UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

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

OR

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

For the fiscal year ended December 31, 2012

Commission file number: 001-34152

Westport
INNOVATIONS INC.

WESTPORT INNOVATIONS INC.

(Exact Name of Registrant as Specified in its charter)

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

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

C T Corporation System	Copies to:
111 Eighth Avenue	**Eva Davis**
New York, NY 10011	**Kirkland & Ellis LLP**
(212) 590-9070	**333 South Hope Street**
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)	**Los Angeles, California, 90071**
	(213) 680-8508

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

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

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

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

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

x Annual Information Form x Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As at December 31, 2012, 55,294,091 common shares of the Registrant were issued and outstanding.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

EXPLANATORY NOTE

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

FORWARD-LOOKING STATEMENTS

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

- the future demand for Cummins Westport Inc. (" **CWI**") products and Company products, including Westport Light Duty Inc. (" **WLD**"), products;
- increasing penetration within our existing markets and expansion of those markets geographically;
- continuing growth in the transportation sector and in the natural gas engine market;
- the timing of and our ability to successfully launch new technology initiatives, including in light-, medium-, and heavy-duty markets;
- our ability to exploit and protect our intellectual property;
- our capital expenditure and investment programs;
- the future desirability and use of natural gas as an alternative fuel;
- commodity prices and the fuel price differential between natural gas and diesel;
- ongoing relationships between us and our business and partners and the results of our development programs with such partners;
- our ability to continue to compete with our competitors and their technologies;
- the capital and operating costs of vehicles using our technologies relative to alternative technologies;
- profit margins and production costs of engines incorporating our technologies;
- the further development of infrastructure supporting the application of natural gas as an alternative fuel;
- increasingly stringent environmental and emissions regulations in the future;

- ongoing availability of government incentives and mandates for our technology;
- our ability to attract and retain employees;
- demand for engines incorporating our technologies;
- the timing of commissioning of liquefied natural gas ("LNG") refueling stations;
- production capacity methods for our methods for our LNG system;
- increasing commercialization of our technologies;
- expansion of our product offerings and markets;
- our estimates and assumptions used in our accounting policies, and accruals, including warranty accruals, and financial condition;
- our adoption, timing and ability to meet certain accounting standards;
- the ability of our products to adapt to the use of biogas , renewable natural gas and manufactured fuels, including hydrogen, as fuels;
- our compliance with environmental regulations; and

- the alignment of our business segments.

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

- market acceptance of our products;
- product development delays;
- delays in contractual commitments;
- changing environmental regulations;
- the ability to attract and retain business partners;
- the success of our business partners and original equipment manufacturers (" **OEMs**"), with whom we partner;
- future levels of government funding and incentives;
- competition from other technologies;
- price differential between compressed natural gas ("CNG"), LNG and liquefied petroleum gas ("LPG") relative to petroleum-based fuels;
- limitations on our ability to protect our intellectual property;
- potential claims or disputes in respect of our intellectual property;
- limitations in our ability to successfully integrate acquired businesses;

- limitations in the development of natural gas refueling infrastructure;
- the ability to provide the capital required for research, product development, operations and marketing;
- unforeseen claims made against us;
- exposure to factors beyond our control through our international business operations, such as currency exchange rates, changes in governmental policy, trade barriers, trade embargoes and delays in the development of international markets for our products;
- those risks discussed under the heading "Risk Factors" in the Annual Information Form (" **AIF**") of the Company filed as Exhibit 99.1 to this annual report on Form 40-F.

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

CURRENCY

Unless specifically stated otherwise, all dollar amounts in this annual report on Form 40-F are in United States dollars. The exchange rate of Canadian dollars into United States dollars, based upon the noon rate of exchange on December 31, 2012 as reported by the Bank of Canada for the conversion of Canadian dollars into United States dollars, was U.S.$1.00 = Cdn.$0.9949.

ANNUAL INFORMATION FORM

The Company's AIF for the fiscal year ended December 31, 2012 is filed as Exhibit 99.1 and incorporated by reference in this annual report on Form 40-F.

AUDITED ANNUAL FINANCIAL STATEMENTS

The audited consolidated financial statements of the Company for the twelve months ended December 31, 2012, nine months ended December 31, 2011 and twelve months ended March 31, 2011, including the report of the independent auditor with respect thereto, are filed as Exhibit 99.2 and incorporated by reference in this annual report on Form 40-F.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's management's discussion and analysis (" **MD&A**") is filed as Exhibit 99.3 and incorporated by reference in this annual report on Form 40-F.

TAX MATTERS

Purchasing, holding or disposing of securities of the Company may have tax consequences under the laws of the United States and Canada that

are not described in this annual report on Form 40-F.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

See Management's Discussion and Analysis of Financial Condition and Results of Operations for the twelve months ended December 31, 2012, included as Exhibit 99.3 to this annual report, under the heading "Disclosure Controls and Procedures and Internal Controls — Changes in Internal Control Over Financial Reporting".

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

See Audited consolidated financial statements of the Company and notes thereto for the twelve months ended December 31, 2012, nine months ended December 31, 2011 and twelve months ended March 31, 2011, including the report of the independent auditor with respect thereto, are filed as Exhibit 99.2 to this annual report, under the heading "Report of Independent Registered Public Accounting Firm".

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

See Management's Discussion and Analysis of Financial Condition and Results of Operations for the twelve months ended December 31, 2012, included as Exhibit 99.3 to this annual report, under the heading "Disclosure Controls and Procedures and Internal Controls — Changes in Internal Control Over Financial Reporting".

AUDIT COMMITTEE

Audit Committee

The Company has a separately designated standing Audit Committee established in accordance with section 3(a)(58)(A) of the Exchange Act and Nasdaq Rule 5605(c)(2). The Company's Audit Committee is composed of Douglas R. King, John A. Beaulieu, M.A. (Jill) Bodkin, Phillip B. Hodge and Dr. Dezsõ Horváth and, all of whom, in the opinion of the directors, are independent (as determined under Rule 10A-3 of the Exchange Act and Nasdaq Rule 5605(a)(2)) and are financially literate. Please refer to the Company's AIF attached as Exhibit 99.1 to this annual report for details in connection with each of these members and their qualifications.

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

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

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

Audit Committee Financial Expert

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

PRINCIPAL ACCOUNTING FEES AND SERVICES — INDEPENDENT AUDITORS

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

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT AUDITORS

The Audit Committee nominates and engages the independent auditors to audit the consolidated financial statements and approves all audit, audit-related services, tax services and other services provided by the

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

OFF-BALANCE SHEET TRANSACTIONS

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

CODE OF ETHICS

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

All amendments to the Code, and all waivers of the Code with respect to any of the officers covered by it, will be posted on the Company's website, furnished to the SEC under a Current Report on Form 6-K, and provided in print to any shareholder who requests them.

There have been no amendments, waivers or implicit waivers to the Code during the twelve months ended December 31, 2012. Shareholders may submit a request online at the Company's website www.westport.com for a free printed copy of the Code.

CONTRACTUAL OBLIGATIONS

See Management's Discussion and Analysis of Financial Condition and Results of Operations for the twelve months ended December 31, 2012, included as Exhibit 99.3 to this annual report, under the heading "Contractual Obligations and Commitments".

NOTICES PURSUANT TO REGULATION BTR

There were no notices required by Rule 104 of Regulation BTR that the Company sent during the twelve months ended December 31, 2012 concerning any equity security subject to a blackout period under Rule 101 of Regulation BTR.

NASDAQ CORPORATE GOVERNANCE

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

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

Rule 5605(e)(1) requires that a listed company have director nominees selected or recommended by a majority of the company's independent directors or by a nominations committee comprised solely of independent directors. The Company's Nominating and Corporate Governance

Committee Charter provides that a minimum of a majority of directors on the Nominating and Corporate Governance Committee shall be outside (non-management) and independent directors.

Rule 5615(e) requires that each listed company provide for a quorum for any meeting of the holders of the company's common stock that is not less than $33^1/_3$% of the listed company's outstanding shares of common stock. The Company's bylaws provide for a quorum of at least two persons present in person, being shareholders entitled to vote at the meeting, and representing in the aggregate not less than 5% of the outstanding shares of common stock entitled to vote at the meeting.

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

UNDERTAKING

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

CONSENT TO SERVICE OF PROCESS

The Company previously filed an Appointment of Agent for Service of Process and Undertaking on Form F-X with the SEC on July 22, 2008, with respect to the class of securities in relation to which the obligation to file this annual report on Form 40-F arises.

EXHIBIT INDEX

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

Exhibit	Description
Annual Information	
99.1	Annual Information Form of the Company for the twelve months ended December 31, 2012

99.2	Audited consolidated financial statements of the Company and notes thereto for the twelve months ended December 31, 2012, nine months ended December 31, 2011 and twelve months ended March 31, 2011 together with the report of the auditors thereon
99.3	Management's Discussion and Analysis for the twelve months ended December 31, 2012

Certifications

99.4	Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.5	Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.6	Certificate of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.7	Certificate of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Consents

99.8	Consent of KPMG LLP

Exhibits

101.1	XBRL Interactive Data File

SIGNATURES

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

WESTPORT INNOVATIONS INC.

By: /s/ David R. Demers
Name: David R. Demers
Title: Chief Executive Officer

Date: March 8, 2013

Exhibit 99.1

Westport Innovations Inc.

ANNUAL INFORMATION FORM
for the year ended December 31, 2012

101 - 1750 West 75th Avenue
Vancouver, British Columbia V6P 6G2
Tel: 604.718.2000
Fax: 604.718.2001
www.westport.com

Effective date: March 7, 2013



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FORWARD-LOOKING INFORMATION

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

- the future demand for Cummins Westport Inc. (" **CWI**") products and Westport Innovations Inc. (" **Westport**") products, including Westport Light Duty Inc. ("**Westport LD**") products, increasing penetration within our existing markets and expansion of those markets geographically, and continuing growth in the transportation sector and in the natural gas engine market (set out, for example, under the headings "OVERVIEW", "GENERAL DEVELOPMENTS", "WESTPORT HD NATURAL GAS ENGINES & LNG FUEL SYSTEMS", "STRATEGY", "WESTPORT LD ALTERNATIVE FUEL ENGINES & FUEL SYSTEMS" and additionally, mid-range to heavy-duty engines including those described under the heading, "CUMMINS WESTPORT INC. ALTERNATIVE FUEL ENGINES");

- the timing of and our ability to successfully launch new technology and market initiatives, including: the Westport WiNG™ Power System (the "**WiNG System**") on the Ford Motor Company (" **Ford**") F-450 and F-550 platforms; the new Westport LNG Tank System (as defined herein); the engine with Tata Motors; the ISB 6.7 G engine; the technology development agreement with General Motors ("**GM**"); natural gas technology for Caterpillar Inc.'s ("**Caterpillar**") off-road engines; development of large mine trucks and main line locomotives; the 13-litre heavy-duty natural gas engine with Volvo Powertrain Corporation ("**Volvo Powertrain**"); the 12-litre Weichai Westport high pressure direct injection ("**HPDI**") Landking engine and the natural gas locomotive, each as described and defined herein (set out, for example, under the headings "OVERVIEW", "BUSINESS UNIT REALIGNMENT", "GENERAL DEVELOPMENTS", "WESTPORT LD ALTERNATIVE FUEL ENGINES & FUEL SYSTEMS", "CUMMINS WESTPORT INC. ALTERNATIVE FUEL ENGINES", "WESTPORT HD NATURAL GAS ENGINES & LNG FUEL SYSTEMS", "WESTPORT OTHER PRODUCTS & SERVICES", "STRATEGY" and "RISK FACTORS");

- our ability to exploit and protect our intellectual property (set out, for example, under the headings "OVERVIEW", "INTELLECTUAL PROPERTY", and "RISK FACTORS" particularly under the subheadings, "We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success" and "We could become engaged in intellectual property litigation or disputes that may negatively affect our business");

- our capital expenditure and investment programs (set out, for example, under the headings, "OVERVIEW" and "RISK FACTORS" particularly under the subheadings "We may not realize the anticipated benefits from joint ventures, investments or acquisitions" and "We could be adversely affected by risks associated with acquisitions");

- the future desirability and use of natural gas as an alternative fuel and commodity prices and the fuel price differential between natural gas and diesel (set out, for example, under the headings "OVERVIEW", "STRATEGY" and "RISK FACTORS", particularly, under the subheadings, "Our growth is dependent on natural gas refuelling infrastructure that may not take place" and "Fuel price differentials are hard to predict and may be less favourable in the future");

- ongoing relationships between us and our business partners and the results of our development programs with such partners (set out, for example under the headings "OVERVIEW", "GENERAL DEVELOPMENTS", and "STRATEGY", we make statements throughout these sections regarding such relationships), under the heading "RISK FACTORS", particularly, under the subheading "We are dependent on relationships with strategic partners", and future development program expectations as well as under the heading "OPERATIONS" under the subheading "Westport WiNG™ Power System Production" regarding availability of the WiNG System;

- our ability to continue to compete with our competitors and their technologies, and the capital and operating costs of vehicles using our technologies relative to competing technologies (set out, for example, under the headings "STRATEGY", particularly under the subheading "Maintain Leadership as Alternative Fuel Technology Providers", and the headings "COMPETITIVE CONDITIONS" and "RISK FACTORS", particularly, under the subheading, "We currently face, and will continue to face, significant competition");

- continuing growth in the transportation sector and in the natural gas engine market (set out, for example, under the headings "OVERVIEW", "STRATEGY" and "RISK FACTORS", particularly, under the subheadings "A market for engines with our fuel systems may never develop or may take longer to develop than we anticipate" and "Our growth is dependent on natural gas refuelling infrastructure that may not take place");

- profit margins and production costs of engines incorporating our technologies (set out, for example, under the headings "OVERVIEW", "STRATEGY" and "RISK FACTORS", particularly, under the subheadings "Warranty claims could diminish our margins" and "We have foreign currency risk");

- the further development of infrastructure supporting the application of natural gas as an alternative fuel (set out, for example, under the headings, "OVERVIEW", "STRATEGY", "WESTPORT HD NATURAL GAS ENGINES & LNG FUEL SYSTEMS" and "RISK FACTORS", particularly under the subheading "Our growth is dependent on natural gas refuelling infrastructure that may not take place");

- increasing penetration of our technologies in key markets within the transportation sector and in key geographic markets (set out, for example, under the headings "OVERVIEW", "STRATEGY" and "RISK FACTORS");

- increasingly stringent environmental and emissions regulations in the future (set out, for example, under the headings "OVERVIEW", "STRATEGY" and "RISK FACTORS");

- ongoing availability of government incentives and mandates for our technology (as set out, for example, under the headings “GENERAL DEVELOPMENTS” (references to the South Coast Air Quality Management District (“**SCAQMD**”) approving funding, and to the U.S. Department of Energy’s (“**DOE**”) Clean Cities program, “GOVERNMENT FUNDING” and under “RISK FACTORS”, particularly, under the subheading, “We are partly dependent on government incentives to facilitate demand for our products and fund our research and development programs and these incentives may not be renewed or may be redirected”);

- our ability to attract and retain employees (as set out under the heading “HUMAN RESOURCES AND POLICIES” and “RISK FACTORS”, particularly, under the subheadings, “We may have difficulty managing the expansion of our operations” and “We could lose or fail to attract the human capital necessary to run our business”);

- demand for engines incorporating our technologies (as set out under the headings “GENERAL DEVELOPMENTS”, “STRATEGY” and “RISK FACTORS”, particularly, under the subheading, “A market for engines with our fuel systems may never develop or may take longer to develop than we anticipate”);

- the timing of commissioning of liquefied natural gas (“ **LNG**”) refuelling stations (as set out under the headings “GENERAL DEVELOPMENTS” and “RISK FACTORS”, particularly under the subheading, “Our growth is dependent on natural gas refuelling infrastructure that may not take place”);

- production capacity and methods for our LNG system (as set out under the heading, “STRATEGY” for example under the subheading, “Achieve Automotive-Scale Production by Adding New Partners”, and also under the heading “WESTPORT HD NATURAL GAS ENGINES & LNG FUEL SYSTEMS” and the subheading, “Westport HD System Production and Distribution”);

- increasing commercialization of our technologies and expansion of our product offerings and markets (as set out for example under the headings “OVERVIEW” and “GENERAL DEVELOPMENTS” where we refer to an agreement with ENN Group (“**ENN**”), an award of over 900 natural gas buses powered by ISL G to CWI, the announcement by Pioneer Natural Resources (“**Pioneer**”) regarding the addition of 225 WiNG System natural gas powered Ford F-250 Super Duty trucks to its fleet, the offering by Navistar, Inc. of the CWI ISL G engine in certain of its trucks, the transition of Heckmann Corporation’s truck fleet from traditional diesel vehicles to natural gas vehicles (“**NGVs**”), UPS’s commitment for LNG trucks, Kenworth Truck Company’s (“ **Kenworth**”) announcement that it would introduce the ISL G natural gas engine in more models, where we refer to our announcement that Clark Material Handling (“**Clark**”) selected Juniper engines for certain forklifts, where we refer to Volvo Powertrain entering an agreement under which we become a Tier 1 Development Supplier for heavy-duty natural gas engines and where we refer to Alternative Fuel Vehicle Sweden AB’s (“**AFV**”) expansion plans as well as under “STRATEGY” where we refer to Westport LD’s intention to grow its business);

- our estimates and assumptions used in our accounting policies, accruals, including warranty accruals, and financial condition, and our adoption, timing and ability to meet certain accounting standards (as set out in Schedule “A” entitled “AUDIT COMMITTEE CHARTER” and in our quarterly and annual financial statements);

- the ability of our products to adapt to the use of biogas, renewable natural gas and manufactured fuels, including hydrogen, as fuels (as set out under the headings “OVERVIEW” (second paragraph) and “STRATEGY”);

- our compliance with environmental regulations and regulatory policies (as set out under the headings “SOCIAL AND ENVIRONMENTAL POLICIES” and “RISK FACTORS”, particularly, under the subheading, “We could become liable for environmental damages resulting from our research, development or manufacturing activities”); and

- the alignment of our business units (as set out under the heading “BUSINESS UNIT REALIGNMENT”).

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

- market acceptance of our products (as set out, for example, under “RISK FACTORS”, particularly, under the subheadings “Sustained negative economic factors could negatively impact our business” and “Certain of our products may not achieve widespread adoption”);

- product development delays and delays in contractual commitments (as set out, for example, under “RISK FACTORS”, particularly, under the subheadings “We are dependent on relationships with strategic partners”, “We are dependent on relationships with our suppliers” and “Our limited production trials, commercial launch activities and field tests could encounter problems”);

- changing environmental regulations (as set out, for example, under “RISK FACTORS”, particularly, under the subheading “Changes in environmental and regulatory policies could hurt the market for our products”);

- the ability to attract and retain business partners (as set out, for example, under the heading “RISK FACTORS”, particularly under the subheadings “We are dependent on relationships with strategic partners” and “We are dependent on our relationship with Cummins for CWI revenues and profits”);

- the success of our business partners and original equipment manufacturers (“ **OEMs**”) with whom we partner (as set out, for example, under the heading “RISK FACTORS”, in particular under the subheading “We are dependent on relationships with strategic partners”);

- future levels of government funding and incentives (as set out, for example, under the heading “RISK FACTORS”, particularly, under the subheadings “We may be unable to raise additional capital”, “Potential fluctuations in our financial results make financial forecasting difficult” and “We are partly dependent on government incentives to facilitate demand for our products and fund our research and development programs and these incentives may not be renewed or may be redirected”);

- competition from other technologies (as set out, for example, under the heading, “RISK FACTORS”, particularly under the subheading “We currently face, and will continue to face, significant competition”);

- price differential between compressed natural gas (“ **CNG**”), LNG and liquefied petroleum gas (“ **LPG**”) relative to petroleum-based fuels (as set out, for example, under the heading “RISK FACTORS”, in particular under the subheading “Fuel price differentials are hard to predict and may be less favourable in the future”);

- limitations on our ability to protect our intellectual property (as set out, for example, under the heading “RISK FACTORS”, in particular under the subheading “We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success”);

- potential claims or disputes in respect of our intellectual property (as set out, for example, under the heading “RISK FACTORS”, in particular under the subheadings “We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success” and “We could become engaged in intellectual property litigation or disputes that may negatively affect our business”);

- limitations in our ability to successfully integrate acquired businesses (as set out, for example, under the heading “RISK FACTORS”, in particular under the subheadings “We may not realize the anticipated benefits from joint ventures, investments or acquisitions” and “We could be adversely affected by risks associated with acquisitions”);

- limitations in the development of natural gas refuelling infrastructure (as set out, for example, under the heading “RISK FACTORS”, in particular under the subheading “Our growth in dependent on natural gas refuelling infrastructure that may not take place”);

- the ability to provide the capital required for research, product development, operations and marketing (as set out, for example, under the heading “RISK FACTORS”, particularly under the subheadings “We have incurred and continue to incur losses” and “Warranty claims could diminish our margins”);

- there could be unforeseen claims made against us (as set out, for example, under the heading “RISK FACTORS”, particularly under the subheadings “We could become subject to product liability claims”, “We could become liable for environmental damages resulting from our research, development or manufacturing activities”, “We could become engaged in intellectual property litigation or disputes that may negatively affect our business” and “Natural gas, LPG, hydrogen and products that use these gases entail inherent safety and environmental risks that may result in substantial liability to us”);

- our international business operations could expose us to factors beyond our control such as currency exchange rates, changes in government policy, trade barriers, trade embargoes, and delays in the development of international markets for our products (as set out, for example, under the heading “RISK FACTORS”, particularly under the subheadings “We have foreign currency risk”, “If we do not properly manage foreign sales and operations, our business could suffer”, “We could be adversely affected by the operations of our joint ventures and joint venture partners” and “Some of our foreign subsidies may do business in countries subject to U.S. sanctions and embargoes, and we have limited managerial oversight over those activities”); and

- other risks relating to our common shares discussed in more detail in this AIF under the heading “RISK FACTORS” particularly under the subheadings “Our Common Share price may fluctuate”, “We do not currently intend to pay any cash dividends on our Common Shares in the foreseeable future; therefore our shareholders may not be able to receive a return on their Common Shares until they sell them”, “If we are characterized as a passive foreign investment company (“**PFIC**”), U.S. holders may be subject to adverse U.S. federal income tax consequences”, “As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our U.S. shareholders” and, “We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses to us.”

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

CURRENCY

Unless specifically stated otherwise, all dollar amounts set forth in this AIF are in U.S. dollars. On December 31, 2012, the Bank of Canada closing rate for one United States dollar was $0.9949 Canadian dollars.

YEAR END

On May 30, 2011, Westport’s board of directors (the “ **Board**” or “**Board of Directors**”) approved a fiscal year-end change from March 31 to December 31 to align the year ends of all operating companies to the calendar year. As a result, references in this AIF to fiscal 2011 refer to the “stub” period of only nine months from April 1, 2011 to December 31, 2011, unless otherwise specified.

BUSINESS UNIT REALIGNMENT

During the fourth quarter of 2012, Westport created new internal reporting alignments to accommodate the variety in product, system and service solutions we offer. Internal operating business units following the realignment include: Westport Applied Technologies, Westport On-Road Systems, Westport New Markets and Off-Road Systems, and Corporate and Technology Investments. Westport will report its joint venture results separately.

In addition, Westport expects to deliver new and existing products across multiple platforms under the single "Westport" brand going forward. In doing so, we have removed label restrictions described as "Light-Duty", "Heavy-Duty" or "High-Horsepower" to allow us to enter new markets with new and existing products and services under the one brand: "Westport".

The principle focus and responsibilities of the new internal reporting alignments are summarized below:

Westport Applied Technologies Business Unit

The Applied Technologies business unit ("**Applied Technologies**") is led by Elaine Wong, Executive Vice President of Westport, who also leads market development activities in Europe. Westport Applied Technologies designs, manufactures and sells CNG, LPG, and LNG components and subsystems to over 20 global OEMs including Fiat, Volkswagen, the GAZ Group, Toyota, Chrysler, Tata Motors ("**Tata**"), and GM and to aftermarket customers in over 60 countries. Sales from Westport's wholly owned Italian subsidiaries, OMVL S.p.A. ("**OMVL**") and Emer S.p.A ("**Emer**"), and Westport's Australian operations are reported under Applied Technologies and are made either directly to OEMs or through one of their many distributors. The Applied Technologies business unit designs and manufactures a range of components from pressure regulators, injectors, electronic control units, and valves, to filters; sells monofuel and bi-fuel conversion kits; and also offers full engine management solutions and systems that can be launched quickly at a competitive price. The Applied Technologies business unit provides Westport with high volume, scalable manufacturing and assembly. The business unit has a strong customer base in Europe and is targeting growing markets in Asia, and North and South America.

Westport On-Road Systems Business Unit

The On-Road Systems business unit ("**On-Road Systems**") is led by Ian Scott, Executive Vice President of Westport, who also has oversight of Westport's market development activities in North America. Westport On-Road Systems engineers, designs, assembles and sells complete engine and vehicle systems for automotive, light commercial, trucking and industrial applications. Westport's existing On-Road Systems OEM customers and partners include Ford, GM, PACCAR Inc. ("**PACCAR**") (Kenworth and Peterbilt, a PACCAR company), Volvo Car Corporation ("**Volvo Car**"), AB Volvo, and Clark. Current products include the Westport WiNG ™ System for the Ford F-250/F-350 and F-450/F-550 bi-fuel (CNG and gasoline) Super Duty pickup truck, Westport™ 15L product using Westport HPDI technology and offered in Peterbilt and Kenworth heavy-duty trucks, Volvo Car bi-fuel systems (CNG and gasoline) for the V70 bi-fuel wagon, and Westport™ 2.4L industrial engines sold to Clark and Cummins Western Canada for forklift and oilfield applications, respectively.

The On-Road Systems business unit also has additional product development activities underway with AB Volvo for Westport HPDI-powered heavy-duty trucks, and advanced engineering development with GM for light-duty vehicles. To facilitate faster adoption of natural gas vehicles, the On-Road Systems business unit also provides additional products and services such as the new Westport™ LNG Tank System ("**Westport LNG Tank System**") and JumpStart mobile fuel services. Growth drivers include growing existing product sales, new product introduction and market expansion.

Westport New Markets and Off-Road Systems Business Unit

The Westport New Markets and Off-Road Systems business unit (" **New Markets and Off-Road Systems**") is led by Nicholas Sonntag, Executive Vice President of Westport, who also leads market development activities in Asia. Westport has been exploring opportunities for using LNG fuel in the large, off-road engine applications including rail, mining, marine, and oil and gas. Westport's existing New Markets and Off-Road Systems OEM customers and partners include Caterpillar and Weichai Power Co. Ltd., ("**Weichai**"). According to industry statistics and Westport analysis, the global fuel usage in these applications is over 24 billion gallons of diesel and the opportunity for significant fuel cost savings and reduced emissions through the use of LNG is highly attractive. In June of 2012, Westport and Caterpillar signed an agreement to collaborate and bring Westport's HPDI technology into these markets. The initial focus of the New Markets and Off-Road Systems business unit is on developing Westport HPDI-based large mine trucks and main line locomotives, and the Weichai Westport Inc. ("**WWI**") 12L development program.

Revenues are expected to come from product and component sales, the cryogenic vessels required to store the LNG, and the control systems which deliver fuel to the engine associated with such vehicles. There is a large market opportunity for cryogenic systems where Westport has technology in LNG storage and pump configurations for transportation based on years of experience in the on-road segment. Westport currently provides a number of cryogenic tank system solutions to carry fuel for large non-Westport HPDI LNG off-road engines currently available as interim solutions in mining, marine and rail until the release of the higher diesel substitution solutions based on direct injection.

