u>\$ 6,860</u>

(b) Fair value of financial instruments:

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

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

The carrying value reported in the condensed consolidated balance sheet for obligations under capital leases, which is based upon discounted cash flows, approximates their fair values.

The carrying value of the Term Facility included in the long-term debt (note 12(a)) approximates its fair values as the loan was executed shortly before the 2017 year end. The carrying value reported in the condensed consolidated balance sheet for senior financing (note 12(b)) approximates its fair values as at September 30, 2018, as the interest rates on the debt is floating and therefore approximate the market rates of interest.

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

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

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

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

WESTPORT FUEL SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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

Three and nine months ended September 30, 2018 and 2017

19. Financial instruments (continued):

When available, the Company uses quoted market prices to determine fair value and classify such items in Level 1. When necessary, Level 2 valuations are performed based on quoted market prices for similar instruments in active markets and/or model-derived valuations with inputs that are observable in active markets. Level 3 valuations are undertaken in the absence of reliable Level 1 or Level 2 information.

As at September 30, 2018, cash and cash equivalents (including restricted cash) and short-term investments are measured at fair value on a recurring basis and are included in Level 1.