Corporate and Technology Investments Business Unit

The Corporate and Technology Investments business unit (" **Corporate and Technology Investments**") includes investments in new research and development programs and revenues and expenses related to development programs with OEMs, corporate oversight and general administrative duties. Corporate and Technology Investments focuses on long term product development and future return on investments.

The discussion in this document regarding Westport's business is based on Westport's business units as they existed throughout the majority of

2012. For a discussion of CWI and WWI, see “Overview”, “Cummins Westport Inc. Alternative Fuel Engines & Fuel Systems” and “Westport HD Natural Gas Engines & LNG Fuel Systems”.

CORPORATE STRUCTURE

In this AIF, references to “**Westport**”, “**the Company**”, “**we**”, “**us**” and “**our**” refer to Westport Innovations Inc., its subsidiaries and its joint ventures, collectively, unless the context otherwise requires.

Westport Innovations Inc.’s governing corporate statute is the *Business Corporations Act* (Alberta). Our head office and principal place of business is at 101 - 1750 West 75th Avenue, Vancouver, British Columbia V6P 6G2. Our registered office is at 4500, 855 2nd Street SW Calgary, Alberta 5C5 4K7.

On July 21, 2008, Westport amended its articles to provide for the consolidation of its issued and outstanding common shares (“ **Common Shares**”) on the basis of one new Common Share for each three and one-half Common Shares issued and outstanding, with all such fractional shares being rounded down to the nearest whole number of Common Shares.

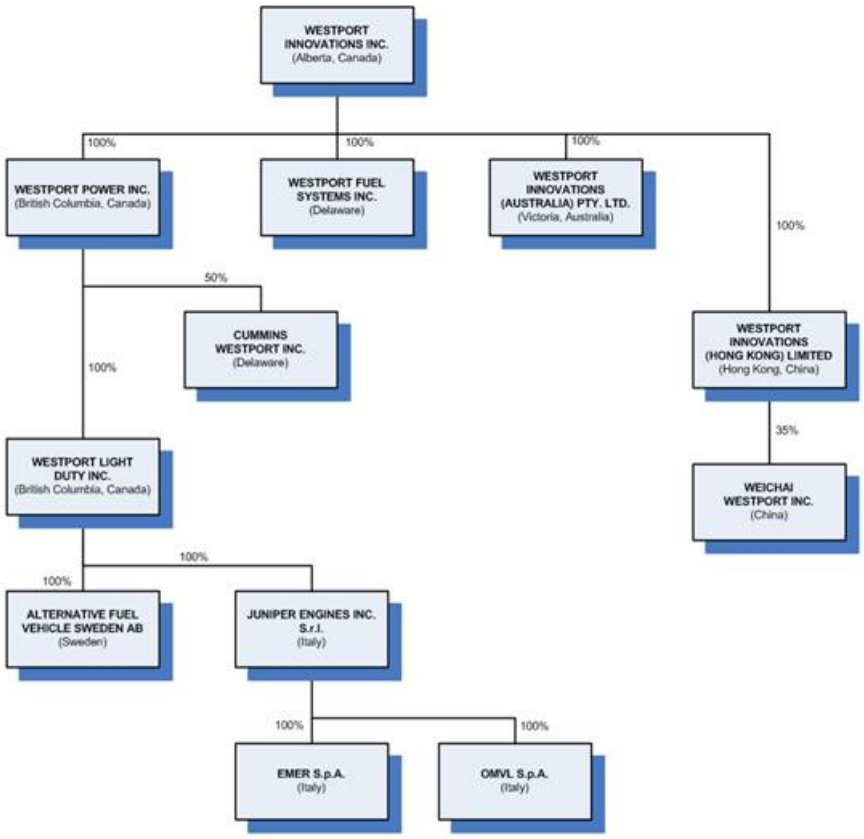
We have three material subsidiaries: Westport Power Inc. (“ **WPI**”), which is 100% wholly-owned and incorporated pursuant to the *Business Corporations Act* (British Columbia); Westport LD, which is 100% wholly-owned by WPI, and incorporated pursuant to the *Business Corporations Act* (British Columbia); and Westport Fuel Systems Inc., a Delaware corporation, which is 100% wholly-owned.

In addition, we own 100% of the voting securities of Westport Innovations (Australia) Pty. Ltd., a Victoria, Australia corporation and 100% of the voting securities of Westport Innovations (Hong Kong) Limited (“**Westport HK**”), a Hong Kong, China corporation. Westport HK owns 35% of the voting securities of WWI, a Chinese corporation.

We, through WPI, own 50% of the voting securities of CWI, a Delaware corporation.

We, through Westport LD, own 100% of the voting securities of AFV, a Swedish corporation, and 100% of the voting securities of Juniper Engines Inc. S.r.l. (“**Juniper**”), an Italian corporation. Juniper owns 100% of the voting securities of Emer, an Italian corporation, and 100% of the voting securities of OMVL, an Italian corporation.

Certain of our business operations, described in greater detail below, for the majority of the year ended December 31, 2012 were undertaken through a business unit known as “Westport Heavy-Duty” (“**Westport HD**”).



OUR BUSINESS

The following section contains forward-looking information in respect of our operations as organized for the majority of 2012. See "Business Unit Realignment." Readers are referred to the cautionary statements respecting forward-looking information beginning on Page 3 of this AIF.

OVERVIEW

We are a leading provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Our technology and products enable light- (less than 5.9 litre), medium- (5.9 to 8.9 litre), heavy-duty- (11 to 16 litre) and high-horsepower- (greater than 16 litre) petroleum-based fuel engines to use primarily natural gas, giving users a cleaner, and generally less expensive alternative fuel based on a more abundant natural resource. Through our partnerships and direct sales efforts, to date, we have sold over 73,000 natural gas and propane engines and fuel systems to customers in more than 19 countries.

We currently have strategic relationships with three of the world's top four engine producers and supply or have strategic relationships with six of the world's top ten truck producers, as well as eight of the world's top ten automotive manufacturers.

Since our founding in 1995, we have focused on developing technology that allows us to produce more environmentally sustainable engines without compromising the performance, fuel economy, durability and reliability of diesel engines. We have invested over $400 million towards the research, development and commercialization of our proprietary technologies, which allow engines to operate on natural gas while preserving the key benefits of diesel engines. The substitution of natural gas for petroleum-based fuel drives a significant reduction in harmful combustion emissions, such as nitrogen oxides, particulate matter and greenhouse gases, in addition to providing a relatively inexpensive alternative fuel from a more plentiful natural resource. Our systems enable combustion engines to use gaseous fuels, such as natural gas, propane, renewable natural gas or hydrogen. Our research and development effort and investment have resulted in a substantial patent portfolio that serves as the foundation for our differentiated technology offerings and competitive advantage.

We leverage our proprietary technology by partnering with the world's leading diesel engine and truck OEMs to develop, manufacture and distribute our engines and fuel systems to a diverse group of global truck and bus OEMs. Our strategic relationships with OEMs provide us with access to their manufacturing capacity, supply chain and global distribution networks without incurring the considerable investment associated with these assets. We commercialize our technology in markets where demand for clean, low-emission engines is prevalent.

Westport LD and its subsidiaries, being Juniper, OMVL, Emer and AFV, designs, produces and sells high-performance alternative fuel engines, systems and components targeting the high volume light-duty vehicle and engine segments for automotive and industrial markets. Westport LD offers advanced technology natural gas and LPG engines and fuel systems for the OEM markets. Customers and partners include GM, Fiat, Volkswagen, Toyota, PSA Peugeot Citroën, Ford and Volvo Car. The North American business is supported through Westport's Michigan Technical Center. In Sweden, Westport LD, through AFV, offers bi-fuel (natural gas/gasoline) systems engineered and installed on the Volvo V70 Bi-Fuel wagon. Westport LD also offers OMVL and Emer brand aftermarket kits and components for conversion of engines from gasoline, or

petrol, to CNG and LPG. For industrial applications, Westport LD, through its subsidiaries, offers complete engine solutions to industrial vehicle OEMs and stationary packagers globally. Westport LD and its subsidiaries currently supply Clark with Juniper 2.4L CNG and LPG industrial engines based on the Hyundai platform for Clark forklifts sold globally. The Juniper 2.4L engine is also available for stationary applications such as engine power units for oilfield applications, for which Westport LD and its subsidiaries sell to Cummins Western Canada.

In North America, Westport offers fully-integrated, cost-effective solutions available in light-duty vehicles with the WiNG System — an advanced, integrated, bi-fuel (natural gas/gasoline) system for customers of commercial and passenger vehicles. Initially launched on the Ford F-250 and F-350 platforms, the WiNG System will be available on the Ford F-450 and F-550 platforms beginning April 1, 2013. See "Recent Developments."

CWI, our 50:50 joint venture with Cummins, Inc. ("**Cummins**"), serves the medium to heavy-duty engine markets. CWI engines are offered by many OEMs of transit and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks, material handling trucks, street sweepers and vehicles for selected industrial applications. The fuel for CWI engines is typically carried on the vehicles as CNG or LNG. CWI engines are produced at certain Cummins' plants, allowing CWI to leverage Cummins' manufacturing footprint without incurring additional capital costs. CWI also utilizes Cummins' supply chain, back office systems and distribution and sales networks.

Westport HD was a business unit of Westport for the majority of 2012 serving the heavy-duty engines markets and offering a 15 litre natural gas engine for the heavy-duty trucking market in North America. Westport HD applied our proprietary development platform, and was engaged in the engineering, design and marketing of natural gas-enabling technology for the heavy-duty diesel engine and truck market. The fuel for the Westport heavy-duty system is typically carried on the vehicle as LNG to provide greater energy density compared to CNG and to allow the vehicle to travel farther before refuelling. At the heart of the Westport heavy-duty system is our proprietary HPDI technology, which provides the environmental and cost benefits of natural gas while delivering comparable benefits of diesel engines: high efficiency over the speed and torque operating range, high torque capability and robust reliability. Effective during the fourth quarter of 2012, the business previously carried on by Westport HD was realigned to become part of Westport's current On-Road Systems business unit.

Westport and Volvo Powertrain have been working together since July 2010 to develop natural gas fuelled engine products featuring Westport HPDI technology. The product, a 13-litre heavy-duty natural gas engine, is scheduled to launch in 2014.

The widespread adoption of heavy-duty natural gas trucks is affected by a confluence of factors, including the spread of natural gas and diesel fuel prices, pricing volatility and elasticity, the speed of infrastructure development, and the price premium for natural gas powered trucks. In September 2011, Westport entered an agreement with an affiliate of Royal Dutch Shell Plc ("**Shell**") to launch a co-marketing program in North America aimed at providing customers a better economic case when purchasing and operating liquefied natural gas—powered vehicles ("**LNGVs**") by consolidating key value chain components such as fuel supply, customer support and comprehensive maintenance into a single, user-friendly package. We have formed additional joint ventures to capitalize on the growth of alternative fuel engines in geographic markets outside of North America. In July 2010, we established WWI, a joint venture between Westport (35% interest), Weichai (40% interest) and Hong Kong Peterson (CNG) Equipment Ltd. ("**Hong Kong Peterson**") (25% interest) to focus on the Chinese market. WWI develops, manufactures, and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach, and heavy-duty truck applications in China or exported to other regions globally. WWI's facility in China has an annual production capacity of 40,000 engines. Currently WWI is integrating Westport HPDI technology to create the new 12-litre Weichai Westport HPDI Landking engine designed to deliver the same power, torque, and performance as that of the original diesel engine. Expected to be launched in 2013, this engine will fill the gap in the natural gas engine market for heavy-duty trucks in China.

The HPDI approach and components are also ideally suited for many high-horsepower applications that require high efficiency and performance over the operating range of the engine, such as rail, mining and marine applications. We are working with Caterpillar to co-develop natural gas technology for off-road equipment. While the agreements initially focus on engines used in mining trucks and locomotives, the companies will also develop natural gas technology for Caterpillar's off-road engines, which are used in a variety of electric power, industrial, machine, marine and petroleum extraction applications worldwide.

GENERAL DEVELOPMENTS

On February 28, 2013, Westport announced an agreement with leading global clean energy provider ENN aimed at the proliferation of natural gas and LNG transportation solutions and fuel for on-road, off-road, rail and marine applications. ENN is one of China's largest private companies with more than 30,000 employees. Highlights of the agreement include:

- Global cooperation — the agreement covers the US, Canada, China/Asia, Europe, Australia and Africa
- Multiple transportation platforms — Westport and ENN look to partner for opportunities across trucks, rail, marine and mining applications
- Mutual acknowledgement of long-term commitment to LNG infrastructure — ENN is expecting to engage in building liquefaction plants in North America and fuel stations
- ENN to guarantee long term fuelling solutions and agreements for its customers
- Westport to facilitate collaboration between our OEM partners and ENN and provide proposals to ENN and its fleet customers
- Fleet optimization — ENN will look at operating its truck fleet on LNG as a way to optimize fuel cost savings and reduce harmful

emissions

On February 27, 2013, Westport announced that its proven WiNG System, a CNG bi-fuel system, will be available for order on the Ford F-450 and F-550 Super Duty Chassis Cab trucks starting April 1, 2013. The trucks will make their debut at the National Truck Equipment Association Work Truck Show in Indianapolis, Indiana, from March 6 to 8. Assembled alongside the popular Westport powered Ford F-250 and F-350 trucks at the Westport Kentucky Integration Center ("**WKIC**"), a Ford Qualified Vehicle Modifier (" **QVM**") audited facility, the new F-450 and F-550 trucks have undergone the same rigorous testing for safety and durability used by Ford for all its OEM products. With the WKIC located adjacent to Ford's Kentucky Truck Plant, the 2013 F-450 and F-550 trucks will use the same integrated transportation system as other Westport powered Ford products to reduce delivery costs to the customer. Available exclusively for order at Westport authorized Ford dealerships, the Ford F-450 and F-550 Super Duty Chassis Cab trucks with the WiNG System are delivered key-READY™ to customers and come with a warranty that matches the Ford warranty for all similar powertrain and emissions components.

On February 5, 2013, CWI announced award for over 900 natural gas buses powered by ISL G. CWI is expected to be supplying engines for two of the largest natural gas transit fleet orders in North America to date. In January, LA Metro announced its plans to order 550 New Flyer Xcelsior natural gas buses, powered with the Cummins Westport ISL G 8.9 litre engine to be deployed in 2014 and 2015, with an option to purchase an additional 350 buses in 2016 for both its own fleet and contract operators.

In December 2012, the San Diego Metropolitan Transit System (" **SDMTS**") announced the decision to purchase up to 350 Gillig 40-foot low floor buses and 118 New Flyer 60-foot low floor articulated buses, all powered with the CWI ISL G 8.9L. SDMTS will receive 47 articulated buses and 50 forty-foot buses in 2013, with another 50 per year being delivered to replace buses in the current CNG fueled fleet over the following four years.

On December 3, 2012, Westport announced that it would expand its product offerings with the introduction of natural gas powered versions of the Ford F-450 and F-550 Super Duty trucks. The new product additions will complement the already proven WiNG System powered Ford F-250 and F-350 trucks. Westport is also developing relationships with service body companies to offer installation of second unit bodies on its F-250 and F-350 pickup trucks. In addition to the installation of the WiNG System, customers may now choose the option to install second unit bodies with a single ship through, saving significant time and delivery costs. These service body options are also expected to be available on the new F-450 and F-550 models. The new models will be available exclusively through Westport's authorized Ford dealerships giving customers the fully integrated OEM ownership experience they have come to expect with Westport.

On November 26, 2012, Westport announced a unique on-board storage solution that provides best in class performance for vehicles using LNG. The new Westport LNG Tank System, is expected to be available in 120 and 150 gallon capacities and is optimized for spark ignited ("**SI**") natural gas engines such as those sold by CWI. We expect to begin shipping the System by mid-2013. The Westport LNG Tank System features proprietary Westport technology and is expected to provide customers with the ability to fuel even the largest SI engines on a single tank and deliver extended range.

On October 30, 2012, Westport announced an agreement with Tata to develop an engine for light- and medium-duty trucks and buses. Details of the combustion technology are being withheld for competitive reasons. Upon successful completion of the development phase, commercialization is expected to follow, with Westport supplying key natural gas engine components based on the proprietary technology being developed in this program.

On October 4, 2012, CWI announced that it had begun development on the ISB6.7 G, a mid-range 6.7 liter natural gas engine designed to meet the increasing demand for on-highway vehicles powered by lower cost, cleaner and increasingly abundant natural gas. As a leading supplier of natural gas engines, CWI continues to expand its product range to supply the growing demand for natural gas engines. The ISB6.7 G engine will be based on the Cummins ISB6.7 diesel engine and will use CWI's proven spark-ignited, stoichiometric cooled exhaust gas recirculation ("**SEGR**") technology. Exhaust aftertreatment will be provided by a simple, maintenance-free three-way catalyst. The engine will run on CNG, however, the natural gas may be stored on the vehicle in LNG state or as CNG. The ISB6.7 G is expected to be in production by 2015 and will be designed to meet Environmental Protection Agency ("**EPA**") and California Air Resources Board (" **CARB**") regulations in force at the time of launch.

On August 2, 2012, the largest study of alternative fuel options for on-road transportation in the United States concluded that natural gas is a promising fuel from both an economic and technology perspective. Released August 1, 2012, the National Petroleum Council's Report "Advancing Technology for America's Transportation Future" is the result of two years of work examining the potential for a variety of fuels and technologies for both light-duty and heavy-duty vehicles. Westport is one of a small number of Canadian-based companies to be involved in this study. In addition to natural gas, the study analyzed four other fuel pathways, including hydrocarbon liquids, biofuels, electricity, and hydrogen, as well as the fuel-vehicle systems that may develop over the next several decades. The Advancing Technology for America's Transportation Future Report can be found at: http://www.npc.org/FTF-report-080112/FTF_Report_Summary-080112.pdf.

On July 31, 2012, Westport announced that Pioneer was adding 225 bi-fuel, WiNG System natural gas powered Ford F-250 Super Duty trucks to its fleet. Pioneer had begun transitioning a number of its fleet vehicles from gasoline and diesel powered to those able to run on more cost-effective CNG for light-duty, and LNG for heavy-duty applications.

On June 27, 2012, Westport announced that it had entered into an additional agreement with GM for a second advanced technology development program. Westport and GM are now developing two different combustion, controls and emissions approaches to natural gas engines, with the first cooperative technology project being announced in June 2011. Both GM and Westport will continue to bring their extensive expertise to develop natural gas engine controls, emissions and performance strategies. This new program will optimize advanced natural gas technologies and applications for maximum CO2 reduction and fuel efficiency in light-duty vehicles.

On June 26, 2012, Westport announced the official grand opening of the WKIC. Home to the WiNG System assembly center, this facility is capable of installing up to 20,000 systems per year.

On June 5, 2012, Westport signed agreements with Caterpillar to co-develop natural gas technology for off-road equipment, including mining trucks and locomotives. Caterpillar and Westport will combine technologies and expertise, including Westport HPDI technology and Caterpillar's industry leading off-road engine and machine product technology, to develop the natural gas fuel system. Caterpillar funds certain elements of the development program. When the products go to market, Westport expects to participate in the supply of key components. While the agreements initially focus on engines used in mining trucks and locomotives, the companies will also develop natural gas technology for Caterpillar's off-road engines, which are used in a variety of electric power, industrial, machine, marine and petroleum applications worldwide. Commercial production is expected to begin in about five years from date of announcement.

On May 18, 2012, Westport announced that Volvo Trucks had unveiled its plans to launch a 13 liter heavy-duty natural gas engine featuring Westport HPDI technology. The product is scheduled to launch for the North American market in 2014. As previously disclosed in a press release dated February 27, 2012, under the terms of the agreement, each partner contributes significant resources and pays for its own people and costs of the program. Westport leads the program.

On May 15, 2012, The B.C. Ministry of Energy and Mines announced the Greenhouse Gas Reduction regulation that advances the adoption and deployment of NGVs in B.C. The regulation permits a utility to spend up to $62 million on vehicle and ferry incentives, up to $12 million on CNG fuelling stations and up to $30.5 million on LNG stations, for a total of $104.5 million until March 31, 2017. In addition, the Province is offering direct grants of up to $2,500 to purchasers of qualifying CNG vehicles. This is being offered through the $14.3 million Clean Energy Vehicle Program, announced in Nov. 2011.

On March 21, 2012, CWI announced that the CWI ISX12 G, a 12 litre heavy-duty, factory built, dedicated natural gas engine for regional haul truck / tractor, vocational and refuse applications would be officially unveiled at the Mid America Truck Show in Louisville, KY, on March 22, 2012. The ISX12 G natural gas engine is based on the Cummins ISX12 diesel engine platform, the newest member of Cummins heavy duty-engine family. The ISX12 G will operate exclusively on natural gas and fuel can be carried on the vehicle as either CNG or LNG utilizing CWI's proprietary spark-ignited, stoichiometric combustion with cooled SEGR technology, first introduced with the 8.9 litre ISL G. The ISX12 G also features three-way catalyst aftertreatment, which is packaged as a muffler and is maintenance free. No diesel particulate filter or selective catalytic reduction aftertreatment will be required.

On March 13, 2012, Westport announced the introduction of China's first natural gas engine featuring Westport HPDI technology at a press conference at the government building in Beijing, the Beijing Diaoyutai State Guesthouse.

On March 6, 2012, Westport entered into a business sale agreement to purchase certain assets of Advanced Engine Components Limited ("**AEC**") of Perth, Western Australia. AEC is a publicly listed Australian company (ASX code: ACE) specializing in research, development and production of patented electronic fuel injection and engine management technologies that enable vehicle engines to run on natural gas. AEC's engine component products are aimed at optimizing engine performance while lowering vehicle emissions and costs. The transaction was completed on March 20, 2012 for A$1.1 million (US$1.1 million) paid in cash and assumed liabilities.

On March 6, 2012, Westport launched the WiNG System, a fully-integrated, CNG bi-fuel system, at the National Truck Equipment Association Work Truck Show. The WiNG Systems are available for order on Ford F-250 and F-350 pick-up trucks through authorized Ford dealer/distributors. The WiNG System is based on Ford's new 6.2L hardened engine platform. The vehicles run on natural gas or ordinary gasoline.

On February 27, 2012, Westport announced that it had signed a development agreement with a leading global engine manufacturer to develop a heavy-duty truck engine featuring Westport proprietary HPDI technology for the North American market. Under the terms of the agreement each partner is to contribute significant resources and pay for its own people and costs of the program.

On February 21, 2012 and February 22, 2012, Westport announced that it was offering to sell 5,500,000 Common Shares in the United States and Canada at a price of $43.25 per share, for gross proceeds of $237.9 million. Westport additionally granted the underwriters of the offering the option to purchase an additional 825,000 Common Shares at the offering price during the period ended 30 days from the date the date of Westport's final prospectus supplement filed in connection with the offering.

The offering was completed on February 27, 2012 with the option granted to the underwriters having been exercised in full, for aggregate gross proceeds to Westport of $273.6 million.

On February 20, 2012, Westport announced that it had entered into a Supply Agreement with Cummins to allow manufacturing of the Westport 15 litre engine in a Cummins manufacturing facility in Jamestown, New York, as further described under the heading "WESTPORT HD NATURAL GAS ENGINES & LNG FUEL SYSTEMS", and more specifically the heading "Westport HD System Production and Distribution".

On February 20, 2012, CWI announced the ISX12 G heavy-duty, factory built dedicated natural gas engine for regional haul truck / tractor, vocational and refuse applications. The ISX12 G natural gas engine is based on the Cummins ISX12 diesel engine platform, the newest member of Cummins heavy duty engine family. The ISX12 G will operate exclusively on natural gas (CNG or LNG) utilizing Cummins Westport's proprietary spark-ignited, SEGR technology, first introduced with the 8.9 litre ISL G.

On February 20, 2012, Westport announced that it had entered into an amended and restated joint venture agreement with Cummins regarding

the CWI joint venture, as further described under the heading “CUMMINS WESTPORT INC. ALTERNATIVE FUEL ENGINES”.

On February 3, 2012, CWI announced that Navistar, Inc. would be offering the CWI ISL G engine in the International® TranStar and WorkStar trucks.

On December 1, 2011, Westport announced that it had entered into an agreement with Electro-Motive Diesel (“ **EMD**,” a subsidiary of Progress Rail Services, a Caterpillar company), an OEM of diesel-electric locomotives, to integrate Westport HPDI technology and natural gas fuel system technologies into an EMD locomotive provided by Canadian National Railways (“**CN**”). The consortium is expecting to demonstrate the natural gas locomotive as part of the previously announced Sustainable Development Technology Canada (“**SDTC**”) project with CN and Gaz Métro. In accordance with the consortium agreement, Westport will provide its core technologies for the engine and fuel system, and intellectual property. EMD will contribute its expertise to integrate the natural gas engine, related components and controls to create a working locomotive platform. EMD is one of the world’s largest builders of diesel-electric locomotives for all commercial railroad applications including intercity passenger, commuter, freight, switching, industrial and mining.

On November 7, 2011, Westport announced that it had been certified as having met the international standards of ISO 14001:2004, an Environmental Management System (“**EMS**”) standard. Westport EMS encompasses the development, design, testing and assembly of alternative fuel systems for OEM clients and the general operations of Westport facilities.

On October 12, 2011, Westport announced that it had acquired AFV of Gothenburg, Sweden. AFV is the sole supplier of natural gas fuel systems to Volvo Car. Volvo dealers in Sweden have offered a bi-fuel 231-hp 2.5 litre turbocharged version of the popular V70 wagon, with the natural gas fuel system engineered and installed by AFV, since 2009. The Volvo V70 Bi-Fuel has been approved as a company car for Swedish businesses, and Swedish drivers can fuel up at more than one hundred public natural gas filling stations. In addition to emissions benefits, corporate and private customers are eligible for tax incentives that make natural gas an even more economical alternative. AFV now aims to expand into other markets.

On September 28, 2011, Westport announced that the new natural gas WiNG System would be available in the popular Ford F-250 and F-350 Super Duty pickup trucks sold and serviced through authorized Ford dealers.

On September 23, 2011, Westport announced that it had raised CDN$36 million through the issuance of debentures (the “ **Debentures**”) offered by Macquarie Private Wealth Inc. (“**Macquarie**”), on a private placement basis, to replace previously issued debentures that matured in July 2011. The Debentures are unsecured and subordinated to senior indebtedness, mature on September 22, 2014 and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15th and September 15th of each year during the term, commencing on March 15, 2012. The Debentures are not listed on any stock exchange.

On September 7, 2011, Westport announced that it had entered into an agreement with Shell to launch a co-marketing program in North America aimed at providing customers a better economic case when purchasing and operating LNGVs by consolidating key value chain components such as fuel supply, customer support and comprehensive maintenance into a single, user-friendly package. Under the terms of the agreement, both companies will leverage their industry-leading positions in LNG production and distribution for Shell and LNGV systems and technology for Westport, to deliver an integrated commercial solution to participating customers, initially in North America.

On July 5, 2011, Westport announced that it had completed the previously announced purchase of Emer, a leading fuel system provider in the compressed natural gas and liquefied petroleum gas industry with a significant track record in technology innovation and operations. The combined operations, under Westport LD, offer a complete systems solution to OEMs looking to take advantage of the growing alternative fuel market. On September 14, 2011, Westport filed a business acquisition report regarding the acquisition of Emer pursuant to form 51-102F4 of National Instrument 51-102, *Continuous Disclosure Obligations*.

On June 28, 2011, Westport announced that it had entered into an agreement with GM to help develop advanced natural gas engine technology. Westport also announced the opening of the Westport Michigan Technical Center.

On May 17, 2011, Westport announced that it had entered into an agreement with Caterpillar, to evaluate direct injection, natural gas fuel system technologies for possible use on Caterpillar’s large engines. As part of the agreement, the parties agreed to combine their respective technologies and components to develop a fuel system to be evaluated on a multi-cylinder test engine. Through this evaluation project, Westport and Caterpillar are seeking to demonstrate that the integration of their respective direct injection, natural gas technologies can deliver the high performance and high efficiency requirements large engine applications will demand.

On April 5, 2011, Westport announced that Heckmann Corporation, a water solutions company focused on water issues worldwide and, in particular, oil and natural gas exploration and production, is teaming up with Encana Natural Gas Inc. (“**Encana**”), a subsidiary of Encana Corporation, Westport and Peterbilt, a division of PACCAR, to transition its truck fleet from traditional diesel vehicles to NGVs.

Under the terms of the agreement, Encana will make fuelling services available where Heckmann Water Resources (“ **HWR**”) operates its fleet of water transportation vehicles. HWR will use the trucks to service its customer’s natural gas wells and provide water handling services in conjunction with its system of pipelines and disposal wells. HWR issued a purchase order for 200 Peterbilt 367 LNG trucks incorporating Westport HD systems from Westport.

On February 27, 2011, Westport announced that it had secured a funding commitment of C$2.3 million from SDTC to develop HPDI technology for high-horsepower applications. Westport is proposing to significantly improve the cost structure for operators of high-horsepower equipment while achieving compliance with increasingly stringent emission regulations and reducing greenhouse gas (“**GHG**”) emissions by up to 25%.

Consortium members in the SDTC project are Canadian National Railways Company and Gaz Métro Transportation Solutions, a wholly-owned subsidiary of Gaz Métro, the main distributor of natural gas in Quebec.

On February 22, 2011, Westport announced UPS's commitment for LNG trucks powered by Westport HD systems. The new heavy-duty trucks will be used in interstate operations for the Ontario, California to Las Vegas, Nevada route. UPS announced plans to build publicly accessible LNG refuelling stations in Las Vegas and its intention to access existing refuelling stations in Ontario, California, and Salt Lake City, Utah, thus filling in an LNG trucking corridor from California to Utah. Funding for the trucks and refuelling stations is supported by the U.S. DOE Clean Cities program and the SCAQMD's UPS Ontario-Las Vegas LNG Corridor Expansion Project. The DOE estimates that the LNG trucks alone will help displace approximately 1.25 million gallons of petroleum annually.

On December 21, 2010, Westport announced that Vedder Transport Ltd. (" **Vedder Transport**") of Abbotsford, British Columbia had issued a purchase order for 50 Peterbilt 386 LNG trucks featuring Westport HD systems. Vedder Transport, a division of the Vedder Transportation Group, specializes in the transportation of Food Grade products in a bulk liquid or dry state and offers dedicated and irregular route, truck load and less than truck load freight services throughout Canada, and between Canada and the United States. The new trucks, powered by Westport HD, were intended to be used on routes within southern British Columbia primarily servicing the Bulk Food Grade Industry such as the British Columbia Dairy Producers and other liquid or dry state worldwide agricultural organizations. FortisBC (formerly called Terasen Gas), a subsidiary of Fortis Inc., the largest distributor of natural gas in British Columbia, is currently fueling the Vedder Transport natural gas fleet with a permanent LNG refuelling station in Abbotsford.

On November 17, 2010, Westport announced that it had been ranked first by Corporate Knights Cleantech 10™ list for the second year in a row. The Cleantech 10™ and Next 10 represent Canada's best publicly and privately held companies in the Cleantech realm, and span a range of sectors from desalination to biofuels to solar technology.

On November 9, 2010, Westport filed a final prospectus supplement in Canada and the United States for an offering of Westport common shares totalling 6,050,000 common shares at a price of $17.50 per share, for gross proceeds of $105.9 million. On November 15, 2010, Westport announced the exercise in full of the underwriters' option to purchase an additional 907,500 common shares in connection with the offering. With the exercise of the option, under the offering, Westport issued a total of 6,957,500 common shares at a price of $17.50 per share, for gross proceeds of $121.8 million.

On October 28, 2010, Westport announced that Robert Transport of Boucherville, Québec had issued a purchase order for 180 Peterbilt LNG trucks featuring Westport HD systems. Robert Transport is one of Canada's largest for-hire trucking companies with an estimated 1,100 tractors and 2,300 employees. The new trucks, powered by Westport HD systems, were intended to be used on line haul routes between Montréal and Québec City, and Montréal to Toronto. Fuel for the Robert Transport fleet is provided by Gaz Métro Transport Solutions, a wholly-owned subsidiary of Gaz Métro, the main distributor of natural gas in Québec. Three LNG refuelling sites for Robert Transport fleet are located along the Ontario — Québec 401/Highway 20 corridor, in Québec City, Boucherville and Mississauga.

On July 13, 2010, Westport announced that Volvo Powertrain and Westport had signed a new agreement defining Westport responsibility to develop a range of biogas and natural gas-fuelled engine products for Volvo. Westport works directly with the Volvo AB brands to identify market development opportunities for natural gas vehicles and assists in the infrastructure build-out of biogas and natural gas where needed. Westport originally entered into an agreement with Volvo Powertrain in November 2009 describing Westport as a Tier 1 Development Supplier for its heavy-duty natural gas engines and associated supply chain.

On July 6, 2010, Westport announced that the Westport HD 2010 15L engine had been certified by the U.S. EPA to 2010 emissions compliance. The heavy-duty ("**HD**") engine is certified and compliant to U.S. EPA 2010 emission limits of 0.2 g/bhp-hr oxides of nitrogen (" **NOx**") and 0.01 g/bhp-hr particulate matter ("**PM**") without the use of emissions credits. In addition, Australia's Department of Infrastructure, Transport, Regional Development and Local Government had certified the Westport HD engine in compliance with the Australian Design Rules ("**ADR**") 80/03, which took effect for all heavy-duty truck models starting January 2011.

On July 3, 2010, Westport completed its previously announced investment in a joint venture with Weichai and Hong Kong Peterson to form WWI. The joint venture agreement is scheduled to expire in 2039. Under the joint venture agreement, Westport invested approximately $4.3 million, for a 35% equity interest in WWI. WWI develops, manufactures, and sells advanced, alternative fuel engines and parts for use in automobiles, buses, heavy-duty trucks, marine applications and power generation.

On July 2, 2010, Westport announced that it had completed the acquisition of OMVL, including its 51% interest in Juniper Engines Inc. ("**Juniper**"), for $25.7 million. Westport paid cash of $17.1 million upon closing and will pay approximately $10.3 million on the third anniversary of the closing date. As a result of the transaction, Juniper, previously a joint venture between wholly-owned subsidiaries of Westport and SIT Group of Italy became a wholly-owned subsidiary of Westport. This acquisition completed Westport LD's strategy to enter the mobile industrial, non-mobile industrial and automotive segments. On September 14, 2010, Westport filed a business acquisition report regarding the acquisition of OMVL pursuant to form 51-102F4 of National Instrument 51-102, *Continuous Disclosure Obligations*.

On April 14, 2010, Westport announced that 790,614 warrants previously issued to Industry Canada, a department of the Government of Canada (under its former Technology Partnerships Canada or "**TPC**" program), had been exercised at a price of $10.65 per warrant generating $8.4 million in cash for Westport. Each warrant entitled the holder to one common share of Westport.

On March 24, 2010, Kenworth expanded its natural gas truck line with the T440 powered by the CWI ISL G, following a December 22, 2009 announcement that Kenworth would introduce the ISL G natural gas engine for the Kenworth T800 short hood and W900S models.

On January 19, 2010, Westport announced that Clark Material Handling Asia Ltd. had selected Juniper (now, Westport LD) to supply 2.4L LPG engines for Clark's forklifts in the 1.5 to 3.3 tonne product range. Juniper brand engines are assembled in South Korea and delivered to Clark's Korean facility to be installed into forklifts sold in North America, as well as other export markets. In January 2009, Westport unveiled Juniper engines at an international trade conference with an initial focus on industrial markets with Hyundai engine platforms.

STRATEGY

We believe that natural gas provides the best near-term alternative for oil in transportation and industrial applications, offering environmental, energy security and increasingly attractive economic benefits. Moreover, the technology and infrastructure for wide scale adoption already exists. Our objective is to enhance and protect our position as a leading global provider of alternative fuel systems technology for diesel applications using gaseous fuels such as natural gas, LPG, renewable natural gas ("**RNG**") or hydrogen. In order to achieve this goal, we focus our efforts on the following business strategies:

Accelerate Market Penetration of Westport LD and Pursue Additional Light-Duty Engine Markets

Westport LD, through its subsidiaries, targets the high volume light-duty vehicle and engine segments for automotive and industrial markets. Westport LD intends to grow its consolidated business through new OEM relationships, expansion of existing relationships and continued strong aftermarket sales, by leveraging its capabilities and assembly facilities in Italy, Sweden, Argentina, Australia, South Korea, and the United States that today supply Europe, Asia and the Americas. We will continue to pursue select strategic investments in new markets and develop OEM-class products and capabilities in order to allow Westport LD to compete for leadership in the light-duty alternative fuels market, with North American fleet vehicles being a significant target market.

Continue to Partner with Leading Global OEMs to Scale Westport HD Systems

Westport HD systems, now part of Westport On-Road Systems business unit, have been in development since 1999 and have undergone extensive testing and field trials in Canada, Australia and California, and in March 2007, the Company began commercial delivery of its systems for heavy-duty trucks. Since launching the product in North America and Australia, we have sold over 980 HD systems as of December 31, 2012. Through our relationships with Cummins, Weichai and Volvo, we have access to every major target market for heavy-duty trucks in the world.

In North America, we have partnered with Kenworth (a PACCAR Company) and Peterbilt (a PACCAR Company) for line production of the Kenworth T800 and the Peterbilt 367, 386, and 388 trucks equipped with our LNG fuel system and Westport HD 15L engine. In Australia, we have partnered with Kenworth Trucks (a division of PACCAR Australia) for line production of the Kenworth Trucks T409SAR, T659, and K200. In China, WWI is integrating Westport HPDI technology to create the new 12-litre Weichai Westport HPDI Landking engine designed to deliver the same power, torque, and performance as that of the original diesel engine. Moreover, Westport and Volvo Powertrain have been working together since July 2010 to develop and commercialize natural gas fuelled engine products featuring Westport HPDI technology. The product, a 13-litre heavy-duty natural gas engine, is scheduled to launch in 2014.

We are continuing discussions with additional leading truck and engine OEMs to integrate our products into existing truck and engine configurations and expand our existing relationships. By offering a complete systems solution, including development services, to our OEM partners, our goal is to create market demand by nurturing early customers and removing possible barriers to adoption by working directly with strategic partners.

Continue to Partner with Leading Global OEMs to Develop Natural Gas Technologies for High-Horsepower Applications

There are a number of high-horsepower applications (16 litre or greater) that would benefit from utilizing Westport technologies such as locomotives, mine trucks and marine vessels. These demanding engine applications consume large amounts of fuel and often operate in regions where LNG offers a significant cost advantage over diesel, thereby providing favourable economics for natural gas use. Moreover, what makes this sector even more attractive is that there is a concentrated target group of OEMs and customers. We are working with Caterpillar to co-develop natural gas technology for off-road equipment. In partnership with CN, EMD, and Gaz Métro, a prototype EMD SD70 locomotive under a program funded by SDTC, will be tested in service with CN during 2014.

Continue to Develop Valuable Strategic and Business Alliances

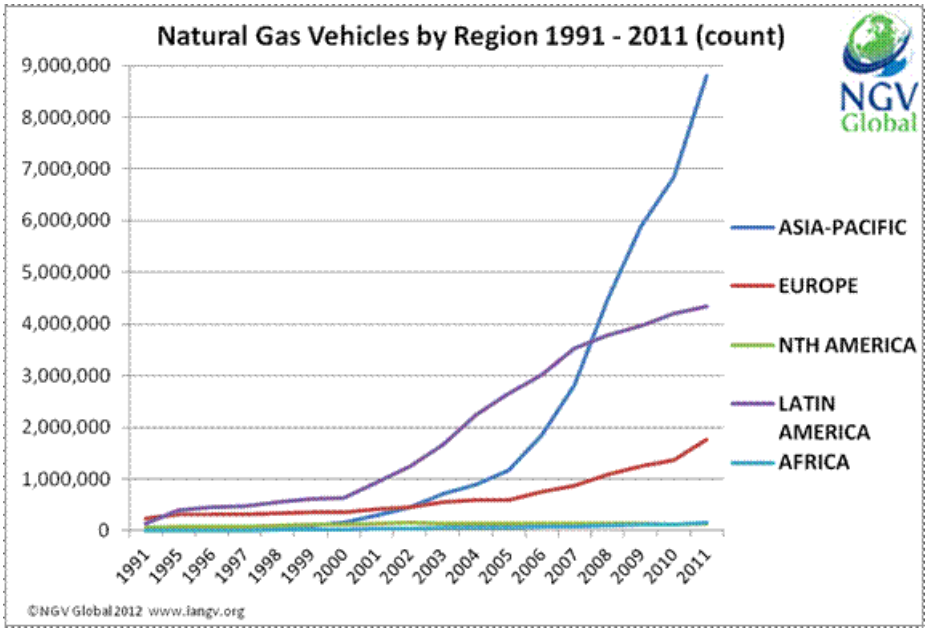
We have established several strategic relationships with key industry engine OEMs, including Volvo, Cummins and Weichai as well as Delphi Automotive Systems, LLC ("**Delphi**"), which is supplying Westport proprietary fuel injectors. We have also established several strategic joint ventures, including CWI and WWI. In addition to our strong supply chain relationships, we have also developed strategic relationships with several leading truck OEMs, including: Kenworth, Peterbilt, Mack Trucks, Inc., Freightliner Trucks and PACCAR Australia Pty. Ltd. We also have a strategic relationship with North America's largest natural gas refuelling company, Clean Energy Fuels Corp., as well as other natural gas producers around the world such as, including but not limited to, Shell and Encana. These relationships provide significant value in leveraging our partners' global market access and distribution channels while creating barriers for competitors seeking to enter our markets.

Achieve Automotive-Scale Production by Adding New Partners

We plan to partner where possible with the largest tier one automotive component suppliers, allowing us to benefit from economies of scale, pre-existing manufacturing capacity, proven production capability, and developed supply chains, thus driving down our cost structure and further enhancing product quality. To date, we have focused on developing a strong supply chain by partnering with leading suppliers to the medium-

and heavy-duty truck industry. We cooperate on fuel delivery system development programs with a number of companies and are in discussions with a number of the world's leading suppliers to develop complete solutions for our customers.

Focus on Geographic Expansion by Penetrating Key Markets in Asia, Europe and Australia



According to NGVA Europe and the GVR, there are more than 16 million NGVs of all classes on the road globally. The fastest growing markets are Asia-Pacific and Latin America, which combined account for more than 86% of the total number of NGVs.

We intend to focus our market development efforts in regions where natural gas vehicle sales are growing. These countries generally share at least one of the following common attributes that serve to promote the shift to natural gas for transportation:

- Lack of domestic oil reserves or insufficient refining capacity to meet transportation demands with petroleum fuels only;

- Domestically available and cost advantageous natural gas resources;
- Favorable natural gas fuel price differentials compared to petroleum fuels;
- Well-established gas transmission and distribution networks coincident with major transport routes;
- Urban air quality concerns;
- Lack of stringent emissions standards, resulting in a low adoption of advanced vehicle emissions controls; and
- Regulations and policies for either GHG mitigation or energy security purposes that either mandate alternative fuels or incentivize their use.

China is one of the world's largest markets for all types of vehicles, and its heavy-duty truck (greater than 16 tonnes) market is already approximately as large as those in Europe and North America. China is focused on moderating the environmental impact of rapid urbanization and tremendous vehicle growth. The demand for cleaner fuel, such as natural gas, with economic advantages over traditional fuels is increasing, with an estimated 1,200,000 NGVs already in China and over 2,800 refuelling stations to support those vehicles. WWI has experienced significant growth in China with over $270 million in revenue for calendar year 2012 compared with $109 million in revenue for calendar year 2011.

We also focus on promising markets in other parts of Asia, such as India. We are working with Tata Motors to develop an engine for light- and medium-duty trucks and buses in India. Westport LD, through Emer, has a joint venture with Minda Emer Technologies Limited that supplies Suzuki Maruti, the market leader in passenger cars in India.

Since its inception in 2001, CWI has sold over 34,000 engines in North America and internationally. Over 60% of the engines sold internationally have been to Chinese bus OEMs for domestic service and also for export, primarily to Latin America. In addition, Westport LD, through its subsidiaries, sells CNG and LPG systems and aftermarket components to customers in multiple countries in South America. Supported by our assembly facility in Buenos Aires, we expect to continue to expand sales in this region.

European regulators have implemented some of the most aggressive responses to air quality issues and climate change concerns and are concurrently promoting increased use of natural gas in vehicles. We believe the opportunities are strong in Europe's light-duty, automotive, transit, refuse, urban truck, and heavy-duty vehicle markets.

Another region where we believe market conditions are favourable for LNG trucks is Australia. A significant market driver in Australia is the availability of domestic natural gas and expanding LNG production that could provide strong financial incentives for heavy-duty trucking fleets, mines and other high fuel use applications to operate with our LNG system-equipped engines. In December 2008, we signed a collaborative agreement with PACCAR Australia to commercialize LNG Kenworth trucks for this market, and in early 2011, we established an office in Melbourne to support sales, parts, and service.

Maintain Leadership as Alternative Fuel Technology Providers

Alternative fuel system technology is the foundation of our business and our ability to commercialize our products globally. We believe the combination of our considerable investment in research and development and team of world-class engineers is responsible for driving innovation in gaseous fuel systems and combustion engine technology since our founding in 1995. Leading global engine producers and OEMs utilize our differentiated intellectual property, thereby allowing us to commercialize our products worldwide.

We believe that our global patent portfolio has been pivotal to our market-leading position and that it continues to serve as a significant barrier to new entrants. In addition to protecting our competitive position in the market, our intellectual property also allows us to generate an additional revenue stream through licensing agreements. In order to support our business objectives, we expect our intellectual property portfolio to expand as we file new patent and trademark applications to capture value generated by new technological advances.

In order to maintain technology leadership in gaseous fuel utilization, we continue to explore products improvement and new product opportunities in each of the segments we serve. This is to ensure that our products maintain best in class status and that they evolve to meet market dynamics. Today, our products are built on an alternative fuel platform that leverages the abundant global supply of natural gas and LPG. Over the longer term, if alternative renewable energy sources such as RNG or manufactured fuels, including hydrogen, hydrogen-natural gas blends, and dimethyl ether, emerge as cost-competitive options, we expect that our gaseous-fuelled engine technologies, systems and experience will position us to exploit such new low-carbon fuels as they emerge.

OPERATIONS

Westport LD, through its subsidiaries, designs, produces and sells high-performance alternative fuel engines, systems and components targeting the high volume light-duty vehicle and engine segments for automotive and industrial markets. CWI designs, engineers and markets natural gas engines based on Cummins diesel engine platforms, primarily for the urban bus, refuse, and truck markets. During the majority of 2012, Westport HD (now part of Westport On-Road Systems business unit) provided engines and fuel systems that allow heavy-duty vehicles to run primarily on natural gas while maintaining diesel equivalent performance and efficiency. Such operations and activities are currently carried on through Westport's On-Road Systems business unit. Westport also sells other products and services to facilitate the early adoption of LNG trucks. Westport additionally is developing its technologies and engines for a number of high-horsepower applications that require high efficiency and performance over the operating range of the engine.

WESTPORT LD ALTERNATIVE FUEL ENGINES & FUEL SYSTEMS

Westport LD is a Westport subsidiary targeting the high volume light-duty vehicle and engine segments for automotive and industrial markets targeting the principal markets of North America, Europe, and Asia through a number of additional affiliated subsidiaries.

Westport LD and its subsidiaries offer advanced technology CNG and LPG engines and fuel systems for the OEM markets. The North American business is supported through the Westport Michigan Technical Center. In Sweden, Westport LD, through AFV, offers bi-fuel (natural gas/gasoline) systems engineered and installed on the Volvo V70 Bi-Fuel wagon.

Westport LD also offers OMVL and Emer brand aftermarket kits and components for the conversion of engines from gasoline (petrol) to natural gas or LPG. Westport LD leverages the advanced engineering capabilities of Westport and the precision high volume manufacturing of our European operations.

For industrial applications, Westport LD offers complete engine solutions to industrial vehicle OEMs and stationary packagers globally through its subsidiaries. The Juniper brand engine provides robust performance for harsh applications such as material handling and oilfield generation. Westport LD and its subsidiaries currently supply Clark with Juniper 2.4L LPG industrial engines, based on the Hyundai Motor Company ("**Hyundai**") base engine platform, for Clark forklifts sold globally.

Westport LD and its subsidiaries, as a single point-of-contact solution provider, can help reduce manufacturing, logistics and support costs for OEMs. Our strengths as a solutions provider include a proven fuel system that can be applied to a range of engines, access to world class engineering and manufacturing capabilities, a global support network, and a portfolio of advanced technologies.

Westport LD, through the acquisition of OMVL, Emer and AFV, is providing light-duty products and capabilities for the light commercial and passenger vehicle market. Westport LD intends to grow its business through new OEM relationships and continued strong aftermarket sales by leveraging its capabilities and manufacturing and assembly facilities in Italy, Sweden, Argentina, Australia, South Korea, and the United States. Westport LD and its subsidiaries currently collaborate with global manufacturers of motor vehicles, including GM, Ford, Fiat, Volkswagen, Toyota and PSA Peugeot Citroën and Volvo Car with sales in Europe, the Americas, and Australasia.

Westport LD has access to a strong portfolio of fuels expertise that includes LPG, natural gas, biomethane and hydrogen, and higher efficiency advanced technologies for future development. Our goal is to be an innovation leader, bringing higher efficiency and higher performance offerings to the market at a competitive price.

We will continue to pursue select strategic investments in new markets and develop OEM-class products and capabilities in order to allow Westport LD to compete for leadership in the light-duty alternative fuels market, with North American fleet vehicles being a significant target market.

AFV Bi-Fuel System Production

The Volvo V70 Bi-Fuel wagon has a maximum power rating of 157kW at 6000 rpm, and maximum torque rating of 300NM from 2700 to 5000 rpm. The product is certified to meet Euro 5 emissions regulations. In mid-2012, we launched the 2013 model year V70. The 2.0-litre turbocharged V70 has improved fuel efficiency and extended range compared with the previous model. The manual transmission option is popular for company cars in Sweden.

The fuel system for Volvo V70 Bi-Fuel wagons is assembled and tested on the Volvo V70 products in Gothenburg, Sweden, adjacent to the Volvo Car plant.

Juniper 2.4 Litre Alternative Fuel Engine & Fuel System Production

The four cylinder 2.4 litre LPG product is capable of achieving 56 kW (75 hp) at 2,800 rpm and maximum torque of 190 Nm (140 ft. lbs) at 1,800 rpm. The CNG version of the 2.4 litre engine is rated for 52kW (70hp) at 2,800 rpm and maximum torque of 180 Nm (133 ft. lbs) at 1,800 rpm. Both the LPG and CNG 2.4 litre engines are certified to EPA 2007 Tier II Off-road LSI Engine and CARB 2010 Off-road LSI Regulations.

The fuel system for the Juniper 2.4 litre engine is assembled in Westport LD's Pernumia, Italy, plant, and the base engines are manufactured by Hyundai in South Korea. Final engine assembly and testing is performed in Busan, South Korea.

Westport LD Revenues[1]

(Expressed in thousands of U.S. dollars)	Year Ended December 31, 2012	Year Ended December 31, 2011[2]
Product Revenue	$ 107,785	$ 59,118
Parts Revenue	$ 199	$ 73
Total	$ 107,984	$ 59,191

Note:

(1) The table represents the consolidated revenues of Westport LD and its subsidiaries as well as revenues from the WiNG System, which for the majority of 2012 were consolidated through Westport's light-duty business unit. During the fourth quarter of 2012, Westport ceased reporting light-duty revenues and operations as a separate business unit.

(2) Effective March 31, 2011, Westport changed its year end from March 31 to December 31. As such, figures in this column represent revenues generated during the nine months from April 1, 2011 to December 31, 2011.

CUMMINS WESTPORT INC. ALTERNATIVE FUEL ENGINES

CWI engine products are based on Cummins' diesel platforms, featuring spark-ignited alternative fuel technology designed for commercial bus and truck applications. Because of inherent advantages in low-emission internal combustion natural gas engines, we believe that CWI products can offer lower life cycle costs in a number of applications compared to conventional and other alternative-fuel engine products. CWI engines compete with conventional and alternative-fuel engines on a number of different factors including reliability, performance, price, service, parts availability and other factors. CWI is the leading supplier of natural gas engines to the North American transit bus industry and to refuse collection fleets, and the outlook for conventional truck markets is promising.

CWI has four engines in commercial production today: ISL G, C Gas Plus, B Gas Plus, and ISB5.9 G targeted at the principal markets of urban transit, shuttle bus, refuse collection, vocational and dump trucks, medium and heavy-duty truck and tractor applications, school bus, street-sweepers, and delivery vehicles.

The ISL G was introduced in 2007 and was the world's first heavy-duty engine for bus and truck applications to meet the 2010 U.S. EPA and CARB on-highway emissions levels. The ISL G incorporates advanced combustion and emissions control technologies to offer all the advantages of previous lean-burning natural gas engines with an increase in performance and fuel efficiency, while meeting the strict 2010 EPA and CARB emissions standards of 0.20 grams per brake horsepower-hour ("**g/bhp-hr**") of NOx and 0.01 g/bhp-hr of particulate matter. In 2008, the ISL G was certified to the Euro EEV, or, Environmentally Enhanced Vehicle, standard.

The 8.9 litre ISL G engine uses stoichiometric exhaust gas recirculation and spark ignited (" **SESI**") combustion, leveraging Cummins' proven cooled exhaust gas recirculation ("**EGR**") technology to create a high-performance natural gas engine. The use of cooled exhaust gas in place of air in excess of what is required for complete combustion lowers combustion temperatures and allows the creation of a virtually oxygen-free exhaust, which in turn allows for the use of a three-way catalyst ("**TWC**") for emissions control. TWCs are simple passive devices that are maintenance-free and have been commonly used in passenger cars since the 1970s. CWI SESI technology improves power density as well as fuel economy and emissions with low-speed torque improved by over 30% compared to previous lean burn engines.

With ratings from 250 to 320 horsepower, this high-performance, low-emissions engine has sufficient power and torque for medium/heavy-duty truck and tractor applications, large urban transit buses, shuttle and school buses, and larger refuse and dump trucks.

The C Gas Plus, B Gas Plus and ISB5.9G all use lean burn combustion technology and are sold outside of North America, primarily in Asia and South America where they meet local emissions standards. The C Gas Plus is an 8.3 litre lean burn natural gas engine with ratings from 250 to 280 horsepower. It was introduced in June 2001, and is certified to Euro III and IV emissions standards.

The B Gas Plus engine is 5.9 litres in displacement and is suitable for shuttle bus, vocational and other truck applications that require less power and a smaller package size than the C Gas Plus. Launched in October 2002, the B Gas Plus is certified to Euro V and EEV emissions standards and has power ratings from 195 to 230 horsepower.

The ISB5.9 G is certified to Euro V and EEV emission standards with Euro Onboard Diagnostic Stage II certification. The ISB5.9 G has power ratings from 195 to 230 horsepower.

Field tests are nearing completion for the ISX12 G engine, an 11.9 litre heavy-duty, factory built dedicated natural gas engine for regional haul truck / tractor, vocational and refuse applications. The ISX12 G natural gas engine is based on the Cummins ISX12 diesel engine platform and will operate exclusively on CNG or LNG utilizing CWI's proprietary spark ignited, SESI technology, first introduced with the ISL G in 2007. The ISX12 G is scheduled to be launched in mid-2013 and will be certified to meet all current EPA and CARB emissions standards. The engine will be available with up to 400 horsepower and 1,450 lb-ft of torque.

In October 2012, CWI announced the start of development of the 6.7 litre ISB6.7 G natural gas engine. This engine will be based on the Cummins ISB6.7 diesel engine and will use CWI's spark-ignited, SEGR technology and three-way catalyst. The engine will operate on either CNG or LNG. The ISB6.7 G is expected to be in production by 2015 and will be designed to meet EPA and CARB regulations in force at the time of launch.

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

The purpose of the joint venture is to engage in the business of selling, marketing and developing spark-ignited natural gas or propane engines for on-highway use. Generally speaking, products covered by the scope of the Amended JVA include all spark-ignited natural gas or propane engines, and related parts, products and kits manufactured for CWI as of the Effective Date, including the ISX12 G and ISB6.7 G engines in development by CWI, as well as any further emissions-certified versions of such products, and any future CWI products unanimously approved by the CWI board of directors, Cummins and Westport for inclusion under the CWI joint venture ("**CWI Products**").

The Amended JVA defines CWI's market as sales of CWI Products manufactured (or, in the case of the ISX12 G and ISB6.7 G engines, planned to be manufactured) in the United States, Canada and/or Mexico for use in on-road vehicles in such countries as well as continuation of CWI's business with respect to the local production of CWI Products in India and/or China for those local markets for up to three years following the Effective Date.

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

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

Under the Amended JVA, in the event CWI's annual revenue exceeds certain baseline revenue levels, Westport and Cummins are entitled to receive a performance bonus (the "**Performance Bonus**"). If and when achieved in any year, the Performance Bonus will be calculated as a percentage of CWI's net income based on the amount by which CWI's actual annual revenue exceeds its baseline revenue level for such year and the applicable party's share of the Performance Bonus (75% in the case of Westport; 25% in the case of Cummins). Net income remaining after payment of the Performance Bonus will be shared equally between Westport and Cummins, with dividends paid on a quarterly basis as approved by the CWI Board of Directors after considering CWI's business outlook, cash position and future liabilities.

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

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

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

As of March 7, 2013, the board of directors of CWI is comprised of Ed Pence, Cummins Vice President and General Manager, High Horsepower Engine Business (Chairman); Dean Cantrell, Cummins Automotive On Highway Business Controller; Ric Kleine, Cummins Vice President, On Highway Business; John Lapetz, Westport VP and Managing Director, North American Light Duty Vehicle Programs; Bill Larkin, Westport Chief Financial Officer and Mel Ogmen, Westport Vice President, Engineering and Operations.

CWI Engine Production and Distribution

CWI engines have historically been manufactured in two different locations: a Cummins engine plant in Rocky Mount, North Carolina, and by Cummins India Limited in Pune, India. Pursuant to the terms of the Amended JVA, CWI will focus on sales in North America with engines that are manufactured in Cummins' North American engine plants in Rocky Mount, North Carolina and Jamestown, New York. Engines are sold to truck and bus OEMs for installation onto new vehicles. The fuel storage systems are installed at the OEM factory or at a third party location, such as a truck-body builder (i.e., refuse) or at a fuel system integrator.

CWI Revenues

	Year Ended	
(Expressed in thousands of U.S. dollars)	**December 31, 2012**	**December 31, 2011(1)**
Product Revenue	$ 161,741	$ 114,518
Parts Revenue	$ 36,274	$ 24,326
Total	$ 198,015	$ 138,844

Note:

(1) Effective March 31, 2011, Westport changed its year end from March 31 to December 31. As such, figures in this column represent revenues generated during the nine months from April 1, 2011 to December 31, 2011.

WESTPORT HD NATURAL GAS ENGINES & LNG FUEL SYSTEMS

A key element of our strategy is to diversify our revenue base through increasing the market share of our Westport HD system, now part of Westport On-Road Systems business unit, which includes both the Westport HD 15L engine and the LNG fuel system. The Westport HD system is designed to power on-road heavy-duty trucks. Our immediate market focus is North America and Australia, particularly in regions where LNG availability or relationships with fuel providers are developing or established. Our target market segment consists of high fuel consumers or high mileage, heavy-haul over-the-road ("**OTR**") fleets that operate on fixed routes or corridors or that operate from centralized locations or distribution centers.

The Westport HD system allows on-road heavy-duty truck to operate with approximately 95% replacement of diesel fuel by natural gas in high duty cycle applications while maintaining the diesel performance and efficiency throughout its operating range. By directly injecting the natural gas at high pressure into the combustion chamber, HPDI reproduces key benefits of diesel engines: high efficiency over the speed and torque operating range; high torque capability; and high reliability. The use of a diesel pilot to support auto-ignition of the injected natural gas provides robust combustion in a high-compression, unthrottled diesel cycle engine. At the same time, the properties of natural gas contribute to a reduction in combustion by-products such as NOx, PM and GHG.

We believe the Westport HD 15L engines are the best solution for low emissions heavy-duty trucks that require one or more of the following characteristics:

- high diesel substitution with natural gas;
- high torque at low engine speeds;
- high power ratings for heavy loads and difficult terrain;
- excellent transient response;
- full certification to meet or surpass low NOx and PM emissions legislation; and

· lower GHG emissions.

We target geographical markets with one or more of the following characteristics:

· LNG fuel availability in the market at competitive prices that make total life cycle costs for vehicle purchase and operation less expensive than conventional diesel trucks; and

· Existence of high mileage, high fuel users that may include heavy-haul or long haul fleets that are running along major transportation corridors.

We believe that these factors are currently present in Quebec, Ontario, British Columbia, Southern California, Arizona, Nevada, Utah, Texas, the North East and other regions within the United States as well as in parts of Australia. Within these areas, we target fleets with heavy-duty trucks that typically operate from centralized hubs with return-to-base operations or those that run on corridors where fuelling infrastructure can be more easily established and managed. We are currently targeting prospective customers that meet the aforementioned characteristics including those that are engaged in heavy-haul OTR transport.

The Westport HD system is composed of proprietary natural gas fuel injectors, fuel pumps, control units, and onboard LNG storage tanks. LNG fuel for the HD engine is stored in the LNG tank and drawn out with a unique LNG pump (powered by hydraulic oil from an engine-driven hydraulic pump). The LNG is vaporized using excess heat from the engine coolant and exits the tank module at approximately 100 ºF and 4,500 psi (40 ºC and 30 MPa). The warm, high-pressure gas is filtered and passed through an accumulator vessel that dampens pressure fluctuations and provides natural gas for engine start-up. At the same time, a diesel fuel pump draws and pressurizes diesel fuel from the pilot diesel tank. Both the diesel and natural gas are sent to the fuel conditioning module, where they are pressure regulated, filtered, and distributed to the fuel injectors via fuel rails. The HD engine is electronically managed by the control units, allowing continuous adjustments that provide optimal and unparalleled engine efficiency. The Westport HD system is currently available in Australia certified to the ADR 80/03 emissions standard and in North America (Canada and USA) where it has received 2010 U.S. EPA and CARB emissions certification.

Since July 2010, Westport and Volvo Powertrain have been working together to develop natural gas fuelled engine products featuring Westport HPDI technology. The product, a 13-litre heavy-duty natural gas engine, is scheduled to launch in 2014.

In July 2010, we established WWI, a joint venture between Westport (35% interest), Weichai (40% interest) and Hong Kong Petersen (25% interest) to focus on the Chinese market. WWI develops, manufactures, and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach, and heavy-duty truck applications in China or exported to other regions globally. Currently, WWI is integrating Westport HPDI technology to create the new 12-litre Weichai Westport HPDI Landking engine that will deliver the same power, torque, and performance as that of the original diesel engine. Expected to be launched in 2013, this engine will fill the gap in the natural gas engine market for heavy-duty trucks in China.

Current Engine Ratings

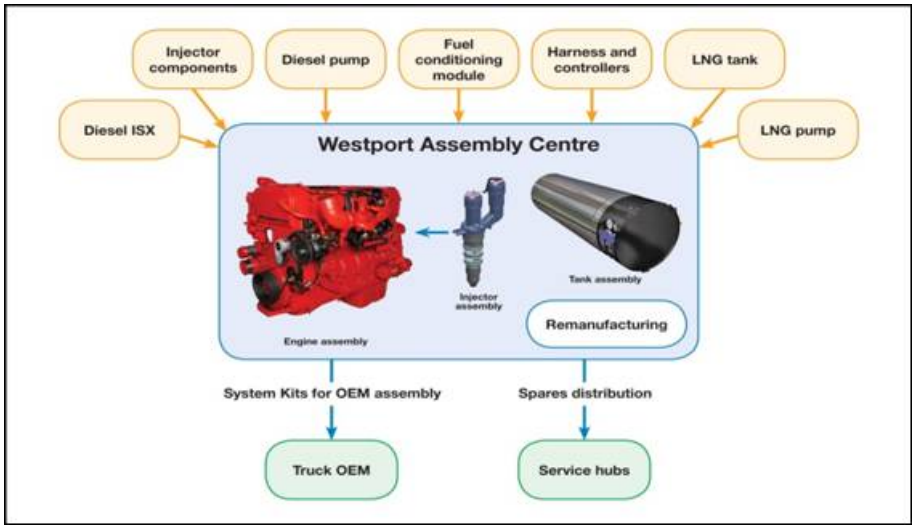
The Westport HD engine for North America is based on a Cummins ISX engine and is offered in three ratings: 400 horsepower with 1,450 ft-lbs torque; 450 horsepower with 1,650 ft-lbs torque; and 475 horsepower with 1,750 ft-lbs torque. These engines have been certified to both the US EPA and CARB emissions standards for 2010.

In Australia, three engine ratings are offered: HD 485 with peak power of 500 horsepower and 1,650 ft-lbs torque; HD 525 with peak power of 550 horsepower and 1,850 ft-lbs torque; and HD 550 with peak power of 578 horsepower and 1,850 ft-lbs torque. These engines have been certified to the ADR emission levels ADR 80/03.

Westport HD System Production and Distribution

The Westport HD system includes (i) the Westport HD 15L engine equipped with our proprietary natural gas fuel injectors featuring HPDI technology; (ii) our proprietary fuel pumps; (iii) proprietary control units; and (iv) onboard LNG storage tanks. Production for the Westport HD system follows an OEM on-line production model made possible with agreements with both Kenworth (North America and Australia) and Peterbilt (North America only) for assembly line production of LNG trucks powered by Westport HD systems. For OEM supply, the Cummins ISX engine, purchased by PACCAR Inc., is manufactured at Cummins' manufacturing plant and then transported to our 21,000 square foot assembly centre in Delta, British Columbia, where it is fitted with our proprietary Westport HD system. The Delta facility is also responsible for the final assembly and testing of the complete engine and fuel system. Component parts are delivered to our assembly plant where the assembly process is completed.

Westport has entered into a Supply Agreement with Cummins to allow manufacturing of the Westport HD 15 litre engine in a Cummins manufacturing facility in Jamestown, New York. The HD Supply Agreement provides Westport with the ability to have its Westport technology-equipped heavy duty engines produced in a Cummins manufacturing facility when a minimum threshold sales volume of at least 1,500 engines in any 12-month period has been achieved by Westport. The supply agreement term is for three years beginning from the date the first Westport technology-equipped engine is shipped by Cummins after Westport meets the minimum volume threshold. The term automatically renews if the threshold volumes continue to be achieved. If Cummins does not ship a Westport technology-equipped engine on or prior to February 19, 2017, the agreement will terminate.



Westport HD Revenues[1]

(Expressed in thousands of U.S. dollars)	Year Ended December 31, 2012	Year Ended December 31, 2011[2]
Product Revenue	$ 21,129	$ 16,046
Parts Revenue	$ 3,269	$ 2,278
Service Revenue	$ 13,508	$ 10,181
Total	$ 37,906	$ 28,505

Note:

(1) The table represents the revenues attributable to the former Westport HD business unit. Effective during the fourth quarter of 2012, Westport realigned its business structure and no longer treats Westport HD as a separate business unit.

(2) Effective March 31, 2011, Westport changed its year end from March 31 to December 31. As such, figures in this column represent revenues generated during the nine months from April 1, 2011 to December 31, 2011.

WESTPORT OTHER PRODUCTS & SERVICES

Westport WiNG™ Power System Production

The WiNG System is currently available in Ford F-250 and F-350 Super Duty pickup trucks sold and serviced through authorized Ford dealers. Beginning April 1, 2013, it will additionally be available in Ford F-450 and F-550 Super Duty trucks.

Westport is also developing relationships with service body companies to offer installation of second unit bodies on its F-250 and F-350 pickup trucks. In addition to the installation of the WiNG System, customers may now choose the option to install second unit bodies with a single ship through, saving significant time and delivery costs. These service body options are also expected to be available on the new F-450 and F-550 models.

The F-250 and F-350 pickup trucks, powered by Ford's 6.2L hardened engine platform, and future F-450 and F-550 trucks, powered by a hardened 6.8L engine, can also run on ordinary gasoline.

The Ford F-250, F-350, F-450 and F-550 pickups with the bi-fuel WiNG System have undergone the same rigorous OEM testing for safety and durability required for all OEM products. They are designed to meet both EPA and CARB standards. The F-250 and F-350 pickups with the bi-fuel WiNG System have received the 2013 EPA certificate.

The WiNG System is assembled and tested on the Ford vehicles at the WKIC, a Ford QVM audited facility, located adjacent to Ford Motor Company's Kentucky Truck Plant.

Other Products & Services

In mid-2012, Westport launched JumpStart mobile fuel services to facilitate the early adoption of LNG trucks while construction of new LNG refuelling infrastructure is being completed and to facilitate LNG refuelling in remote locations. JumpStart leases portable LNG trailers directly to Westport HD customers, to LNG fuel providers and station operators. As at December 31, 2012 there were seven JumpStart units under leases supporting over 150 HPDI trucks in North America with fleets such as Vedder Transport, Green Energy and UPS.

In mid-2013, Westport expects to expand its trucking product offerings with the launch of the Westport LNG Tank System in North America. This new product is an example of leveraging existing Westport HPDI technology and expanding its market applicability to increase Westport's solution content in a broader range of natural gas engine and vehicle systems.

The Westport LNG Tank System will be available in 120 and 150 gallon capacities, and optimized for SI natural gas engines such as those sold

by CWI. The Westport LNG Tank System features proprietary Westport technology and is expected to provide customers with the ability to fuel the largest SI engines on a single tank and deliver extended range.

Key characteristics of the new Westport LNG Tank System:

- Current industry standard systems require two LNG tanks to operate effectively with larger SI engines and require warm (saturated) LNG. The Westport LNG Tank System is optimized for trucks running even the largest SI engines, reducing the overall fuel system costs and weight dramatically with the single-tank option;
- The 120 gallon or 150 gallon single-tank systems can run for approximately 350 to 450 miles, respectively, on cold (unsaturated) LNG fuel. Those ranges double for dual-tank configurations;
- Fuel-flexibility with the ability to carry both cold and warm LNG;
- By carrying fuel as cold LNG, the Westport LNG Tank System can increase fuel storage times and improve vehicle range by up to 10 percent;

- Universal system design allows for any OEM to integrate;
- Compared to existing CNG options, a single 150 gallon Westport LNG Tank System takes the place of three standard CNG tanks, lowering fuel storage costs and reducing overall vehicle weight by approximately 600 lbs. Additionally, LNG has shorter refuelling times compared to CNG;
- Customers receive a two year / 250,000 mile warranty along with access to field service from Westport-trained personnel;
- Westport Active System Management features proprietary control algorithms and connects with standard engine controllers to allow fuel delivery to match driving patterns;
- An advanced driver display that indicates not only the LNG fuel levels, but also status and diagnostic information about the tank and integrated pumps; and
- Fleets with a combination of SI and Westport HPDI trucks can now rely on the same LNG refuelling infrastructure due to the system's fuel-flexible capabilities.

Revenues generated from the JumpStart mobile fuel services are accounted in the Westport HD Revenues section above.

HIGH-HORSEPOWER APPLICATIONS

Westport is currently working with various OEMs to develop larger engines for applications that would benefit from using Westport HPDI technologies including heavy construction vehicles, marine vessels, mining trucks, and locomotives. Many of these products consume large amounts of fuel and often operate in regions where natural gas offers a significant cost advantage over diesel, providing substantial savings in operating costs and petroleum resources with the benefit of lower GHG emissions.

Westport and Caterpillar are actively co-developing natural gas technology for off-road equipment, as announced in June 2012. While the initial focus is on engines used in mining trucks and locomotives, these engines are also used in a variety of electric power, industrial, marine and petroleum extraction applications worldwide. Caterpillar and Westport are combining technologies and expertise, including Westport HPDI technology and Caterpillar's industry leading off-road engine and machine product technology, to develop the natural gas fuel system. As part of this agreement, Westport will supply key components to Caterpillar for these products, which are expected to be commercially available within four years. The first locomotive prototype will be the EMD SD70 locomotive under the SDTC funded program in partnership with CN, EMD and Gaz Métro, which will be tested in service with CN during 2014.

TECHNOLOGY

We have invested over $400 million towards the research, development and commercialization of our proprietary technologies, which allow engines to operate on natural gas and other gaseous fuels while preserving the key performance benefits of gasoline or diesel engines.

We strive to develop and integrate the technologies that best fits the requirements of our target applications. As a result, Westport uses different fuel system and engine technologies across its range of applications. Generally, our technologies encompass vehicle and engine fuel systems, combustion and control approaches, as well as exhaust emissions treatment.

Light-Duty Applications

Light-Duty applications include fork lift applications, small industrial engines, passenger cars and larger commercial vehicles such as pick-up trucks and utility vans.

Fuel System Components: Westport LD, through its Emer and OMVL subsidiaries, develops and manufactures safe, certified, reliable, low cost fuel system components that enable gasoline engines to be adapted to natural gas or LPG operation. Fuel system components include CNG

tank valves, which are designed to provide multiple layers of safety, fill nozzles, gaseous fuel lines, manual and electrically operated shut-off valves, single and double-stage pressure regulators, fuel gauges, high and low pressure fuel filters, integrated fuel rails and injectors, and customized electronic control units.

Stoichiometric Multi-Point Injection Spark Ignition: Westport LD fuel system components can be integrated on engines to allow sequential multipoint port injection of natural gas or LPG. These engines are spark-ignited, operate with a closed-loop controlled stoichiometric air/fuel ratio, and rely on a conventional three-way catalyst for emissions control. These engines can operate as bi-fuel engines (operation with either gasoline or gaseous fuel is possible) or dedicated to just one type of fuel. Most passenger car applications today are bi-fuel, whereas engines used in industrial applications such as forklifts and oilfields are dedicated to one type of fuel.

Westport is making fully-integrated, cost-effective solutions available for industrial and light-duty vehicles applications, such as the WiNG System —an advanced, integrated, bi-fuel (natural gas / gasoline) system for fleet customers of passenger and commercial vehicles.

Westport evaluates opportunities and conducts research and development (" **R&D**") to improve fuel system components and engine operating methods to offer gaseous fueled engines and vehicles that offer the highest level of safety, reliability, durability, performance, emissions and efficiency.

Heavy-Duty Applications

HD applications include medium HD vehicles such as transit buses, refuse trucks, coaches, urban delivery vans, beverage delivery and school buses (vehicles that have a gross vehicle weight between 14,000 and 33,000 lbs). "Heavy" HD trucks include larger tractor-trailer combination and dump trucks.

In the medium HD class of vehicles, Westport and its partners are providing lean burn and stoichiometric spark ignited engines to address the needs of different markets.

Lean Burn Spark Ignition: Lean burn spark-ignited ("**LBSI**") gaseous-fuelled engines use Otto-cycle combustion with large amounts of excess air to maintain relatively low combustion temperatures resulting in low NOx and low PM output. This architecture relies on robust traditional spark plug technology to ignite a pre-mixed air/fuel charge, which can accommodate most gaseous fuels including natural gas, propane, hydrogen, and blended fuels. Spark-ignited medium HD engine technologies are integrated with a robust diesel engine platform and a dedicated control strategy to create a clean-burning alternative fuel engine with excellent performance, reliability, and durability characteristics. WWI offers LBSI for example in China, India and Latin America to power transit buses and a variety of trucks.

Stoichiometric Spark Ignition with Exhaust Gas Recirculation: CWI's SESI technology builds upon the LBSI approach, but uses high rates of cooled EGR in the combustion process in place of large amounts of excess air. The use of cooled EGR allows the creation of oxygen-free exhaust, which then allows for the use of a simple, passive three way catalyst. SESI technology delivers ultra-low emissions, below EPA 2010 levels, with increased thermal efficiency and higher low-speed torque compared with today's LBSI engines. CWI's very successful ISL G engine that is used in North American transit buses, refuse trucks and day cab trucks is based on the SESI technology.

Westport evaluates opportunities and conducts R&D to improve fuel system components and engine operating methods to offer medium heavy duty gaseous fueled engines and vehicles that offer the highest level of reliability, durability, performance, low emissions and efficiency.

In heavy HD and High Horsepower applications, Westport also provides fuel systems and engines enabling HPDI of natural gas. The fuel system includes an LNG storage tank and pump, special fuel injectors, fuel conditioning modules and electronic control software and hardware.

High Pressure Direct Injection: HPDI technology emulates the robust and efficient characteristics of diesel combustion but with the fuel being mostly natural gas. Engines with HPDI use small diesel pilot sprays and larger natural gas jets injected late in the compression cycle. HPDI retains the compression ratio and un-throttled operation of diesel engines, enabling high cycle efficiency and low end torque capability. It requires no special pistons, cams, ignition system, gas mixer, intake manifolds, exhaust sensors or port injectors. For high use applications, the diesel is, on average, approximately 5% of the total fuel energy input and is used to start the combustion process just prior to the main injection of natural gas. Due to the lower flame temperature of natural gas, engine out NOx emissions can be cut by 30% to 50% compared to diesel equipped with no or moderate exhaust gas recirculation. Due to the lower carbon content of gas compared to diesel, HPDI leads to engine out PM emissions reduction of 60% to 80%, and to GHG emissions reduction of 20% to 30% inclusive of methane emissions. Our HPDI technology has been demonstrated on Cummins, Volvo, MAN, Detroit Diesel, Weichai and other heavy-duty engines and could be applied to any modern direct injection diesel engine, given sufficient development. HPDI is well suited to large on-highway trucks and to high-horsepower applications where performance and part load fuel consumption are critical.

High Pressure Gaseous Fuel Injectors: Our HPDI fuel injectors are designed to be incorporated into a diesel engine with no or limited head modifications and minimized changes to the engine hardware beyond replacing a diesel injector with our HPDI fuel injector. These injectors enable late-cycle, high pressure direct injection of natural gas, ensuring diffusion-type combustion. HPDI fuel injectors are common-rail, diesel-actuated and electronically controlled.

We have developed fuel injectors capable of handling the special challenges presented by compressible fuels. For instance, our injectors are designed to manage the high volumetric flow rates required for a fuel much less dense than diesel, the reduced cushioning associated with the low viscosity of gaseous fuels, and the critical sealing between gas and pilot fuel within the injectors.

We design and test our own natural gas direct injection fuel injectors. Westport has reached high volume scale production capability by

partnering with one of the world's largest diesel injector manufacturers, Delphi, to supply Westport proprietary HD fuel injectors.

The engine fuel system also includes gas and diesel control modules that filter, measure and regulate the fuels prior to admission to the engine, and electronic modules that control the various components of the fuel system.

Cryogenic tanks and pumps: Our cryogenic technologies enable our customers to use LNG for mobile applications of HPDI, where durability is important, space is limited and excess weight is costly. Our designs for compact cryogenic pumps and storage vessels are well suited to on-road applications that have higher vibration profiles than stationary applications. Our LNG pump is designed to be fitted within a cryogenic vessel to provide rapid engine fuelling capability, minimize heat leak and external exposure of cryogenic parts. Westport has also extended its cryogenic technologies to provide LNG systems with increased fueling rate capability to spark ignited engines used in certain high load applications.

Advanced Combustion and Fuel System Concepts

Westport continues to evaluate new combustion and fuel system concepts. In the past we have evaluated technologies such as:

- Hot surface ignition ("**HSI**"). Westport has demonstrated concept vehicles operating with natural gas direct injection and hot surface ignition. Specially shielded ceramic glow plugs were used for the ignition. Fast-response direct actuation common rail injectors were used to provide rate shaped injection or multiple gas injections. Emissions were drastically reduced because of the natural gas, but diesel-cycle diffusion combustion retains the power, torque, and efficiency of the diesel engine.

- On-board gas compressor. We have developed vehicle booster-compressors to meet the fuel system's need to provide high-pressure natural gas to the injectors from CNG tanks. This compressor technology is modular and scalable to adapt to varying flow rates, gas pressures and packaging requirements. This was used for example on the concept vehicles operating with HSI.

- Homogeneous Combustion Direct Injection. Westport has demonstrated concept power generation engines operating with some of the natural gas being pre-mixed with the intake air prior to ingestion into the combustion chamber and some of the natural gas being direct injected. The pre-mixed natural gas burned in a homogeneous charge compression ignition manner. We have developed methods to control the ideal timing of the start of combustion through signal processing of engine mounted accelerometers.

- Exhaust Aftertreatment Systems. As a natural gas engine and fuel system developer, we have investigated and developed aftertreatment systems for natural gas engine technologies. We have worked with oxidation catalysts, methane-specific catalysts, three-way catalysts, lean NOx adsorbers, diesel particulate filters, and selective catalytic reduction systems. Novel systems and methods, applicable to both natural gas and diesel engines, have been developed.

- Hydrogen direct injection and hydrogen natural gas blends. Westport has demonstrated the operation of transit buses fueled with blends of hydrogen and natural gas. Westport has worked with OEM partners and continues to work with certain laboratories to investigate hydrogen direct injection.

In addition, Westport continues in collaboration with partner universities and laboratories to investigate certain fundamental aspects of gaseous fuel combustion and emissions catalysis.

INTELLECTUAL PROPERTY

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

We are committed to our strategy of building an intellectual property portfolio that encompasses a variety of intellectual property rights and protects our key intellectual assets. We believe these intellectual property assets will enable us to remain competitive in our industry.

We use patents as the primary means of protecting our technological advances and innovations, which include proprietary claims to components, materials, operating techniques, and systems. We have a proactive approach to identifying, evaluating and choosing strategic inventions that we seek to protect through the timely filing and diligent management of patent applications. We have a comprehensive invention disclosure program involving written invention memoranda and maintenance and preservation of supporting laboratory records. Patent applications are filed in various jurisdictions internationally, which are carefully chosen based on the likely value and enforceability of intellectual property rights in those jurisdictions, and to strategically reflect our anticipated major markets. Patents provide us with a potential right to exclude others from incorporating our technical innovations into their products and processes. Where appropriate, we license third party technologies to provide us with the flexibility to adopt preferred technologies.

As of December 31, 2012, we have filed over 700 patent applications worldwide relating to over 180 inventions, and we held more than 335 issued patents worldwide, including more than 75 issued U.S. patents. We also have a number of patent applications pending in the United States and under the international Patent Cooperation Treaty, which preserves for at least 30 months our right to file corresponding patents in all of the major industrial countries that are of interest to us. These issued and pending patents cover various aspects of our technology.

We believe we have developed a significant international patent portfolio, which establishes a broad foundation for our ongoing research

activities and continues to yield new and patentable developments. Our strategy is directed not only to capturing improvements that we make to our current technologies and extending the window for such technologies, but also to capturing future technologies that we believe could supplant current technologies. Accordingly, we believe that we are continuously renewing our patent portfolio to support the growth of our business in both the short and long term. We expect to file new patent applications each year as our patent portfolio expands to strengthen our role as a leading developer of gaseous-fuelled engine technology. We expect activities relating to assertion and enforcement of our intellectual property rights to increase as the market for our products develops, and we also expect that our growing patent portfolio, especially when coupled with a strong enforcement program, will provide us with a significant advantage over our competitors.

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

COMPETITIVE CONDITIONS

As one of the few companies of which we are aware that is focused on gaseous fuel engine technologies, we believe we are a world leader in gaseous-fuelled engines that incorporate high pressure, common rail, direct injection technologies. Westport and its related technologies currently compete with the incumbent offerings, which are typically diesel, as well as other forms of alternative power engines including but not limited to spark-ignited natural gas, hybrid electric and dual-fuel and bi-fuel applications, and in particular increased competition with respect to spark-ignited natural gas engine OEMs in China and aftermarket kit providers in Europe. While some alternative fuels or other power technologies are being developed, Westport technology is available in affordable products with real-world experience.

GOVERNMENT FUNDING

Westport and CWI have won significant funding awards from U.S. and Canadian government agencies and from trade groups for technology development and demonstration projects. In some cases, the government or trade-group funding may be repayable, in whole or in part, depending on the success of the technology. Some of the more significant awards include:

In calendar year 2012, CWI collected $2.07 million in previously awarded funds from the U.S. DOE's National Renewable Energy Laboratory ("**NREL**") and California Energy Commission (" **CEC**") multiyear research programs for the 11.9L ISX12 G as described below:

- April 12, 2011 — CWI was awarded $1.50 million from the CEC for further development and demonstration of the CWI ISX 12G (11.9 L) engine;

- March 29, 2011 — CWI was awarded $3.60 million from the NREL to develop an 11.9 litre natural gas engine and integrate it into refuse trucks and Class 8 delivery trucks around the nation to verify performance in different climates, altitudes, and driving environments (i.e., city and highway).

February 2011 — Westport was awarded C$2.30 million from SDTC to develop Westport HD system technology for high-horsepower applications. Westport is proposing to significantly improve the cost structure for operators of high-horsepower equipment while achieving compliance with increasingly stringent emission regulations and reducing GHG emissions by up to 25%. Consortium members in the SDTC project are EMD, Canadian National Railways Company and Gaz Métro Transportation Solutions, a wholly-owned subsidiary of Gaz Métro, the main distributor of natural gas in Quebec. As of December 31, 2012 Westport had received C$1.09 million of this funding.

January 29, 2010 — Westport was awarded close to $1.00 million in funding from the CEC to support research relating to the HPDI 15L engine, including with respect to lowering cost, increasing performance, and other matters in connection with the high efficiency pilot-ignited directly injected HD natural gas engine. As of December 31, 2012, Westport had recognized all of the funding related to the contract milestones.

February 2008 — Westport was awarded $2.25 million in funding, of which $1.75 million is from the SCAQMD and $500,000 from the CEC, to support the development, demonstration, commercialization and certification of our heavy-duty LNG fuel system for the Cummins ISX engine to meet the EPA 2010 NOx (0.2 g/bhp-hr NOx) emissions standard prior to 2010. As of December 31, 2012, Westport had recognized $2.25 million of this funding.

HUMAN RESOURCES AND POLICIES

We have attracted a highly educated, experienced team of professionals focused on the development of our technologies. We actively recruit skilled individuals with diverse backgrounds from around the world and provide them with specific training relating to our technology, and retain consultants and contract workers with specific expertise when appropriate.

As of December 31, 2012, Westport had a worldwide total of 1,043 employees consisting mostly of engineers and technicians. Of the total number of Westport employees, we had 934 full-time employees and 109 contract or part-time staff in our offices in, Canada, Argentina, Australia, China, France, Italy, Korea, Sweden and throughout the United States. CWI had 70 full-time employees, of which 61 employees were seconded from Cummins, nine employees were seconded from Westport and two contract staff were seconded from Cummins.

Our employees are not represented by a labour union, except in Italy and Sweden. We believe that our relationships with our employees are good. Each new employee is required to execute confidentiality and proprietary rights agreements as well as a code of conduct as part of the terms of employment. To encourage focus on achievement of medium to long term performance goals, virtually all of our employees are eligible for annual bonuses that are tied to achievement of corporate milestones.

SOCIAL AND ENVIRONMENTAL POLICIES

Westport is committed to the protection of the environment, the prevention of pollution and strives to be an industry leader in mitigating the environmental impacts of fuel system research, development, testing and assembly. This Environmental Policy Statement outlines the standards to which our operations are held:

Westport will work to ensure that its operations comply with all applicable environmental legislation, industry codes and standards;

Westport will work to collaborate with partners and industry stakeholders in the protection of the environment, the conservation of resources and the implementation of pollution mitigating practices;

Westport will continue to research, design, and develop alternative fuel engine technologies that preserve environmental health and safeguard employees, customers and the general public from injuries or health hazards;

Westport determines, evaluates, and strives to mitigate the environmental impacts of our existing operations and will work to conduct a thorough environmental assessment and risk analysis prior to the implementation of new projects;

Westport will abide by internally established standards to utilize energy and other resources efficiently in its operations, including emissions and waste management programs that exceed current legislative requirements;

Westport will strive to be an environmentally responsible neighbour in the communities where we operate and to act promptly and responsibly to correct incidents or conditions that endanger health, safety or the environment;

In conjunction with external response agencies, Westport will respond to environmental emergencies promptly and effectively via a trained and coordinated on-site Emergency Response Team;

Westport will work to fully investigate all environmental incidents or unplanned releases and to communicate findings as necessary to all affected parties;

Westport will endeavour to train its employees on their individual responsibility to protect the environment, to adhere to this Environmental Policy Statement, and to cooperate with Westport's efforts in this regard. On-site contractors and others acting on behalf of Westport are expected to abide by the same environmental code of conduct;

Westport will strive to evaluate its environmental performance through regular auditing and assessment of its regulatory compliance and adherence to this policy. We will strive to communicate the appropriate information to our stakeholders including our Board of Directors, employees, shareholders, governmental agencies and the general public;

Westport will strive to continuously improve our environmental management system and measure the environmental impacts of our operations. Westport will implement this policy through a comprehensive plan with measurable goals/targets and a rigorous analysis of performance. Westport will work to provide a candid discussion of our environmental achievements and challenges in its annual sustainability report published on its website.

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

We published our first sustainability report at the end of fiscal 2008 to highlight aspects of our safety, environment, and community engagement performance. Our sustainability report, which will be published within our fiscal 2012 annual report, has been self-declared to correspond to application Level B in the six-level grid of the Global Reporting Initiative G3 guidelines.

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

Our employees demonstrate an active desire to contribute to our community. We have supported the United Way of the Lower Mainland with a spirited and employee-driven workplace campaign since 2002. Since that time, our employees have donated close to $800,000 to the United Way, and our campaigns have been recognized as leading efforts in the British Columbia high-tech sector.

IMPACT is an employee leadership team established to drive community engagement and community enrichment. Launched in 2007, IMPACT brings together the various volunteer activities, events, and initiatives that employees were already involved with into one coordinated effort. IMPACT's vision of community is broad and encompasses the actual communities in which we live and work, our immediate neighbours and our workplace. IMPACT has an ambitious and inspiring mandate to have its activities leave a positive and measurable impact on the community. Community leadership is a core value of ours and to support this, every employee is given 16 hours of paid leave per year to volunteer with a charitable organization of his or her choosing.

We have been a sustaining member of Canadian Business for Social Responsibility since 2001 and were one of the first members of the

Canadian high-tech sector to join this group of progressive organizations committed to the principles of sustainability. To further expand our sustainability networks, we became member of Business for Social Responsibility (BSR) and the Leadership Council of the Network for Business Sustainability.

We have been listed on the Jantzi Social Index ("**JSI**") since August 2000. The JSI is a socially-screened market capitalization-weighted common stock index modeled on the S&P/TSX 60 consisting of 60 Canadian companies that pass a set of broadly based environmental, social and governance rating criteria. The JSI has begun to generate the first definitive data on the effects of social screening on financial performance in Canada.

In November 2012, we were ranked on the Corporate Knights' Cleantech 10™ list for the sixth year in a row. The Cleantech 10™ represent Canada's best publicly held companies in the Cleantech realm. The Cleantech 10™ list was created by The Cleantech Index (www.cleantechindex.com), which is the first and only stock market index intended to reflect the surging demand for clean technology products and services. The index is comprised of 59 companies that are global leaders in cleantech across a broad range of industry sectors, from alternative energy and energy efficiency to advanced materials, air and water purification, eco-friendly agriculture/nutrition, power transmission and more. The Cleantech Index is a growth stock index of leading clean technology companies worldwide — not a 'laundry list' of every company in the sector or companies recently re-branded as 'green'.

DIVIDEND POLICY

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

MARKET FOR COMMON SHARES

The outstanding Common Shares are listed and posted for trading on the Toronto Stock Exchange under the trading symbol "WPT". The following table sets forth the market price ranges and the aggregate volume of trading of the Common Shares on the Toronto Stock Exchange for the periods indicated:

Toronto Stock Exchange (WPT)

Period	High (CDN$)	Low (CDN$)	Close (CDN$)	Volume
January 2012	42.12	32.56	41.64	2,054,660
February 2012	47.09	37.95	40.16	3,744,923
March 2012	49.68	39.65	40.92	5,632,197
April 2012	41.02	29.21	31.00	3,702,745
May 2012	32.01	22.76	25.51	3,716,210

Toronto Stock Exchange (WPT)

Period	High (CDN$)	Low (CDN$)	Close (CDN$)	Volume
June 2012	38.02	22.87	37.39	6,665,600
July 2012	40.75	32.61	37.78	3,647,904
August 2012	39.42	33.43	34.78	2,313,612
September 2012	34.90	25.50	27.44	3,233,046
October 2012	31.82	23.31	27.90	3,051,403
November 2012	28.01	23.02	26.60	2,357,965
December 2012	28.22	25.33	26.32	988,504
January 2013	29.35	26.36	27.30	1,041,712
February 2013	33.24	26.47	29.86	1,261,854
March 2013 (to March 6)	30.55	28.25	29.55	261.147

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

NASDAQ Global Select Market (WPRT)

Period	High ($)	Low ($)	Close ($)	Volume
January 2012	42.15	31.91	41.60	24,014,025

February 2012	47.38	38.05	40.47	46,944,108
March 2012	50.19	39.56	40.92	56,107,484
April 2012	41.43	29.68	31.32	57,337,250
May 2012	32.49	22.33	24.41	56,901,259
June 2012	37.33	21.93	36.75	52,832,026
July 2012	40.38	31.82	37.63	24,246,869
August 2012	39.69	33.66	35.30	21,093,220
September 2012	35.40	25.92	27.84	25,676,816
October 2012	32.64	25.57	28.03	20,690,922
November 2012	28.18	23.01	26.18	21,966,069
December 2012	28.67	25.50	26.71	12,207,027
January 2013	29.80	26.50	27.43	12,885,554
February 2013	32.89	26.50	28.94	18,086,668
March 2013 (to March 6)	29.77	27.45	28.50	4,957.342

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares (" **Preferred Shares**") issuable in series with no par value. As at December 31, 2012, our issued share capital consisted of 55,294,091 Common Shares and no Preferred Shares. Our Board may at any time issue any Preferred Shares in one or more series, each series to consist of such number of Preferred Shares as may be determined by the Board. The Board may determine at the time of issuance the designation, rights, privileges, restrictions, and conditions attaching to the Preferred Shares of each series.

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

Subject to any rights, privileges, restrictions and conditions that may have been determined by the directors to apply to any series of Preferred Shares or any restrictions in any of our debt agreements, the directors shall have complete uncontrolled discretion to pay dividends on any class or classes of shares or any series within a class of shares issued and outstanding in any particular year to the exclusion of any other class or classes of shares or any series within a class of shares out of any or all profits or surplus available for dividends.

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

DESCRIPTION OF COMMON SHARES

The holders of our Common Shares are entitled to one vote per Common Share at meetings of shareholders, to receive such dividends as declared by us, and to receive Westport's remaining property and assets upon dissolution or winding up. The Common Shares are not subject to any future call or assessment, and there are no exchange, pre-emptive, conversion, redemption or retraction rights attached to the Common Shares. The following table provides additional information regarding the outstanding Common Shares, options, Performance Share Units ("**PSUs**"), and restricted share units.

	December 31, 2012	
	Number	Weighted Average Exercise Price ($)
Shares Outstanding	55,294,091	
Share Options		
- Outstanding[1]	996,047	27.78
- Exercisable	226,487	8.06
Performance Share Units		
- Outstanding[2]	295,424	N/A
- Exercisable	—	N/A
Restricted Share Units		
- Outstanding	799,670	N/A
- Exercisable	262,615	N/A

Notes:

(1) Includes 188,477 Performance Stock Options with payout levels of 0% or 100% upon achieving the required performance criteria over the measurement period.

(2) Includes 295,424 PSUs with payout levels ranging between 0% to 200% upon achieving the required performance criteria over the measurement period. Of these 295,424 PSUs a total of 83,202 are currently known to be issuable based on the prior achievement of the required 200% conversion ratio as at the date hereof, however such awards have not yet become vested.

PRIOR SECURITIES ISSUED

No securities of Westport not listed or quoted on any exchange were issued during the year ended December 31, 2012, other than phantom share awards, options, restricted share units, and PSUs.

Additional information with respect to the issuance of securities under Westport's equity compensation plans by Westport during the most recently completed financial year will be contained in Westport's proxy circular in respect of its annual and special meeting of shareholders, which will be made available on SEDAR at www.sedar.com.

DIRECTORS AND EXECUTIVE OFFICERS

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

The following table sets forth the names and municipalities of residence of all of the members of our Board of Directors and Executive Officers as of March 7, 2013, as well as the positions and offices held by such persons, their principal occupations, and number of Common Shares held as of March 7, 2013:

Name and Municipality of Residence	Position with the Corporation	Principal Occupation for Last Five Years	Director of the Corporation Since	Number of Common Shares held as of March 7, 2013
Dr. Warren J. Baker[2][3][4] *Avila Beach, California*	Director	Retired from California Polytechnic State University since 2010. President, California Polytechnic State University (1979-2010)	September 2002	11,642
John A. Beaulieu[1][2][3][4] *Vancouver, Washington*	Chairman and Director	Managing Partner of Cascadia Pacific Management LLP (a private venture fund company) since 1990	September 1997	17,645
M.A. (Jill) Bodkin[1][2][4] *Vancouver, British Columbia*	Director	Chair and Chief Executive Officer of Golden Heron Enterprises since 1996; Director of Canadian Development for KCTS 9 Television (2007-2010)	July 2008	7,460
David R. Demers[4] *West Vancouver, British Columbia*	Chief Executive Officer and Director	Chief Executive Officer of Westport since March 1995	March 1995	127,257
Philip B. Hodge[1][4] *Calgary, Alberta*	Director	President, Chief Executive Officer and Director of Pine Cliff Energy Ltd. since January 2012; Vice President, Business Development and Vice President Acquisitions and Divestments at Penn West Exploration (2010 to 2011); Managing Director at Mackie Research Capital Corporate and J.F.Mackie & Co. (2006 to 2010)	June 2012	2,500
Dr. Dezsö J. Horváth[1][4] *Toronto, Ontario*	Director	Dean and Tanna H. Schulich Chair in Strategic Management, Schulich School of Business, York University since 1988	September 2001	58,251

Name and Municipality of Residence	Position with the Corporation	Principal Occupation for Last Five Years	Director of the Corporation Since	Number of Common Shares held as of March 7, 2013
Douglas R. King[1][3][4] *Hillsborough, California*	Director	Retired from Ernst & Young LLP for the past five years. During this time Mr. King has served as a Board Member on various publicly traded companies	January 2012	1,813
Nancy S. Gougarty[2][4][5] *Shanghai, China*	Director	Vice President for TRW Automotive Holdings Corp. (2005 to 2012)	February 2013	Nil

William (Bill) E. Larkin *Blaine, Washington*	Chief Financial Officer	Chief Financial Officer of Westport; previously Chief Financial Officer of DDi Corp. (2009 to 2010); Chief Financial Officer of Fuel Systems Solutions, Inc. (2008 to 2009); Corporate Controller of Fuel Systems Solutions, Inc. (2006 to 2008)	N/A	12,825
Dr. Albert T. Maringer[(3)(4)] *Canmore, Alberta*	Director	President and Chief Executive Officer of Maringer Consulting Alberta Ltd. since 2007	July 2008	3,588
Gottfried (Guff) Muench[(2)(4)] *West Vancouver, British Columbia*	Director	Retired from Cummins Inc. since 2010; previously held various senior positions within Cummins Inc., including Canadian General Sales Manager-Parts in Oakville, Ontario, and Vice-President, Distribution & Customer Support for Cummins Engine Company (1991 to 2010)	July 2010	4,398
Ian J. Scott *North Vancouver, British Columbia*	Executive Vice President	Executive Vice President of Westport (November, 2012 to present); President of Westport Light Duty, Inc. (December 2007 to October 2012)	N/A	39,083
Nicholas C. Sonntag *Gibsons, British Columbia*	Executive Vice President and President, Westport Asia	Executive Vice President of Westport and President of Westport Asia (October 2006 to present)	N/A	30,832
Elaine A. Wong *Vancouver, British Columbia*	Executive Vice President	Executive Vice President of Westport (January 2013 to current); Executive Vice President, Strategic Development of Westport (March 2010 to December 2012); Chief Financial Officer of Westport (June 2003 to February 2010)	N/A	45,729

Notes:

(1) Member of the Audit Committee as at the date hereof and as of December 31, 2012.

(2) Member of the Human Resources and Compensation Committee as at the date hereof. As at December 31, 2012, the members of the Human Resources and Compensation Committee were Warren J. Baker, John A. Beaulieu, Jill Bodkin, Albert T. Maringer and Gottfried Muench.

(3) Member of the Nominating and Corporate Governance Committee as at the date hereof. As at December 31, 2012, the members of the Human Resources and Compensation Committee were Warren J. Baker, John A. Beaulieu, Douglas R. King, Albert T. Maringer and Gottfried Muench.

(4) Member of the Strategy Committee as at the date hereof. As at December 31, 2012, the members of the Strategy Committee were the same as the date hereof, with the exception of Nancy Gougarty, who was appointed to Westport's Board of Directors and to the Strategy Committee effective February 8, 2013.

(5) Nancy Gougarty has been appointed to the company's Board of Directors, effective February 8, 2013.

DIRECTOR BIOGRAPHIES

Warren J. Baker, a US citizen, of Avila Beach, California, USA, joined Westport's board in September of 2002. He is currently Chair of the Nominating and Corporate Governance Committee. He is retired President Emeritus having served as President of California Polytechnic State University in San Luis Obispo, California from 1979 until August 1, 2010. Dr. Baker is a Fellow of the American Society of Civil Engineers, a Fellow in the Engineering Society of Detroit, a member of the board of directors of the California Council for Science and Technology, and a former member of the US Business-Higher Education Forum. Dr. Baker has served as a member of the US National Science Board appointed by President Reagan serving two terms from 1985 to 1994. He has served as Chair of the board of directors of the ASCE Civil Engineering Research Foundation. From 1994 to September 2012, Dr. Baker was a member of the board of directors of John Wiley & Sons, Inc. of Hoboken, New Jersey, a New York Stock Exchange listed global publisher of print and electronic products, specializing in scientific, technical, and medical books and journals, where he also served terms as Chair of the Audit Committee, the Governance Committee, and HR and Compensation Committee. Dr. Baker also served on the board of directors of the Society of Manufacturing Engineers' Education Foundation, and is currently Chair of the Board of Governors, US — Mexico Foundation for Science.

John A. Beaulieu, a US citizen, of Vancouver, Washington, USA, joined the Board of Directors in September of 1997 and was appointed Chairman in 2002. Mr. Beaulieu co-founded Cascadia Pacific Management, LLP, a venture capital fund in Portland, Oregon, in 1990 and has been actively involved in finding, financing, and assisting in the growth of more than 70 emerging growth technology-based companies since 1986. Mr. Beaulieu's business career included being President of Steelcraft Corporation and holding other general management positions at American Standard & Evans Products. Earlier executive employment was at Proctor & Gamble, Ford Motor Co., and Arthur Young & Co. Mr.

Beaulieu obtained a Bachelor of Commerce degree (1956) and a Masters of Business Administration degree (1963), both from Santa Clara University of California. Mr. Beaulieu is involved with one socially focused organization in the health field.

M.A. (Jill) Bodkin, a Canadian citizen, of Vancouver, British Columbia, Canada, joined the Board in July 2008. She is currently Chair of the Human Resources and Compensation Committee. She has been Chair and Chief Executive Officer of Golden Heron Enterprises since 1996. From 2007 through 2010, Ms. Bodkin was also Director for Canadian Development for KCTS 9 Television, the Seattle, Washington based Pacific Northwest PBS station. Ms. Bodkin is the President of Yaletown Venture Partners VCC, Vancouver, and is a member of the Board of Syracuse University's Maxwell School of Citizenship and Public Affairs. From 1987 to 1996, Ms. Bodkin was with Ernst & Young as a Corporate Finance Partner, advising on financing technology companies and capital projects in North America and Asia. After her early career in trade and finance in Ottawa, in 1981, Ms. Bodkin became British Columbia's first woman Deputy Minister, responsible for financial institutions, and, until 1987, Founding Chair of the British Columbia Securities Commission. Her mid-career graduate studies were in public finance at the Maxwell School, Syracuse University. Ms. Bodkin is a Governor and former Chair of the Vancouver Board of Trade, as well as a former member of the Boards of Directors of the Laurentian Bank of Canada and KCTS 9 Television, and President of the Board of Pacific Coast Public Television. She has served on the Oversight Council for the Canadian Institute of Chartered Accountants, advisory boards on investment and trade to Canadian and British Columbia Cabinet Ministers, and Boards of policy think tanks, including the Thailand Development Research Institute, the Institute for Research in Public Policy in Canada, and the Canada West Foundation.

David R. Demers, a Canadian citizen, of West Vancouver, British Columbia, Canada, is a founder of Westport and has been Chief Executive Officer and a member of the Board since the company was formed in March of 1995. Mr. Demers obtained a Bachelor of Physics degree in 1976 and a Bachelor of Law degree in 1978, both from the University of Saskatchewan. Mr. Demers is also a member of the Board of Directors of Primero Mining Corp.

Nancy S. Gougarty, a US citizen, of Shanghai, China, has been a member of the Board since February 2013. Ms. Gougarty most recently served as the Vice President for TRW Automotive Holdings Corp. ("**TRW**") operations in the Asia-Pacific region from January 2008 until 2012 located in Shanghai, China. Joining TRW in 2005, her previous positions included the Vice President of Product Planning, Business Planning and Business Development, and the Vice President of Braking, Electronics and Modules for Asia Pacific. Ms. Gougarty's distinguished career began in 1978 when she started with General Motors' Packard Electric division, first as an Industrial Engineer; she later took on various roles in application engineering, finance, operations, and sales and engineering with increasing responsibility. In 1997, she was named Managing Director for Delphi Corporation's joint venture in Shanghai, followed by a series of appointments accountable for strategic growth in Asian countries. After the successful post as the Director for Packard Electric, Asia Pacific and establishment of Delphi Corporation, Ms. Gougarty spent three years leading Delphi's largest account as Global Account Director, General Motors. She holds an EMBA degree from Case Western Reserve University and a bachelor's degree of science in industrial management from University of Cincinnati.

Philip B. Hodge, a Canadian citizen, of Calgary, Alberta, Canada, has been a member of the Board since June 2012. He is the President, Chief Executive Officer and Director of Pine Cliff Energy Ltd., a Canadian junior oil and gas company listed on the Toronto Venture Exchange since January 2012. Mr. Hodge most recently held the positions of Vice President, Business Development and Vice President Acquisitions and Divestments at Penn West Exploration, one of the largest conventional oil and natural gas producers in North America.

Prior to that, Mr. Hodge was a Managing Director at Mackie Research Capital Corporation and J.F. Mackie & Co., Calgary based investment banks. From 2000 to 2006, Mr. Hodge was Vice-President and Corporate Counsel of Westport where he was responsible for legal, corporate governance, strategic partnership and corporate development functions, as well as the formation and growth of the company's business in China. Prior to 2000, Mr. Hodge was a partner at Bennett Jones LLP, a Canadian national law firm, practicing in that firm's securities and mergers and acquisitions teams in its Calgary office. Mr. Hodge has a Bachelor of Commerce and Bachelor of Law from the University of Alberta.

Dr. Dezsö J. Horváth, a Canadian citizen, of Toronto, Ontario, Canada, has been a member of the Board since September 2001. He is currently Chair of the Strategy Committee. He is the Dean and holds the Tanna H. Schulich Chair in Strategic Management at the Schulich School of Business at York University in Toronto, Ontario, where he has taught since 1977. He holds an Electrical Engineering degree, as well as degrees in management (MBA, Licentiate, PhD) from Swedish universities. After an early R&D career with the Swedish multinational ASEA (now ABB) in the electrical industry, he accepted senior academic appointments at Swedish and then Canadian universities. In addition to publishing books and articles on strategic management and international business, Dr. Horváth has been engaged by major corporations and governments as a consultant in these fields. In addition to his membership on corporate boards in the past, Dr. Horváth is currently a Director of Inscape Corporation (since 2003), Samuel, Son & Co. Limited (since 2007) and UBS Bank (Canada) (2009). He is also a Director of The Toronto Leadership Centre (since 1998) and the Canada-India Business Council (C-IBC) (since 2009). As well, he is on the International Advisory Council of the St. Petersburg University School of Management, Russia (since 1996), Guanghua School of Management, Peking University, China (since 2007), Fundação Dom Cabral (FDC), Brazil (since 2009). Dr. Horváth is a member of the Strategic Management Society (SMS), the Academy of Management (AOM) and the Academy of International Business (AIB). In 2004, he was named AIB International Dean of the Year. Dr. Horváth was chosen as a Member of the Order of Canada in July 2008 for his academic leadership and sustained commitment to business education in Canada. In 2012, he received the Queen's Diamond Jubilee Medal in recognition of his achievements and significant contributions to Canada.

Douglas R. King, a US citizen, of Hillsborough, California, USA, joined the Board in January 2012. Mr. King is a Certified Public Accountant with significant experience in the accounting industry, including over 30 years of auditing experience at Ernst & Young LLP where he served in various capacities in multiple offices. Mr. King served as the Managing Partner at the San Francisco office of Ernst & Young LLP from 1998 to 2002. Currently, Mr. King is a member of the Board of Directors, Chairman of the Audit Committee, and member of the Nominating and Corporate Governance Committee at Silicon Graphics International Corp. (NASDAQ:SGI); member of the Board of Directors, Chairman of the Audit Committee, and member of the Executive Compensation and Finance Committees at SJW Corp. (NYSE:SJW); and a member of the Board of Directors, Chairman of the Audit Committee and member of the Executive Compensation Committee of the private company Adaptive

Spectrum and Signal Alignment, Inc. Previously, Mr. King was a member of the Board of Directors, Chairman of the Audit Committee, and member of the Nominating and Corporate Committee at Fuel Systems Solutions (NASDAQ:FSYS) from April 2006 until July 2010 and a member of the Board of Directors, Chairman of the Audit Committee and member of Executive Compensation and Special Committees of Marvell Technology Group (NASDAQ:MRVL) from April 2004 until October 2007. Mr. King has a Bachelor of Science degree from the University of Wisconsin (Madison) and a Masters of Business Administration degree from the University of Arkansas.

Dr. Albert T. Maringer , a Canadian citizen, of Canmore, Alberta, Canada joined the Board in July 2008. Dr. Maringer has been the founder, President and Chief Executive Officer of Maringer Consulting Alberta Ltd. since June of 2007. Maringer Consulting provides consulting services with respect to technological infrastructure and innovation in the energy and alternative energy industries, as well as general international management consulting for private sector enterprises and coaching services to senior executives. Prior to 2007, Dr. Maringer held the position of President and Chief Executive Officer of Siemens Canada Limited from 2000 to 2006. Dr. Maringer's career with Siemens AG spans a 46 year period during which, prior to 2000, Dr. Maringer held the following positions within Siemens AG's operations or subsidiaries: President, ATD TD Division for five years; General Manager of North America Motor Operations for four years; plus various management and engineering leadership roles including strategy development, R&D, manufacturing and project management. Dr. Maringer has served as a member of the board of directors for The Conference Board of Canada in Ottawa. He has also served as a member of the board of directors of the Canadian Nuclear Association. Dr. Maringer was a member of the Board of Trustees, Calgary Zoo, Calgary, and is a director and Chairman Emerit with the German-Canadian Chamber of Commerce and Industry. Dr. Maringer is Member of the Board (Aufsichtsrat) of Guardus AG in Ulm/Germany, was Chairman of the board of Clinicare Inc., a healthcare information technology company in Calgary, Alberta, and an advisory board member of Skypower Corporation in Toronto, Ontario. He is past Chairman of Utilicase, a privately held software company in Montreal. Dr. Maringer is a member of the advisory committee for the Center for German-European Studies at York University, Ontario, serves on the advisory council of the Schulich School of Business, Ontario, and is a Professor and holds a Chair of International Management, Friedrich- Schiller-Universität in Germany.

Gottfried (Guff) Muench, a Canadian citizen, of West Vancouver, British Columbia, Canada, joined the Board in July 2010. Mr. Muench obtained a Masters of Business Administration degree (1981) from the University of Western Ontario, and from 1981 to 2010, Mr. Muench held various senior positions within Cummins Inc., including Canadian General Sales Manager—Parts in Oakville, Ontario, and Vice-President, Distribution & Customer Support for Cummins Engine Company in Columbus, Indiana. In 1986, Mr. Muench became the Owner and Principal of Cummins British Columbia, now Cummins Western Canada, the Cummins distributor for western Canada that now serves customers in eight different provinces and territories. From 2001 to 2002, Mr. Muench also served as the first President of Cummins Westport Inc.

EXECUTIVE OFFICER BIOGRAPHIES

David R. Demers, see information contained under the heading "Director Biographies".

William (Bill) E. Larkin, a U.S. citizen, joined Westport in February 2010 as Chief Financial Officer. Mr. Larkin served as Chief Financial Officer of Fuel Systems Solutions, Inc. ("**FSYS**") from May 2008 to May 2009 and as a consultant through September 2009. Mr. Larkin served as Corporate Controller and Chief Accounting Officer of FSYS from November 2006 to May 2008.

Prior to that, Mr. Larkin served as Director of Financial Reporting at Standard Pacific Corp and as an auditor at Deloitte & Touche LLP, based in Los Angeles. Prior to joining Westport, Mr. Larkin served as Interim Chief Financial Officer for DDi Corp., a publicly listed manufacturer of circuit boards, beginning October 2009. Mr. Larkin earned a Bachelor of Science degree in accounting from the University of Southern California and is a Certified Public Accountant. As of February 19, 2012 Mr. Larkin joined the board of directors of CWI.

Ian J. Scott, a Canadian citizen, is an Executive Vice President of Westport. Mr. Scott joined Westport in 2001 and was appointed Director, Strategy and New Business Development in 2003. In 2006, he was promoted to the position of Vice President, Emerging Markets and Business Development, where he was responsible for Westport's new initiatives outside of the core Cummins Westport and Heavy-Duty HPDI business units. Mr. Scott is now responsible for Westport's On-Road Systems business unit. In 2007, Mr. Scott was appointed President of Juniper, a newly formed joint venture between Westport and OMVL, focused on light duty LPG and CNG engine solutions. In 2010, Westport acquired OMVL and Juniper became a 100% subsidiary of Westport. In July 2011, Westport acquired Emer, bringing full CNG and LPG tank-to-engine capabilities to Juniper. Juniper was recently renamed Westport Light Duty Inc. (Westport LD) to more accurately reflect the expanded business. Mr. Scott has more than 20 years of global energy and alternative fuels management and engineering experience. Prior to joining Westport, Mr. Scott held positions with Amoco and Schlumberger in Canada, Europe and Africa. He earned Bachelor of Applied Science (Geological Engineering) and Masters of Business Administration (Strategic Management) degrees from the University of British Columbia.

Nicholas C. Sonntag, a Canadian citizen, is an Executive Vice President of Westport. Mr. Sonntag joined Westport in October 2006 and has responsibility for the growth and development of Westport's emerging OEM global partnerships. Mr. Sonntag is now responsible for Westport's New Markets and Off-Road Systems business unit. Mr. Sonntag is also President of Westport Asia. Mr. Sonntag is also a Director of WWI. Prior to joining Westport, Mr. Sonntag served as President of CH2M HILL's operations in Greater China, working on sustainable infrastructure and industrial development across China and Hong Kong. Prior to his time in China, Mr. Sonntag was President of CH2M HILL's operations in Canada. Mr. Sonntag has held senior executive positions with the Stockholm Environment Institute, the International Institute for Sustainable Development, and the U.N. Conference on Environment and Development. His memberships and board positions include: Royal Roads School of Environment & Sustainability; Environmental Forum of the American Chamber of Commerce in Beijing; Environmental Management College of China; the International Center for Sustainable Cities; and China-U.S. Center for Sustainable Development. Mr. Sonntag obtained a Bachelor of Science degree in Engineering Physics and a Master of Science, Business Administration degree from the University of British Columbia.

Elaine A. Wong, a Canadian citizen, is an Executive Vice President with Westport responsible for Westport's Applied Technologies business unit, and was previously Chief Financial Officer. She joined Westport in September 2001 as Director, Corporate Performance, responsible for

the Company's financial planning and analysis, and as Director of Finance for CWI, before becoming Chief Financial Officer in 2003. Until February 19, 2012 Ms. Wong also served as a Director of CWI. She also served from 2002 to 2009 as Westport's representative on the board of directors of Canadian Business for Social Responsibility, a non-profit, national membership organisation of Canadian companies who have made a commitment to operate in a socially, environmentally, and financially responsible manner and is currently a Director and Treasurer for the David Suzuki Foundation and a member of the CICA's Sustainability Board.

Prior to joining Westport, Ms. Wong was the Director of Corporate Performance for TELUS Enterprise Solutions, an information technology company with offices across Canada and in Asia, where she was involved in strategy, planning, mergers and acquisitions, and other corporate development projects. Ms. Wong has her Chartered Accountant and Certified Public Accountant (Illinois) designations, as well as a Bachelors of Commerce Degree with Honours from the University of British Columbia.

SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As of March 7, 2013, our Board members and officers as a group beneficially owned, directly or indirectly 363,023 of our Common Shares, representing approximately 0.66% of the 55,307,523 Common Shares outstanding on such date.

CONFLICTS OF INTEREST

David Demers, a director and officer of Westport, served on the board of directors of CWI, our 50:50 joint venture with Cummins until February 19, 2012. Elaine Wong, an officer of Westport, also served as a board member of CWI until February 19, 2012. Bill Larkin joined the board of directors of CWI on February 19, 2012. Nicholas Sonntag, an officer of Westport is a board member of WWI, our joint venture with Weichai and Hong Kong Peterson.

RISK FACTORS

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

Risks Related to Our Business

We have incurred and continue to incur losses.

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

We may be unable to raise additional capital.

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

Sustained negative economic factors could negatively impact our business.

Global economic factors beyond our control such as a sustained and far reaching negative economic factors, more restrictive access to credit markets or other broad economic issues may negatively affect the natural gas vehicle market, and reduce demand for our products as partners and potential customers defer replacing older vehicles or expanding their fleets. Our bad debt expense may increase, and we may need to assist potential customers with obtaining financing or government incentives to help customers fund their purchases of our products.

Potential fluctuations in our financial results make financial forecasting difficult.

We expect our revenues and results of operation to continue to vary significantly from quarter to quarter. Sales and margins may be lower than anticipated due to timing of customer orders and deliveries, unexpected delays in our supply chain, general economic and market-related factors, product quality, performance and safety issues, and competitive factors. The current economic environment also makes projecting financial results more difficult. In addition, the continuance and timing of government funding of our research and development programs is difficult to predict and may cause quarter to quarter variations in financial results. In addition, due to our early stage of commercialization on some

products, we cannot accurately predict our future revenues or results of operations or the timing of government funding on our current research and development programs. We are also subject to normal operating risks such as credit risks, foreign currency risks, and global and regional economic conditions. As a result, quarter-to-quarter comparisons of our revenues and results of operation may not be meaningful. It is likely that in one or more future quarters our results of operation will fall below the expectations of securities analysts and investors. If this happens, the trading price of our Common Shares might be materially and adversely affected.

A market for engines with our fuel systems may never develop or may take longer to develop than we anticipate.

Although we have seen strong growth in CWI revenues and interest from municipalities and private fleets, engines with natural gas fuel systems represent an emerging market, and we do not know whether end-users will ultimately want to use them or pay for their initial incremental purchase price. The development of a mass market for our fuel systems may be affected by many factors, some of which are beyond our control, including: the emergence of newer, more competitive technologies and products; the future cost of natural gas and other fuels used by our systems; the future cost of diesel, gasoline and other alternative fuels that may be used by competitive technologies; the ability to successfully build the refuelling infrastructure necessary for our systems; regulatory requirements; availability of government incentives; customer perceptions of the safety of our products; and customer reluctance to try a new product.

If a market fails to develop or develops more slowly than we anticipate, we may be unable to recover the losses we will have incurred in the development of our products and may never achieve profitability.

Certain of our products may not achieve widespread adoption.

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

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

The application of our direct injection technology in high-horsepower applications is in its infancy. Our technology may not meet all the demands of these new applications, such as ultra high reliability, long life, high efficiency, high performance, refuelling convenience, emissions and safety regulations. Other technologies may provide better compromise. In these cases our market penetration may be lower than expected.

Dependence on Government Incentives

We are partly dependent on government incentives to facilitate demand for our products and fund our research and development programs and these incentives may not be renewed or may be redirected.

Our business has benefited from the availability of government tax incentives, such as tax credits and grants to encourage the use of natural gas in trucks, buses and other vehicles. On December 31, 2012, the United States Congress passed the American Tax Relief Act of 2012, which extended the Alternative Fuels Excise Tax Credit of $0.50 per gallon for LNG and $0.50 per GGE of CNG until December 31, 2013 and also made those credits retroactive to January 1, 2012. In addition, the Alternative Fuel Vehicle Fueling Infrastructure Credit of 30% of the cost of any qualified alternative fuel vehicle refuelling property placed in service during the taxable year, not to exceed $30,000 in the case of a property of a character subject to an allowance for depreciation, and $1,000 in any other case, was also extended until December 31, 2013 and made retroactive to January 1, 2012. There was also an extension and modification of the bonus depreciation provision that extends the 50% bonus depreciation through to January 1, 2014.

In the absence of federal legislation, individual states have initiated and passed bills to provide incentives to encourage the use of domestic energy sources such as natural gas. Texas Senate Bills 20 and 385 have been passed and authorize funding for approximately $16 million for natural gas vehicle rebates, which includes converting heavy-duty fleet vehicles to natural gas, and $4 million per year for the next two years for the establishment of natural gas stations between the cities of Dallas, San Antonio and Houston. California, through the CEC with funds through Assembly Bill 118, has established the Natural Gas Vehicle Buy-Down Program, a rebate program to incentivize the deployment of natural gas and propane vehicles in all weight classes in California. Funding for this program for 2012 was $12.7 million. No date for 2013 applications has been announced. California also has programs authorized by Proposition 1B that periodically make funding available to promote the use of cleaner heavy-duty trucks within the state. Pennsylvania through House Bill 1950 authorizes $20 million over three years in vehicle and transit grants of up to $25,000 per vehicle. Other states such as Louisiana, Oklahoma, and West Virginia offer state income tax credits for the purchase of alternative fuel vehicles including natural gas.

Due to the variable nature of government funding and incentive programs, we are unable to ascertain if current programs will continue or be renewed or whether proposed bills will be passed and enacted into law. While we believe that even in the absence of government incentives, there are sound financial and environmental motivations for customers to buy our engines, continued uncertainty over the amount and availability of government incentives in the United States, Canada, and Sweden could cause customers to delay making purchasing decisions as they wait for programs to become available. The absence of consistent commitment by government to promote natural gas vehicles could negatively affect the business by delaying purchasing decisions by prospective customers insofar as this uncertainty persists.

While some of our customers have been able to qualify for programs offered by federal, state and local agencies such as CARB, CEC, SCAQMD in California as well as other jurisdictions, there is no certainty that this assistance will continue into the future. In addition to customers' participation in fleet vehicle deployment incentives, Westport enters into agreements with government agencies to help fund our research and development programs. As with the variability of vehicle deployment incentives, there can be no assurance that we will succeed in being awarded future R&D funding from any government agencies at the same levels we have received in the past or at all.

Fuel price differentials are hard to predict and may be less favourable in the future.

The acceptance of natural gas-fuelled engines by customers depends in part on the price differential between natural gas, diesel and gasoline fuels. Natural gas has generally been, and currently is, less expensive than diesel fuel in many jurisdictions. This price differential is affected by many factors, including changes in the resource base for natural gas compared with crude oil, availability of shale gas, pipeline transportation capacity for natural gas, refining capacity for crude oil, and government excise and fuel tax policies. While this price differential increased in the year ended December 31, 2012, there can be no assurance that natural gas will remain less expensive than diesel and gasoline fuels. This may impact upon potential customers' decisions to adopt natural gas as an energy solution in the short term.

Our growth is dependent on natural gas refuelling infrastructure that may not be built and commissioned.

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

Changes in environmental and regulatory policies could hurt the market for our products.

We currently benefit from, and hope to continue to benefit from, certain government environmental policies, mandates and regulations around the world, most significantly in the international automotive market and in the United States. Examples of such regulations include those that provide economic incentives, subsidies, tax credits and other benefits to purchasers of low emission vehicles, restrict the sale of engines that do not meet emission standards, fine the sellers of non-compliant engines, tax the operators of diesel engines and require the use of more expensive ultra-low sulphur diesel fuel. There can be no assurance that these policies, mandates and regulations will be continued. Incumbent industry participants with a vested interest in gasoline and diesel, many of which have substantially greater resources than we do, may invest significant time and money in an effort to influence environmental regulations in ways that delay or repeal requirements for clean vehicle emissions. If these are discontinued or if current requirements are relaxed, this may have a material impact on our competitive position.

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

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

Competition for our products may come from current power technologies, improvements to current power technologies and new alternative power technologies, including other fuel systems and in particular increased competition with respect to spark-ignited natural gas engine OEMs in China and aftermarket kit providers in Europe.

Each of our target markets is currently serviced by existing manufacturers with existing customers and suppliers using proven and widely accepted technologies. Many existing manufacturers have or had natural gas engine programs and could develop new engines without our help or components, using more conventional technologies or technologies from competitive companies. Additionally, there are competitors working on developing technologies such as cleaner diesel engines, bio-diesel, fuel cells, advanced batteries and hybrid battery/internal combustion engines, and new fuels in each of our targeted markets. Each of these competitors has the potential to capture market share in various markets, which could have a material adverse effect on our position in the industry and our financial results. For our products to be successful against competing technologies, especially diesel engines, they must offer advantages in one or more of these areas: regulated or un-regulated emissions performance, including CO_2 reduction; fuel economy; fuel cost; engine performance; power density; engine and fuel system weight; and engine and fuel system price. There can be no assurance that our products will be able to offer advantages in all or any of these areas.

In high-horsepower applications, there are already engine manufacturers with significant experience with utilization of natural gas, for example in power generation and in marine applications. Westport may not be able to gain experience fast enough to capture a significant enough market share.

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

Failure to protect our existing and future intellectual property rights could seriously harm our business and prospects and may result in the loss of our ability to exclude others from practicing our technology or our own right to practice our technologies. If we do not adequately ensure our freedom to use certain technology, we may have to pay others for rights to use their intellectual property, pay damages for infringement or

misappropriation and/or be enjoined from using such intellectual property. Our patents do not guarantee us the right to practice our technologies if other parties own intellectual property rights that we need in order to practice such technologies. Our patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular patent. As is the case in many other industries, the web of intellectual property ownership in our industry is complicated and, in some cases, it is difficult to define with precision where one property begins and another ends. In any case, there can be no assurance that:

- any of the rights we have under U.S. or foreign patents owned by us or other patents that third parties license to us will not be curtailed, for example, through invalidation, circumvention, challenge, being rendered unenforceable or by license to others;
- we were the first inventors of inventions covered by our issued patents or pending applications or that we were the first to file patent applications for such inventions;
- any of our pending or future patent applications will be issued with the breadth of claim coverage sought by us, or be issued at all;

- our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technologies;
- any of our trade secrets will not be learned independently by our competitors; or
- the steps we take to protect our intellectual property will be adequate. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in certain foreign countries.

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

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

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

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

As a result, while we are not currently engaged in any material intellectual property litigation, we could become subject to lawsuits in which it is alleged that we have infringed the intellectual property rights of others or in which the scope, validity and enforceability of our intellectual property rights is challenged. In addition, we may commence lawsuits against others who we believe are infringing upon our rights. Our involvement in intellectual property litigation or disputes, including any that may arise in respect of, including but not limited to our HPDI technology or LNG tanks, could be time consuming and result in significant expense to us, diversion of resources, and delays or stoppages in the development, production and sales of products or intellectual property, whether or not any claims have merit or such litigation or disputes are resolved in our favour. In the event of an adverse outcome as a defendant in any such litigation, we may, among other things, be required to:

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

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

We are dependent on relationships with strategic partners.

Execution of our current strategy is dependent on cooperation with strategic partners for technology development, manufacturing and distribution. To be commercially viable, our fuel systems must be integrated into engines, and our engines must be integrated into chassis manufactured by OEMs. We can offer no guarantee that existing technology agreements will be renewed or advanced into commercialization agreements or that our strategic partners will not seek to renegotiate or amend those agreements before or after a product has been

commercialized. We can offer no guarantee that even if technology agreements do exist with our strategic partners that OEMs will manufacture engines with our fuel systems or chassis for our engines, or if they do manufacture such products, that customers will choose to purchase them. Any integration, design, manufacturing or marketing problems encountered by OEMs could adversely affect the market for our products and our financial results. In addition, there can be no assurance of the commercial success of any joint ventures in which we are, or will become, involved.

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

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

We are dependent on relationships with our suppliers.

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

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

CWI purchases all of its current and foreseeable engine products from Cummins-affiliated plants and distributors. Although the factories operate with modern technology and experienced management, there can be no assurance that the factory and distribution systems will always be able to perform on a timely and cost-effective basis. Any reduction in the manufacturing and distribution capabilities of Cummins-affiliated plants and distributors could have a material adverse effect on CWI's business and financial results.

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

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

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

delay by CWI to pay dividends could have a material adverse effect on Westport's cash flows and liquidity.

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

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

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

We may have difficulty managing the expansion of our operations.

To support the launch, and increase sales and service of our technology and related products, we may be required to expand the scope of our operations rapidly. This may include a need for a significant and rapid increase in employees and an increase in the size, or relocation, of our premises and changes to our information systems, processes and policies. Such rapid expansion may place a significant strain on our senior management team, support teams, information technology platforms and other resources. In addition, we may be required to place more reliance on our strategic partners and suppliers, some of whom may not be capable of meeting our production demands in terms of timing, quantity, quality or cost. Difficulties in effectively managing the budgeting, forecasting and other process control issues presented by any rapid expansion could harm our business, prospects, results of operations or financial condition.

Warranty claims could diminish our margins.

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

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

We could become subject to product liability claims.

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

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

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

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

The nature of our business and products exposes us to potential claims and liability for environmental damage, personal injury, loss of life, and damage to or destruction of property. Our business is subject to numerous laws and regulations that govern environmental protection and human health and safety. These laws and regulations have changed frequently in the past and it is reasonable to expect additional and more stringent changes in the future. Our operations may not comply with future laws and regulations, and we may be required to make significant unanticipated capital and operating expenditures. If we fail to comply with applicable environmental laws and regulations, governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits, and private parties may seek damages from us. Under those circumstances, we might be required to curtail or cease operations, conduct site remediation or other corrective action, or pay substantial damage claims. In addition, depending on the nature of the claim, our current insurance policies may not provide sufficient or any coverage for such claims.

We have foreign currency risk.

While a majority of our revenues, cost of sales, expenses and warranty balances are denominated in U.S. dollars, many of our operating expenses, other than cost of sales, are in Canadian dollars and Euros, and we report in U.S. dollars. Foreign exchange gains and losses are included in results from operations. A large decline in the value of the U.S. dollar relative to the Canadian dollar or Euro could negatively impact margins and other financial results. We have not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations. In fiscal 2012, on average, the U.S. dollar appreciated 0.9% against the Canadian dollar and declined 8.1% against the Euro.

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

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

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

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

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

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

We could be adversely affected by risks associated with acquisitions.

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

These risks and difficulties, if they materialize, could disrupt our ongoing business, distract management, result in the loss of key human capital, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial performance.

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

We operate in many parts of the world that have experienced social unrest, political and economic instability and resulting governmental corruption. While we have policies in place to ensure adequate monitoring of our activities and compliance with Canadian, United States and local laws and regulations in the countries in which we operate, we also operate, and intend to operate in the future, through various joint venture arrangements. Our level of control over joint venture operations may be restricted or shared, and we may be unable to control the actions of joint venture partners or their employees. Despite our policies mandating compliance with Canadian, United States and local laws, we cannot assure you that our internal control policies and procedures always will protect us from reckless or negligent acts committed by our joint ventures or their

employees or agents. Such employees or agents of the joint venture or joint venture partners may undertake actions that would result in a violation of law, including but not limited to, tax laws, customs laws, environmental laws, labour laws, permitting laws and regulations, industry laws or international anti-corruption and anti-bribery laws, including Canadian anti-corruption laws and the U.S. Foreign Corrupt Practices Act. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our business and operations. Geopolitical tensions may affect the performance of our joint ventures and operations in Asia.

Some of our foreign subsidiaries may do business in countries subject to U.S. sanctions and embargoes, and we have limited managerial oversight over those activities.

Some of our foreign subsidiaries, joint ventures or future acquisitions may sell our products to customers in countries that may be subject to sanctions and embargoes imposed by, including but not limited to, the U.S. and Canadian governments or the United Nations. Although these sanctions and embargoes may not prohibit our foreign subsidiaries and joint ventures from selling products and providing services in these countries, they may prohibit us and our domestic subsidiaries and joint ventures, as well as employees of our foreign subsidiaries and joint ventures who are U.S. or Canadian citizens, from participating in, approving or otherwise facilitating any aspect of the business activities in those countries. The constraints on our ability to have U.S. or Canadian persons, including our senior management, provide managerial oversight and supervision over sales in embargoed countries may negatively affect the financial or operating performance of such business activities. Further, failure to comply with U.S. and Canadian laws in our foreign operations could result in material fines and penalties, damage to our reputation and a reduction in the value of our Common Shares.

Risks Related to Our Common Shares

Our Common Share price may fluctuate.

The stock market in general, and the market prices of securities of technology companies in particular, can be extremely volatile, and fluctuations in our Common Share price may be unrelated to our operating performance.

Our Common Share price could be subject to significant fluctuations in response to many factors, including: actual or anticipated variations in our results of operations; the addition or loss of customers; announcements of technological innovations, new products or services by us or our competitors; changes in financial estimates or recommendations by securities analysts; conditions or trends in our industry; our announcements of significant acquisitions, strategic relationships, joint ventures or capital commitments; additions or departures of key employees; general market conditions; and other events or factors, many of which may be beyond our control. As of March 7, 2013, the 52-week trading price of our Common Shares on the NASDAQ Global Select Market ranged from a low of $21.93 to a high of $50.19. See also “Price Range and Trading Volume of Common Shares”.

We do not currently intend to pay any cash dividends on our Common Shares in the foreseeable future; therefore, our shareholders may not be able to receive a return on their Common Shares until they sell them.

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

If we are characterized as a passive foreign investment company, U.S. holders may be subject to adverse U.S. federal income tax consequences.

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

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

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

a basis when our officers, directors and principal shareholders purchase or sell our Common Shares as the reporting periods under the corresponding Canadian insider reporting requirements are longer. In addition, as a foreign private issuer, we are exempt from the proxy rules under the Exchange Act.

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

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

United States investors may not be able to obtain enforcement of civil liabilities against us.

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

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

AUDIT COMMITTEE MATTERS

Mandate of the Audit Committee

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

Composition of the Audit Committee

The following table sets forth the name of each of the current members of the Audit Committee, whether such member is independent, whether such member is financially literate and the relevant education and experience of such member.

Name	Independent?	Financially Literate?	Relevant Education and Experience
M.A. (Jill) Bodkin	Yes	Yes	Ms. Bodkin has been Chair and Chief Executive Officer of Golden Heron Enterprises since 1996. From 1987 to 1996, Ms. Bodkin was with Ernst & Young as a Corporate Finance Partner, advising on financing technology companies and capital projects in North America and Asia. After her early career in trade and finance in Ottawa, in 1981 Ms. Bodkin became British Columbia's first woman Deputy Minister, responsible for financial institutions, and, until 1987, Founding Chair of the British Columbia Securities Commission. Ms. Bodkin is a Governor and former Chair of the Vancouver Board of Trade, as well as a former member of the boards of directors of the Laurentian Bank of Canada and KCTS 9 Television. Ms. Bodkin has served as a member of the Oversight Council for the Canadian Institute of Chartered Accountants and has held numerous other positions on public and private boards of directors.
John A. Beaulieu	Yes	Yes	Mr. Beaulieu holds a Bachelor of Commerce degree and a Masters of Business Administration degree, both from Santa Clara University of California. As a co-founder of Cascadia Pacific Management, LLP, a venture capital fund, Mr. Beaulieu has significant experience in the analysis and evaluation of financial results. He has been actively involved in finding, financing, and growing more than 70 emerging technology-based companies since 1986. In addition, during Mr. Beaulieu's business career he has held

Name	Independent?	Financially Literate?	Relevant Education and Experience
			general management positions with a number of companies, including Evans Products Company and Ford Motor Company and as President of Steelcraft Corp.
Dr. Dezsö J. Horváth	Yes	Yes	Dr. Horvath is an Electrical Engineer and holds a number of degrees in management (MBA, Licentiate, and PhD) from Sweden. After an early R&D career with the Swedish multinational ASEA (new ABB) in the electrical industry, he accepted senior academic appointments at Swedish and then Canadian Universities. He is currently the Dean and The Tanna H. Schulich Chair in Strategic Management, at the Schulich School of Business, York University. Through his academic background and responsibilities as the Dean of the Schulich School of Business (since 1988), Dr. Horvath has acquired significant financial experience relating to accounting and financial issues. Dr. Horvath is and has been a member of a number of boards in both the public and private sectors.
Douglas R. King	Yes	Yes	Mr. King is a Certified Public Accountant with significant experience in the accounting industry, including over 30 years of auditing experience at Ernst & Young LLP where he served in various capacities in multiple offices. Mr. King served as the managing partner at the San Francisco office of Ernst & Young LLP from 1998 to 2002. Currently, Mr. King is a member of the Board of Directors, Chairman of the Audit Committee, and member of the Nominating and Corporate Governance Committee at Silicon Graphics International Corp. (NASDAQ:SGI); member of the Board of Directors, Chairman of the Audit Committee, and member of the Executive Compensation and Finance Committees at SJW Corp. (NYSE:SJW); and a member of the Board of Directors, Chairman of the Audit Committee and member of the Executive Compensation Committee of the private company Adaptive Spectrum and Signal Alignment, Inc. Previously, Mr. King was a member of the Board of Directors, Chairman of the Audit Committee, and member of the Nominating and Corporate Committee at Fuel Systems Solutions (NASDAQ:FSYS) from April 2006 until July 2010 and a member of the Board of Directors, Chairman of the Audit Committee and member of Executive Compensation and Special Committees of Marvell Technology Group (NASDAQ:MRVL) from April 2004 until October 2007. Mr. King has a Bachelor of Science degree from the University of Wisconsin (Madison) and a Masters of Business Administration degree from the University of Arkansas.
Philip B. Hodge	Yes	Yes	Mr. Hodge is the President, Chief Executive Officer and Director of Pine Cliff Energy Ltd. since January 2012. Mr. Hodge most recently held the positions of Vice President, Business Development and Vice President Acquisitions and Divestments at Penn West Exploration. Prior to that, Mr. Hodge was a Managing Director at Mackie Research Capital Corporation and J.F. Mackie & Co., Calgary based investment banks.

Name	Independent?	Financially Literate?	Relevant Education and Experience
			While at Mackie Research, he had primary responsibility for over 100 financings and merger transactions. Mr. Hodge was also the lead advisor on China Investment Corporation's $1.2 billion investment in Penn West Energy Trust and originated the investment and created the structure for a $60 million limited partnership to invest in a private equity fund focused on investments in China. From 2000 to 2006, Mr. Hodge was Vice-President and General Counsel of Westport, managing all of the legal, corporate governance, strategic partnership and corporate development functions. Prior to 2000, Mr. Hodge was a partner at Bennett Jones LLP, practicing in that firm's securities and mergers and acquisitions teams in its Calgary office. Mr. Hodge has a Bachelor of Commerce and Bachelor of Law from the University of Alberta.

Reliance on Certain Exemptions

At no time since the commencement of Westport's most recently completed financial year has Westport relied on any exemption in Sections 2.4 (De Minimis Non-audit Services), 3.2 (Initial Public Offerings), 3.3(2) (Controlled Companies), 3.4 (Events Outside Control of Member), 3.5 (Death, Disability or Resignation of Audit Committee Member), 3.6 (Temporary Exemption for Limited and Exceptional Circumstances) or 3.8

(Acquisition of Financial Literacy) of NI 52-110, or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

Audit Committee Oversight

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

Pre-Approval of Policies and Procedures

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

NON-AUDIT SERVICES

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

EXTERNAL AUDITORS' SERVICE FEES

The following table shows the aggregate fees billed to the Company by KPMG LLP, Chartered Accountants, our external auditor, in each of the last two years.

	Year Ended (Cdn $)	
	December 31, 2012	December 31, 2011[1]
Audit Fees	$ 600,973	$ 392,793
Audit Related Fees	$ Nil	$ Nil
Tax fees	$ 128,867	$ 125,082
All Other Fees	$ Nil	$ Nil
Total	$ 729,840	$ 517,875

Note:

(1) Effective March 31, 2011, Westport changed its year end from March 31 to December 31. As such, figures in this column represent fees incurred during the nine months from April 1, 2011 to December 31, 2011.

Audit Fees

Audit fees were for professional services rendered by KPMG LLP for the audit of the annual financial statements of Westport and CWI, quarterly reviews and services provided in connection with statutory and regulatory filings or engagements relating to prospectuses and other offering documents.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under the heading audit fees above.

Tax Fees

Tax fees were for tax compliance and tax advice. These services consisted of tax compliance including the preparation of tax returns.

All Other Fees

There were no fees paid to KPMG LLP that would be considered "Other Fees" in fiscal 2012 or 2011. Fees to be disclosed under this category would be for products and services other than those described under the headings audit fees, audit-related fees and tax fees above.

LEGAL AND REGULATORY PROCEEDINGS

We are not involved in any material legal or regulatory actions or proceedings, nor are any such actions proceedings known to be contemplated. From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described below or elsewhere disclosed in this AIF, none of our insiders, directors or executive officers, nor any associate or affiliate of such persons, has had any material interest, direct or indirect, in any of Westport's transactions within our three most recently completed financial years, nor in any transaction or proposed transaction within Westport's current financial year that has materially affected or would materially affect us or any of our subsidiaries.

MATERIAL CONTRACTS

Debenture Units

On September 23, 2011, we announced we had raised CDN$36 million through the issuance of Debentures offered by Macquarie, on a private placement basis, to replace previously issued debentures that matured in July 2011. The Debentures are governed by the terms of an indenture are unsecured and subordinated to senior indebtedness, mature on September 22, 2014 and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15th and September 15th of each year during the term, commencing on March 15, 2012. The Debentures are not listed on any stock exchange.

The note indenture governing the debentures ("**Note Indenture**") restricts Westport from incurring additional indebtedness for borrowed money, including obligations under banker's acceptances, commercial paper, bonds and debentures ("**Debt**") and from guaranteeing any Debt of other persons, except for:

(i) certain Senior Indebtedness, as defined in the Note Indenture;

(ii) unsecured Debt ranking *pari passu* with the debentures in an aggregate principal amount not to exceed $40,000,000 outstanding at any time; and

(iii) guarantees of outstanding Debt of other persons provided that the aggregate outstanding principal amount of *pari passu* Debt permitted pursuant to paragraph (ii) above together with the outstanding principal amount of any Debt of other persons guaranteed by Westport does not exceed $50,000,000 at any time.

The Note Indenture does not restrict Westport from increasing the amount of certain senior indebtedness owing to our bankers or other senior lenders currently outstanding or from creating liens on our assets to secure such senior indebtedness or permitted increases to such senior indebtedness. The Note Indenture additionally does not restrict subsidiaries and affiliates of Westport from incurring indebtedness for borrowed money or other obligations.

Canada's Industrial Technologies Office (formerly TPC)

In March 2003, we were awarded a strategic project investment of C$18.9 million from TPC (now renamed the "Industrial Technologies Office" (the "**ITO**")) to support the development of high-performance, low-emissions engines. At the time, TPC was a Government of Canada initiative established to invest strategically in Canadian research, development and innovation.

Under the terms of that agreement, ITO was to contribute the lesser of C$18.9 million and 30% of defined eligible costs to our research and development activities from November 15, 2001 until March 31, 2006, the scheduled project completion date. On September 30, 2006, we were to issue C$4 million in warrants using the closing share price as at that date and Black-Scholes option pricing model to value each warrant. Moreover, from fiscal year 2007 to 2013, we were to pay a royalty equal to the greater of C$1.35 million, or 0.33% of revenues as defined under the agreement. This period was subject to extension to the earlier of 2016 or when we had paid C$28.2 million in royalties.

In 2007, the ITO agreed to extend the agreement by two years. Under the amended terms, subject to certain terms and conditions, for each fiscal year from 2009 to 2015 inclusive in which gross business revenues received by us are greater than C$13.5 million, the royalty will be the greater of C$1.35 million and 0.33% of such gross business revenues. If royalty repayments do not total C$28.2 million by March 31, 2015, the repayment period will be extended until that amount is reached or until March 31, 2018, whichever is earlier.

In October 2008 as required by the terms of the funding agreement with the ITO, we issued 790,614 warrants with a strike price of C$10.65 to the Government of Canada. The fair value of these warrants was C$4,000,000 calculated based on a Black-Scholes option pricing model. On April 14, 2010, the warrants issued to ITO with a fair value of $3,200,000 were exercised. 771,428 warrants with an assigned value of $3,572,000 and 46,118 broker warrants with an assigned value of $266,000 were issued as part of the debenture units net of transaction costs of $290,000. On July 3, 2010, all unexercised warrants and broker warrants expired. In 2012, the agreement was amended to conform the royalty repayments to the change in Westport's year end from March 31 to December 31. As at December 31, 2012, royalties of $1.4 million relating to ITO were paid and an additional $1.4 million was accrued during the year.

Amended and Restated Joint Venture Agreement

Effective February 19, 2012, Cummins and Westport entered into the Amended JVA for the CWI joint venture. The Amended JVA provides for, among other things, clarification concerning the scope of products within CWI and revised certain economic terms of the prior joint venture agreement.

Cummins and Westport agreed in the Amended JVA to focus CWI's future product development investments on North American markets including engines for on-road applications between the displacement range of 5.9 litres through 12 litres, and to have these engines manufactured in Cummins North American plants.

A copy of the Amended JVA is available on SEDAR at http://www.sedar.com. See also "OUR BUSINESS", "OPERATIONS" and "RISK FACTORS" in this AIF for a description of the Amended JVA.

TRANSFER AGENT AND REGISTRAR

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

INTERESTS OF EXPERTS

KPMG LLP, our independent auditors, has audited our consolidated financial statements for the year ended December 31, 2012. As at the date hereof, KPMG LLP has confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and the professional and regulatory requirements in the U.S.

ADDITIONAL INFORMATION

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

Additional financial information is contained in our financial statements and Management's Discussion & Analysis for the year ended December 31, 2012, which are incorporated herein by reference and form an integral part of this AIF.

Additional information relating to Westport may be found on SEDAR at: http://www.sedar.com.

SCHEDULE "A"
AUDIT COMMITTEE CHARTER

Purpose

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

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

Authority

The Committee has unrestricted access to Westport's personnel and documents and to its external auditors and will be provided with the resources necessary to carry out its responsibilities. The Committee shall have the authority to authorize investigations into any matter within the Committee's scope of responsibility and is empowered, if it deems it necessary, to retain special legal, accounting or other consultants to advise the Committee at Westport's expense. The Committee shall have sole authority to recommend to the Board the appointment, termination and compensation of the external auditors who shall report directly to the Committee.

The Committee is entitled to appropriate funding, as determined solely by the Committee, for the payment of compensation to independent external auditors, for the payment of compensation to any external advisors retained by the Committee and for any expenses necessary for the Committee to carry out its duties.

Limitations of the Audit Committee's Role

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

Composition

The Committee shall consist, at a minimum, of three members of the Board each of whom shall be affirmatively determined to be financially literate by the Board, one of whom shall be designated the Chair, as appointed by the Board. The Committee shall be composed solely of outside (non-Management) Directors who are also "unrelated" and "independent" as defined by the Canadian Securities Administrators under Multilateral Instrument 52-110, "independent" as described in Rule 10A-3 of the United States Securities and Exchange Act of 1934, as amended, and "independent" as described in Section 5605(a)(2) and 5605(c)(2) of the NASDAQ Manual. Each of the Directors on the Committee shall possess a basic level of "financial literacy", and at least one member should qualify as a "financial expert", as defined by Item 407(d)(5) of Regulation S-K, and be financially sophisticated as described in Section 5605(c)(2)(A) of the NASDAQ Manual. The Board shall give consideration to the periodic rotation of Audit Committee membership and, from time to time as the Board sees fit, the Chair of the Committee.

Meetings

Regular meetings of the Committee shall be held at least four times per year. The meetings will be scheduled to permit timely review of the interim and annual financial statements, as well as the Company's other financial disclosures and related compliance matters. Additional meetings may be called as necessary. A quorum of two members of the Committee, one of whom must be the Committee Chair, unless he or she has designated another member to act as Chair, is required for each meeting. If a quorum is present at a meeting, a majority of the members of the Committee in attendance at such meeting is required to approve any matter decided by the Committee at such meeting. Matters may be decided outside of a meeting by the unanimous written consent of all members of the Committee.

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

Committee minutes shall be prepared and subsequently approved for all meetings. Copies of such minutes shall be filed with the Corporate Secretary of Westport and circulated to all Board members.

The Committee is charged with the following specific responsibilities:

1. The Committee's Relationship with the External Auditors

The Audit Committee is responsible for recommending to the Board:

- the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer;
- the retention of such external auditor; and
- the compensation of the external auditor.

The Committee shall satisfy itself regarding the independence of the external auditors and report their conclusions and the basis for those conclusions to the Board. The Committee is responsible for ensuring that it receives from the external auditor a formal written statement delineating all relationships between the external auditor and Westport, consistent with the standards described in Section 5605(c)(1)(B) of the NASDAQ Manual, and is responsible for actively engaging in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor and for taking, or recommending that the Board take, appropriate action to oversee the independence of the external auditor.

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

- approving the audit scope;
- reviewing the results of their work;
- pre-approving any non-audit services or delegating such authority to the Audit Chair;
- evaluating the performance of the external auditors; and
- resolving any disagreements between Management and the external auditors regarding financial reporting.

The Committee shall review with the external auditors, on at least an annual basis, (a) the external auditors' internal quality-control procedures, (b) any material issues raised by the Canadian Public Accountability Board or the Public Company Accounting Oversight Board or by any publicly available report by any governmental or professional authorities within the preceding five years respecting one or more audits carried out by the firm which may have a material effect on the audit of Westport, (c) any steps taken to deal with any such issues, and (d) all relationships between the external auditors and Westport. The Committee shall evaluate the qualifications,

performance and independence of the external auditors, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of Management and internal auditors. The Committee shall present its conclusions with respect to the independent auditors to the Board.

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

The Committee shall discuss with Management and the external auditors any issues and disclosure requirements regarding (a) the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies, (b) any off-balance sheet arrangements, and (c) significant business risks or exposures and Management's assessment of the steps taken to monitor, control and minimize such risk.

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

2. Oversight of Risk Management Processes

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

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

3. OVERSIGHT OF INTERNAL CONTROL

The Committee shall have the responsibility to assess that Management has designed and implemented an effective system of internal control over financial reporting.

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

The Corporate Counsel of Westport shall advise the Committee and the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with Westport's Code of Conduct and Employee Handbook. Such advisement shall also include the policies and procedures relating to Section 5 of this Charter pertaining to the referenced Related Companies.

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

4. OVERSIGHT OF CONTINUOUS DISCLOSURE REPORTING

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

- the draft or final quarterly and annual financial statements, MD&A and earnings press releases to ensure that all disclosures are in compliance with regulatory requirements, public financing documents or prospectuses; and
- other draft timely disclosure documents containing financial information that would likely be material to either the quarterly or annual financial statements.
- The Committee shall recommend to the Board the approval of the final annual financial statements and related MD&A.
- in each instance where a draft is reviewed, the CFO of the Company shall affirm, in writing or via E-mail, to Committee members that no significant changes have been made to the draft other than those specifically agreed to by the Committee for inclusion or such draft shall be re-circulated to the Committee.

In discharging its responsibilities, the Committee will review:

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

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

The Committee shall also establish a process to receive, retain and treat complaints received by Westport and the Related Companies referred to in Section 5 of this Charter regarding accounting, internal controls or auditing matters and establish procedures for the confidential, anonymous submission by Westport employees of questionable accounting and auditing matters. This process will be reviewed annually.

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

5. RELATED COMPANIES FINANCIAL RESULTS

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

6. Internal Audit Oversight and Responsibilities

The Committee shall:

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

7. OTHER RESPONSIBILITIES

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

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

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

D. Annual Review of Transactions Involving Directors and Officers. The Committee shall annually review a summary of the

Directors' and Executive Officers' travel and entertainment expenses, related party transactions and any conflicts of interest.

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

WESTPORT INNOVATIONS INC.

For the year ended December 31, 2012, nine months
ended December 31, 2011 and year ended March 31, 2011



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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Westport Innovations Inc.

We have audited the accompanying consolidated financial statements of Westport Innovations Inc., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the year ended December 31, 2012, nine-month period ended December 31, 2011 and year ended March 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Westport Innovations Inc. as at December 31, 2012 and December 31, 2011 and its consolidated results of operations and its consolidated cash flows for the year ended December 31, 2012, nine-month period ended December 31, 2011 and year ended March 31, 2011 in accordance with US generally accepted accounting principles.

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Westport Innovation Inc.'s internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 6, 2013 expressed an unmodified (unqualified) opinion on the effectiveness of Westport Innovation Inc.'s internal control over financial reporting.

Restatement of Consolidated Financial Statements

Without modifying our opinion, we draw attention to note 2(a) to the consolidated financial statements which indicates the consolidated financial statements as at December 31, 2011 and for the nine month period ended December 31, 2011 and the year ended March 31, 2011 have been restated from those on which we originally reported on February 28, 2012 and more extensively describes the reason for the restatement.

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

Chartered Accountants

March 6, 2013
Vancouver, Canada



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Westport Innovations Inc.'s, (the "Company") internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Financial Statements and Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

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KPMG Canada provides services to KPMG LLP.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

We also have conducted our audit on the consolidated financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Our report dated March 6, 2013 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

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

Chartered Accountants

March 6, 2013
Vancouver, Canada

WESTPORT INNOVATIONS INC.
Consolidated Balance Sheets
(Expressed in thousands of United States dollars, except share amounts)

December 31, 2012, with comparative information for 2011

	2012	2011 (Restated – note 2(a))
Assets		
Current assets:		
Cash and cash equivalents	$ 188,958	$ 63,285
Short-term investments	26,902	4,274
Accounts receivable (note 5)	44,189	50,922
Inventories (note 6)	44,946	37,026
Prepaid expenses	6,641	6,462
Current portion of deferred income tax assets (note 20(b))	7,183	15
Other current assets (note 8)	—	2,034
	318,819	164,018
Long-term investments (note 7)	19,118	26,307
Other assets (note 8)	1,852	1,994
Property, plant and equipment (note 9)	58,194	35,408
Intangible assets (note 10)	35,215	36,582
Deferred income tax assets (note 20(b))	—	933
Goodwill (note 11)	56,879	55,814
	$ 490,077	$ 321,056
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	$ 48,509	$ 49,251
Deferred revenue	1,254	478
Current portion of deferred income tax liabilities (note 20(b))	65	—
Loan payable (note 21)	—	19,409
Current portion of long-term debt (note 13)	28,566	20,568
Current portion of warranty liability (note 14)	2,072	1,187
	80,466	90,893
Warranty liability (note 14)	4,308	3,214
Long-term debt (note 13)	52,156	65,577
Deferred revenue	5,215	2,876
Deferred income tax liabilities (note 20(b))	9,245	3,446
Other long-term liabilities (note 15)	2,606	2,460
	153,996	168,466
Shareholders' equity:		
Share capital (note 17):		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
55,294,091 (2011 - 48,455,601) common shares	733,385	459,866

Other equity instruments	9,228	6,112
Additional paid in capital	6,384	4,499
Accumulated deficit	(429,932)	(331,158)
Accumulated other comprehensive income	17,016	13,271
	336,081	152,590
Commitments and contingencies (notes 16 and 23)		
	$ 490,077	$ 321,056

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

/s/ Douglas R. King Director /s/ John A. Beaulieu Director

WESTPORT INNOVATIONS INC.
Consolidated Statements of Operations
(Expressed in thousands of United States dollars, except share and per share amounts)

	Year ended December 31, 2012	Nine months ended December 31, 2011 (Restated – note 2(a))	Year ended March 31, 2011 (Restated – note 2(a))
Product revenue	$ 128,914	$ 75,164	$ 25,863
Parts revenue	3,468	2,351	2,784
Service and other revenue (note 22)	23,244	10,181	8,128
	155,626	87,696	36,775
Cost of revenue and expenses:			
Cost of product and parts revenue	102,486	67,093	23,993
Research and development (notes 18(d) and 19)	73,198	36,574	24,620
General and administrative (note 18(d))	44,811	22,738	15,030
Sales and marketing (note 18(d))	30,112	15,302	13,985
Foreign exchange loss (gain)	1,185	(13)	2,247
Depreciation and amortization	11,395	6,200	3,375
Bank charges, interest and other	737	917	446
	263,924	148,811	83,696
Loss before undernoted	(108,298)	(61,115)	(46,921)
Income from investment accounted for by the equity method (note 7)	16,190	16,498	7,585
Interest on long-term debt and amortization of discount	(5,354)	(2,998)	(3,323)
Interest and other income	426	661	938
Loss before income taxes	(97,036)	(46,954)	(41,721)
Income tax recovery (expense) (note 20):			
Current	(2,147)	(1,028)	68
Deferred	409	2,188	(489)
	(1,738)	1,160	(421)
Net loss for the period	$ (98,774)	$ (45,794)	$ (42,142)
Loss per share:			
Basic and diluted	$ (1.83)	$ (0.96)	$ (1.00)
Weighted average common shares outstanding:			
Basic and diluted	54,072,513	47,933,348	42,305,889

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.
Consolidated Statements of Comprehensive Income (Loss)
(Expressed in thousands of United States dollars)

	Year ended December 31, 2012	Nine months ended December 31, 2011 (Restated – note 2(a))	Year ended March 31, 2011 (Restated – note 2(a))
Loss for the period	$ (98,774)	$ (45,794)	$ (42,142)
Other comprehensive income (loss):			
Cumulative translation adjustment	3,745	(12,370)	7,414
Comprehensive loss	$ (95,029)	$ (58,164)	$ (34,728)

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.
Consolidated Statements of Shareholders' Equity
(Expressed in thousands of United States dollars, except share amounts)

	Common shares outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, March 31, 2010 (Restated - note 2(a))	38,494,475	$ 293,609	$ 9,825	$ 3,998	$ (242,367)	$ 18,227	$ 83,292
Issue of common shares on exercise of stock options	472,414	5,115	—	(1,817)	—	—	3,298
Issue of common shares on exercise of performance share units	241,825	3,239	(3,239)	—	—	—	—
Issue of common shares on exercise of warrants	858,221	13,853	(4,344)	—	—	—	9,509
Cancellation of common shares	(52,131)	(895)	—	—	—	—	(895)
Reclassification of fair value of expired warrants	—	—	(2,413)	2,413	—	—	—
Stock-based compensation	—	—	4,376	547	—	—	4,923
Issue of common shares on public offering	6,957,500	121,756	—	—	—	—	121,756
Share issuance costs	—	(6,069)	—	—	—	—	(6,069)
Net loss for the year	—	—	—	—	(42,142)	—	(42,142)
Other comprehensive income	—	—	—	—	—	7,414	7,414
Balance, March 31, 2011 (Restated - note 2(a))	46,972,304	430,608	4,205	5,141	(284,509)	25,641	181,086
Issue of common shares on exercise of stock options	225,845	2,810	—	(994)	—	—	1,816
Issue of common shares on exercise of performance share units	391,612	3,799	(3,799)	—	—	—	—
Issue of common shares in connection with acquisitions	915,021	23,052	—	—	—	—	23,052
Cancellation of common shares	(49,181)	(403)	—	—	(855)	—	(1,258)
Stock-based compensation	—	—	5,706	352	—	—	6,058
Net loss for the period	—	—	—	—	(45,794)	—	(45,794)
Other comprehensive loss	—	—	—	—	—	(12,370)	(12,370)
Balance, December 31, 2011 (Restated - note 2(a))	48,455,601	459,866	6,112	4,499	(331,158)	13,271	152,590
Issue of common shares on exercise of stock options	93,044	1,492	—	(523)	—	—	969
Issue of common shares on exercise of performance share units	420,446	6,597	(6,597)	—	—	—	—
Issue of common shares on public offering	6,325,000	273,556	—	—	—	—	273,556
Share issue costs	—	(8,126)	—	—	—	—	(8,126)
Stock-based compensation	—	—	9,713	2,408	—	—	12,121
Net loss for the year	—	—	—	—	(98,774)	—	(98,774)
Other comprehensive income	—	—	—	—	—	3,745	3,745
Balance, December 31, 2012	55,294,091	$ 733,385	$ 9,228	$ 6,384	$ (429,932)	$ 17,016	$ 336,081

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.
Consolidated Statements of Cash Flows
(Expressed in thousands of United States dollars)

	Year ended December 31, 2012	Nine months ended December 31, 2011 (Restated – note 2(a))	Year ended March 31, 2011 (Restated – note 2(a))
Cash flows from operating activities:			
Loss for the period	$ (98,774)	$ (45,794)	$ (42,142)
Items not involving cash:			
Depreciation and amortization	11,395	6,200	3,375
Stock-based compensation expense	12,468	6,179	4,923
Deferred income tax expense (recovery)	(409)	(2,188)	489
Change in deferred lease inducements	(52)	(47)	(58)
Income from investment accounted for by the equity method	(16,190)	(16,498)	(7,585)
Accretion of long-term debt	2,094	1,016	1,992
Other	392	654	165
Changes in non-cash operating working capital:			
Accounts receivable	6,733	(14,598)	3,919
Inventories	(7,920)	(2,051)	(1,927)
Prepaid expenses	179	(4,649)	(457)
Accounts payable and accrued liabilities	(742)	(857)	127
Deferred revenue	3,115	1,561	162
Warranty liability	1,979	2,751	(384)
	(85,732)	(68,321)	(37,401)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(30,363)	(13,123)	(3,171)
Purchase of intangible assets	(989)	(123)	—
(Purchase) sale of short-term investments, net	(22,520)	26,621	3,376
Repayment of loan receivable	2,494	—	—
Increase in loan payable	2,450	29,080	18,961
Repayment of loan payable	(21,840)	(23,840)	(21,207)
Acquisitions, net of acquired cash (note 4)	(1,125)	(9,084)	(13,016)
Investment in equity interest (note 7)	—	(955)	(4,316)
Dividends received from joint venture	22,600	10,000	6,000
	(49,293)	18,576	(13,373)
Cash flows from financing activities:			
Repayment of demand installment loan	—	—	(3,206)
Increase in operating lines of credit	4,245	—	—
Repayment on operating lines of credit	(3,118)	(3,240)	—
Repayment of short-term debt	—	(221)	—
Repayment of long-term debt	(6,725)	(53,057)	(117)
Issuance of subordinated debenture notes	—	34,345	—
Finance costs incurred	—	(1,392)	—
Proceeds from stock options exercised	969	1,816	3,298
Shares issued for cash	273,556	—	131,265
Share issuance costs	(8,126)	—	(6,069)
	260,801	(21,749)	125,171
Effect of foreign exchange on cash and cash equivalents	(103)	3,246	3,116
Increase (decrease) in cash and cash equivalents	125,673	(68,248)	77,513
Cash and cash equivalents, beginning of period	63,285	131,533	54,020
Cash and cash equivalents, end of period	$ 188,958	$ 63,285	$ 131,533

WESTPORT INNOVATIONS INC.
Consolidated Statements of Cash Flows (Continued)
(Expressed in thousands of United States dollars)

	Year ended December 31, 2012	Nine months ended December 31, 2011 (Restated – note 2(a))	Year ended March 31, 2011 (Restated – note 2(a))
Supplementary information:			
Interest paid	$ 3,532	$ 1,349	$ 1,729
Taxes paid, net of refunds	1,982	1,472	842
Non-cash transactions:			
Purchase of property, plant and equipment by assumption of capital lease obligation	—	34	—
Shares issued on exercise of performance share units	6,597	3,799	3,239
Cancellation of performance share units	—	1,258	895
Common shares issued in connection with acquisitions (note 4)	—	23,052	—
Contingent consideration payable in common shares in connection with acquisitions (note 4)	—	428	—

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.
Notes to Consolidated Financial Statements
(Expressed in thousands of United States dollars except share and per share amounts)

Year ended December 31, 2012, nine months ended December 31, 2011
and year ended March 31, 2011

1. Company organization and operations:

Westport Innovations Inc. (the "Company") was incorporated under the Business Corporations Act (Alberta) on March 20, 1995.

The Company is a provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Its technology and products enable light (<5.9-litre), medium (5.9- to 8.9-litre), heavy-duty (11- to 16-litre) and high horsepower (>16-litre) petroleum-based fuel engines to use primarily natural gas, giving users a cleaner, more plentiful and generally less expensive alternative fuel.

The Company is focused on developing technology to enable more environmentally sustainable engines without compromising the performance, fuel economy, durability and reliability of diesel engines. The substitution of natural gas for petroleum-based fuel drives a significant reduction in harmful combustion emissions, such as nitrogen oxides, particulate matter and greenhouse gas, in addition to providing an abundant, relatively inexpensive alternative fuel. The Company's systems can be used to enable combustion engines to use gaseous fuels, such as natural gas, propane or hydrogen. The Company's research and development effort and investment have resulted in a substantial patent portfolio that serves as the foundation for its differentiated technology offerings and competitive advantage.

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and variable interest entities ("VIEs") for which the Company is considered the primary beneficiary. All Intercompany balances and transactions have been eliminated on consolidation.

Interests in variable interest entities are consolidated by the Company if the Company is the primary beneficiary thereof.

In its' previously filed annual and the interim financial statements in fiscal 2012 and 2011, the Company had identified Cummins Westport Inc. ("CWI") as a variable interest entity and the Company's interest as being that of the primary beneficiary upon adoption of ASU 2009-17 effective April 1, 2010. As a result, the Company consolidated CWI on a line by line basis in its consolidated financial statements reflecting its financial position, results of operations and cash flows.

Based on the Company's ongoing review and adoption of the applicable accounting guidance in ASU 2009-17 and related interpretations, the Company concluded that the presentation of CWI under the equity method is more appropriate as CWI continues to be a VIE but there is no primary beneficiary. Accordingly, commencing with the annual report for the year ended December 31, 2012, the Company is recording the results of CWI using the equity method and has restated its consolidated financial statements for the nine month period ended December 31, 2011 and the year ended March 31, 2011 on a similar basis. This restatement did not affect the reported amounts of net loss, loss per share or shareholders' equity but has impacted certain amounts disclosed. The Company's interest in the net assets of CWI is now presented net on a single line in other long term investments on the balance sheet and the Company's share of net earnings of CWI is reflected in income from investments accounted for by the equity method on statement of operations. The assets, liabilities, revenues and expenses of CWI previously included on the balance sheet and statement of operations on a line by line basis are summarized in note 7(b). There was no cumulative effect from adoption of ASU 2009-17 at April 1, 2010.

2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

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

(b) Foreign currency translation:

The Company's reporting currency for its consolidated financial statement presentation is the United States dollar. The functional currency of the Company's operations is the Canadian dollar except for OMVL and Emer which use the Euro and AFV which uses the Swedish Krona. The Company translates financial statements denominated in a foreign currency into the reporting currency using the current rate method. All assets and liabilities are translated using the period end exchange rates. Shareholders' equity balances are translated using a weighted average of historical exchange rates. Revenues and expenses are translated using the monthly average rate for the period. All resulting exchange differences are recognized in other comprehensive income.

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

Except as otherwise noted, all amounts in these financial statements are presented in U.S. dollars. The year-end exchange rate of the Canadian dollar as at December 31, 2012 was $0.99 (December 31, 2011 - $1.02), and the average exchange rate for the year ended December 31, 2012 was $1.00 (nine month period ended December 31, 2011 - $1.01; year ended March 31, 2011 - $0.98). The year-end exchange rate of the Euro as at December 31, 2012 was 1.32 (December 31, 2011 - 1.30), and the average exchange rate for the year ended December 31, 2012 was 1.29 (nine month period ended December 31, 2011 – 1.40; July 2, 2010 to March 31, 2011 - 1.34). The year-end exchange rate of the Swedish Krona as at December 31, 2012 was 0.15 (December 31, 2011 - 0.15) and the average exchange rate for the year ended December 31, 2012 was 0.15 (October 12, 2011 to December 31, 2011 – 0.15).

WESTPORT INNOVATIONS INC.
Notes to Consolidated Financial Statements
(Expressed in thousands of United States dollars except share and per share amounts)

Year ended December 31, 2012, nine months ended December 31, 2011
and year ended March 31, 2011

2. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents includes cash, term deposits, bankers acceptances and guaranteed investment certificates with maturities of ninety days or less when acquired. Cash equivalents are considered as held for trading and recorded at fair value with changes in fair value recognized in the consolidated statements of operations.

(d) Short-term investments:

Short-term investments, consisting of investment grade commercial paper, banker acceptances, bearer deposit notes, guaranteed investment certificates and other term deposits, are considered available for sale and recorded at fair value with changes in fair value recognized in accumulated other comprehensive income until realized. A decline in value that is considered other than temporary is recognized in net loss for the period.

(e) Accounts and loans receivable:

Accounts receivable and loans receivable are measured at amortized cost. An allowance for doubtful accounts is recorded based on a review of specific accounts deemed uncollectible. Account balances are charged against the allowance in the period in which it is considered probable that the receivable will not be recovered.

Short-term investments, consisting of investment grade commercial paper, banker acceptances, bearer deposit notes, guaranteed investment certificates and other term deposits, are considered available for sale and recorded at fair value with changes in fair value recognized in accumulated other comprehensive income until realized. A decline in value that is considered other than temporary is recognized in net loss for the period.

2. Significant accounting policies (continued):

(f) Inventories:

The Company's inventories consist of the Company's fuel system products (finished goods), work-in-progress, purchased parts and assembled parts. Inventories are recorded at the lower of cost and net realizable value. Cost is determined based on the lower of weighted average cost 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. An inventory obsolescence provision is provided to the extent cost of inventory exceeds net realizable value. In establishing the amount of the inventory obsolescence provision, management estimates the likelihood that inventory carrying values will be affected by changes in market demand and technology, which would make inventory on hand obsolete.

(g) Property, plant and equipment:

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

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	8 – 10 years
Leasehold improvements	Straight-line	Lease term

(h) Long-term investments:

The Company accounts for investments in which it has significant influence, including VIE's for which the Company is not the primary beneficiary, using the equity basis of accounting. Under the equity method, the Company recognizes its share of income from equity accounted for 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.

(i) Financial liabilities:

Accounts payable and accrued liabilities, short-term debt and long-term debt are measured at amortized cost. Transaction costs relating to long-term debt are deferred in other assets on initial recognition and are amortized using the effective interest rate method.

2. Significant accounting policies (continued):

(j) Research and development costs:

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

(k) Government assistance:

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

(l) Intangible assets:

Intangible assets consist primarily of the cost of intellectual property, trademarks, technology, customer contracts and non-compete

agreements. Intangible assets are amortized over their estimated useful lives, which range from 5 to 20 years.

(m) Impairment of long-lived assets:

The Company reviews its long-lived assets for impairment, including property, plant and equipment and intellectual property, to be held and used 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.

2. Significant accounting policies (continued):

(n) Goodwill impairment:

Goodwill is not amortized and instead is tested at least annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at November 30.

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

Fair value is determined using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. It is the Company's policy to conduct impairment testing based on its current business strategy in light of present industry and economic conditions, as well as its future expectations.

Goodwill is recorded at the time of purchase for the excess of the amount of the purchase price over the fair values of the assets acquired and liabilities assumed. Future adverse changes in market conditions or poor operating results of underlying assets could result in losses or an inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge.

(o) Warranty liability:

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

WESTPORT INNOVATIONS INC.
Notes to Consolidated Financial Statements
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Year ended December 31, 2012, nine months ended December 31, 2011
and year ended March 31, 2011

2. Significant accounting policies (continued):

(p) Extended warranty:

The Company sells extended warranty contracts that provide coverage in addition to the basic two-year coverage. Proceeds from the sale of these contracts are deferred and amortized over the extended warranty period commencing at the end of the basic warranty period. On a periodic basis, management reviews the estimated warranty costs expected to be incurred related to these contracts and recognizes a loss to the extent such costs exceed the related deferred revenue.

(q) Revenue recognition:

Product and parts revenue is recognized when the products are shipped and title passes to the customer. Revenue also includes fees earned from performing research and development activities for third parties, as well as technology license fees from third parties. Revenue from research and development activities is recognized as the services are performed. Revenue from technology license fees is recognized over the duration of the licensing agreement. Amounts received in advance of the revenue recognition criteria being met are recorded as deferred revenue.

The Company also earns service revenue from certain research and development arrangements under which the Company provides contract services relating to developing natural gas engines or biogas engines for use in customer products. Service revenue is recognized using the milestone method upon completion of project milestones as defined and agreed to by the Company and its customers. The Company recognizes consideration earned from the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of deliverables and the payment terms within the contract.

When an arrangement includes multiple deliverables, the Company allocates the consideration to each separate deliverable (unit of accounting) based on relative selling prices. A separate unit of accounting is identified if the delivered item(s) have standalone value and the delivery or performance of undelivered items is considered probable and within the control of the Company. Revenue for each unit of account is recognized in accordance with the above revenue recognition principles.

(r) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax basis of the assets and liabilities and for loss carry forwards and are measured using the tax rates expected to apply when these tax assets and liabilities are recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes income tax laws that have been enacted at the balance sheet date. A valuation allowance is provided to reduce the deferred income tax assets if, based upon available evidence, it is more-likely-than-not that some or all of the deferred income tax assets will not be realized.

Tax credits, including investment tax credits and research and development credits, are recognized in income tax expense in the same year in which the related expenditures are charged to earnings or loss, provided there is reasonable assurance the benefits will be realized.

3. Accounting changes:

(a) Adoption of new accounting standards:

Fair value measurements:

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, ("ASU 2011-04").* ASU 2011-04 changes the language used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statement note disclosures.

Comprehensive income:

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* , ("ASU 2011-05"). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12"), which defers certain requirements within ASU 2011-05. These amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. This new guidance is to be applied retrospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

Intangibles – goodwill and other:

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment* ("ASU 2011-08"), which allows an entity to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's goodwill impairment test and the Company's consolidated financial statement note disclosures.

3. Accounting changes (continued):

(b) New accounting pronouncements:

Balance sheet:

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). ASU 2011-11 enhances disclosures regarding financial instruments and derivative instruments. Entities are required to provide both net information and gross information for these assets and liabilities in order to enhance comparability between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. This new guidance is to be applied retrospectively and is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The Company anticipates that the adoption of this standard will expand its consolidated financial statement note disclosures.

4. Business combinations:

(a) Acquisition of Emer:

On July 1, 2011, the Company acquired, through its wholly owned subsidiary, Juniper Engines Italy S.r.l., 100% of the outstanding shares of Emer from the seller. The fair value of the consideration for the acquisition was $39,706. Westport paid cash of $17,607 on closing and issued 881,860 common shares with a value of $22,099 based on the NASDAQ closing price of the Company's shares on July 1, 2011 of $25.06. The Company also assumed approximately $77,000 in existing net debt of Emer. Post-closing, Westport repaid approximately $36,300 of the debt, leaving approximately $40,700 in debt on the consolidated balance sheet as of July 1, 2011.

The acquisition was accounted for as a business combination using the purchase method. The results of Emer have been included in the consolidated financial statements of the Company from July 1, 2011.

4. Business combinations (continued):

(a) Acquisition of Emer (continued):

The Company obtained an independent third-party valuation of inventories, property and equipment, and intangible assets. The fair value of the assets acquired and liabilities assumed are as follows:

Consideration allocated to:		
Property, plant and equipment	$	17,644
Other tangible assets, including cash of $11,073		60,532
Intangible assets subject to amortization over 5 to 20 years		32,954
Goodwill		50,774
Total assets acquired		161,904

Less:		
Long-term debt		(83,272)
Other liabilities		(38,926)
Total net assets acquired	$	39,706
Consideration:		
Cash	$	17,607
Common shares		22,099
	$	39,706

The foreign exchange rate used to translate Euro denominated net assets acquired, liabilities assumed and purchase consideration into U.S. dollars was 1.45 based on the July 1, 2011 closing rate.

The Company recognized goodwill associated with the transaction of $50,774. Goodwill includes the value of the assembled work force and expected synergies including access to markets and supply chain integration. Goodwill is not deductible for tax purposes.

The consolidated financial statements reflect consolidated revenue and net loss for Emer of $31,831 and $1,924, respectively, from July 1, 2011 to December 31, 2011. Had the Company acquired Emer on April 1, 2011, consolidated pro forma revenue and net loss for the nine-month period ended December 31, 2011 would have been $247,216 (year ended March 31, 2011 - $219,609) and $54,927 (year ended March 31, 2011 - $31,322), respectively, not including the financial results of AFV (note 4(b)).

The Company incurred acquisition related expenses of $1,683 during the nine months ended December 31, 2011, which have been recorded in general and administrative expenses in the consolidated statements of operations.

4. Business combinations (continued):

(b) Acquisition of AFV:

On October 11, 2011, the Company acquired, through its wholly owned subsidiary Westport Light Duty Canada Inc., 100% of the outstanding shares of AFV. The fair value of the consideration for the acquisition was $3,939. Westport paid cash of $2,558 on closing and issued 33,161 common shares with a value of $953 based on the TSX closing price of the Company's shares on October 11, 2011 of $28.74 (CDN$29.56). There is also a contingent earn-out, which will be settled in Westport shares if AFV achieves certain performance targets by December 31, 2014.

The Company also assumed approximately $1,087 in existing debt of AFV. Upon closing, Westport settled $420 of the debt, leaving approximately $667 in debt on the consolidated balance sheet as of October 11, 2011.

The acquisition was accounted for as a business combination using the purchase method. The results of AFV have been included in the consolidated financial statements of the Company from October 11, 2011.

The fair value of the assets acquired and liabilities assumed are as follows:

Consideration allocated to:		
Total tangible assets, including cash of $8	$	2,161
Intangible assets subject to amortization over 8 years		2,638
Goodwill		2,701
Total assets acquired		7,500
Less: total liabilities		(3,561)
Total net assets acquired	$	3,939
Consideration:		
Cash	$	2,558
Common shares		953
Contingent consideration payable		428
	$	3,939

The foreign exchange rate used to translate net assets acquired, liabilities assumed and purchase consideration from Swedish Krona

into U.S. dollars was 6.6712 based on the October 11, 2011 closing rate.

The Company recognized goodwill associated with the transaction of $2,701. Goodwill includes the value of the assembled work force and expected synergies including access to markets and product know-how. Goodwill is not deductible for tax purposes.

The consolidated financial statements reflect consolidated revenue and net loss for AFV of $2,566 and $191, respectively, from October 11, 2011 to December 31, 2011. Had the Company acquired AFV on April 1, 2011, consolidated pro forma revenue and net loss for the nine months ended December 31, 2011 would have been $201,707 (year ended March 31, 2011 - $148,062) and $43,064 (year ended March 31, 2011 - $42,724), respectively, not including the financial results of Emer (note 4(a)).

The Company incurred acquisition related expenses of $93 during the nine months ended December 31, 2011, which have been recorded in general and administrative expenses in the consolidated statements of operations.

4. Business combinations (continued):

(c) Acquisition of AEC:

On March 20, 2012, the Company acquired, through its wholly owned subsidiary, Westport Innovations (Australia) Pty Ltd., certain assets of AEC. Based in Perth, Australia, AEC specializes in research, development and production of patented electronic fuel injection and engine management technologies that enable vehicle engines to operate on natural gas.

The fair value of the assets acquired and liabilities assumed are as follows:

Consideration allocated to:	
Total tangible assets	$ 685
Intangible assets subject to amortization over 8 years	832
Total assets acquired	1,517
Less: total liabilities	(392)
Total net assets acquired	$ 1,125

The Company paid cash totaling $1,125 (AUD$1,082) for the acquisition. The Company also assumed AEC's Australian leased facility and approximately ten of AEC's employees. The acquisition was accounted for as a business combination using the purchase method.

The foreign exchange rate used to translate Australian dollar denominated assets acquired, liabilities assumed and purchase consideration into U.S. dollars was 1.04 based on the March 20, 2012 closing rate.

The Company incurred acquisition related expenses of $280 during the year ended December 31, 2012, which have been recorded in general and administrative expenses in the consolidated statement of operations.

The Company has determined that the acquisition of AEC was a non-material business combination. As such, pro forma disclosures are not required.

5. Accounts receivable:

	December 31, 2012	December 31, 2011
Customer trade receivable	$ 39,754	$ 43,181
Government funding receivable	541	582
Due from joint venture (note 21)	2,127	416
Other receivables	1,916	7,528
Income taxes receivable	172	—
Allowance for doubtful accounts	(321)	(785)
	$ 44,189	$ 50,922

6. Inventories:

	December 31, 2012	December 31, 2011
Purchased parts	$ 25,454	$ 19,989
Assembled parts	4,870	4,198
Work-in-process	7,516	6,994
Finished goods	7,385	6,360
Obsolescence provision	(279)	(515)
	$ 44,946	$ 37,026

During the year ended December 31, 2012, the Company recorded a write-down to net realizable value of approximately $233 (nine months ended December 31, 2011 - $430; year ended March 31, 2011 - nil) for obsolescence and scrap. Cost of revenue related to product and parts revenue for the year ended December 31, 2012 was $102,486 (nine months ended December 31, 2011 - $67,093; year ended March 31, 2011 - $23,993).

7. Long-term investments:

	December 31, 2012	December 31, 2011
Weichai Westport Inc. (a)	$ 11,275	$ 7,732
Cummins Westport Inc. (b)	7,138	17,792
Other equity accounted for investees	705	783
	$ 19,118	$ 26,307

7. Long-term investments (continued):

(a) Weichai Westport Inc.:

On July 3, 2010, the Company invested $4,316 under an agreement with Weichai Power Co. Ltd. and Hong Kong Peterson (CNG) Equipment Ltd. to form Weichai Westport Inc. (“WWI”). On October 11, 2011, the Company invested an additional $955 in WWI. The Company has a 35% equity interest in WWI.

For the year ended December 31, 2012, the Company recognized its share of WWI’s income of $2,881 (nine months ended December 31, 2011 - $1,438; year ended March 31, 2011 - $997), as income from investment accounted for by the equity method.

Assets, liabilities, revenue and expenses of WWI as of and for the periods presented are as follows:

	December 31, 2012	December 31, 2011
Current assets:		
Cash and short-term investments	$ 1,145	$ 3,073
Accounts receivable	21,512	10,005
Inventory	55,109	23,903
Other current assets	1,053	751
Long-term assets	8,178	4,179
	$ 86,997	$ 41,911

	December 31, 2012	December 31, 2011

Current liabilities:		
Accounts payable and accrued liabilities	$ 49,125	$ 20,567
Other current liabilities	12,055	4,248
Total liabilities	$ 61,180	$ 24,815

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Product revenue	$ 272,086	$ 84,917	$ 53,127
Cost of revenue and expenses:			
Cost of product revenue	234,266	70,345	43,130
Operating expenses	28,055	9,693	6,624
	262,321	80,038	49,754
Income before income taxes	9,765	4,879	3,373
Income tax expense:			
Current	1,536	1,364	528
Income for the period	$ 8,229	$ 3,515	$ 2,845

7. Long-term investments (continued):

(b) Cummins Westport Inc.:

The Company entered into a joint venture with Cummins on March 7, 2001. On December 16, 2003, the Company and Cummins amended the joint venture agreement ("JVA") focusing CWI on developing markets for alternative fuel engines. In addition, the two companies signed a Technology Partnership Agreement that creates a flexible arrangement for future technology development between Cummins and the Company.

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

On February 20, 2012, the JVA was amended and restated to provide for, among other things, clarification concerning the scope of products within CWI. In addition, the parties have revised certain economic terms of the JVA.

Under the prior JVA, CWI had a global exclusive right to design, engineer, and market mid-range on-road spark-ignited natural gas engines based on Cummins diesel engines manufactured in Cummins facilities. The Company and Cummins have agreed in the amended and restated JVA to focus CWI's future product development on North American markets including engines for on-road applications between the displacement range of 5.9 litres through 12 litres and to have these engines manufactured in Cummins North American plants.

7. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

The joint venture will now have a term of ten years and can be terminated under certain circumstances before the end of the term, including in the event of a material breach of the agreement by, or in the event of a change of control of, one of the parties.

Prior to February 20, 2012, the Company and Cummins shared equally in the profits and losses of CWI. Under the new JVA, profits and losses are shared equally up to an established revenue baseline, then any excess profit will be allocated 75% to the Company and 25% to Cummins.

The Company has not historically provided and does not intend to provide financial or other support to CWI that the Company is not previously contractually required to provide.

For the year ended December 31, 2012, the Company recognized its share of CWI's income of $13,232 (nine months ended December 31, 2011 - $12,958; year ended March 31, 2011 - $7,785), as income from investment accounted for by the equity method.

Assets, liabilities, revenue and expenses of CWI as of and for the periods presented are as follows (amounts as at December 31, 2011 and for the nine months ended December 31, 2011 and the year ended March 31, 2011 had previously been consolidated and in 2012 have been retrospectively deconsolidated as described in note 2(a)):

	December 31, 2012	December 31, 2011
Current assets:		
Cash and short-term investments	$ 44,371	$ 17,403
Accounts receivable	6,995	4,717
Loan receivable	—	38,818
Current portion of deferred income tax assets	7,304	6,432
Other current assets	225	89
Long-term assets		
Property, plant and equipment	896	835
Deferred income tax assets	9,786	4,142
Total assets	$ 69,577	$ 72,436

	December 31, 2012	December 31, 2011
Current liabilities:		
Current portion of warranty liability	$ 13,317	$ 11,791
Current portion of deferred revenue	3,862	2,668
Accounts payable and accrued liabilities	7,274	5,878
	24,453	20,337
Long-term liabilities:		
Warranty liability	17,501	8,039
Deferred revenue	9,968	7,451
Other long-term liabilities	1,312	644
	28,781	16,134
Total liabilities	$ 53,234	$ 36,471

7. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Product revenue	$ 161,741	$ 114,518	$ 84,612
Parts revenue	36,274	24,326	26,675
	198,015	138,844	111,287
Cost of revenue and expenses:			
Cost of product and parts revenue	136,575	78,837	66,989
Research and development	12,114	6,720	10,043

General and administrative	1,417	796	1,181
Sales and marketing	12,541	9,659	7,675
Foreign exchange loss (gain)	(18)	(2,023)	160
Bank charges, interest and other	472	369	299
	163,101	94,358	86,347
Income before undernoted	34,914	44,486	24,940
Interest and investment income	530	297	284
Income before income taxes	35,444	44,783	25,224
Income tax recovery (expense):			
Current	(16,362)	(18,602)	(8,954)
Deferred	6,517	1,775	(272)
	(9,845)	(16,827)	(9,226)
Income for the period	25,599	27,956	15,998
Income attributable to Joint Venture Partner	(12,367)	(13,978)	(7,999)
Income attributable to the Company	$ 13,232	$ 13,978	$ 7,999

8. Other assets:

	December 31, 2012	December 31, 2011
Note receivable (a)	$ —	$ 2,446
Deferred financing charges (b)	902	1,323
Other	950	259
	1,852	4,028
Current portion	—	(2,034)
	$ 1,852	$ 1,994

(a) On October 15, 2010, the Company entered into a Note and Warrant Purchase Agreement (the "Agreement") with a private energy company based in the United States to fund operating and capital expenditures related to infrastructure development activities.

Under the Agreement, the Company loaned $2,200 and received 1,427,179 warrants representing 20% of the current outstanding shares to purchase common shares at $0.10 per share for a period of five years. The loan bore interest at 12.5%, and was payable on maturity dates ranging from October 15, 2012 to October 20, 2013. The value of the warrants was nominal at the time of issue.

On February 29, 2012, the total loan principal and accrued interest of $2,494 was repaid in full by the counterparty, and the warrants were terminated.

(b) Financing charges incurred on the issuance of subordinated debentures (note 13(a)) have been deferred and are being amortized into income over the term of the debentures using the effective interest rate method.

9. Property, plant and equipment:

December 31, 2012	Cost	Accumulated amortization	Net book value
Land and buildings	$ 575	$ 64	$ 511
Computer equipment and software	11,529	8,140	3,389
Furniture and fixtures	4,032	1,913	2,119
Machinery and equipment	80,667	34,219	46,448
Leasehold improvements	15,602	9,875	5,727
	$ 112,405	$ 54,211	$ 58,194

9. Property, plant and equipment (continued):

December 31, 2011	Cost	Accumulated amortization	Net book value
Land and buildings	$ 668	$ 124	$ 544
Computer equipment and software	8,903	7,246	1,657
Furniture and fixtures	2,072	1,602	470
Machinery and equipment	54,156	27,288	26,868
Leasehold improvements	14,930	9,061	5,869
	$ 80,729	$ 45,321	$ 35,408

As at December 31, 2012, equipment with a cost of $16,532 (December 31, 2011 - $15,448) and a net book value of $2,587 (December 31, 2011 - $3,662) is held under capital lease.

Depreciation expense for the year ended December 31, 2012 was $8,131 (nine months ended December 31, 2011 - $4,394; year ended March 31, 2011 - $2,783).

10. Intangible assets:

December 31, 2012	Cost	Accumulated amortization	Net book value
Patents and trademarks	$ 20,192	$ 1,758	$ 18,434
Technology	6,961	1,901	5,060
Customer contracts	14,404	2,709	11,695
Non-compete agreement	44	18	26
	$ 41,601	$ 6,386	$ 35,215

December 31, 2011	Cost	Accumulated amortization	Net book value
Patents and trademarks	$ 19,508	$ 727	$ 18,781
Technology	6,380	1,122	5,258
Customer contracts	13,334	815	12,519
Non-compete agreement	37	13	24
	$ 39,259	$ 2,677	$ 36,582

During the year ended December 31, 2012, nine months ended December 31, 2011 and the year ended March 31, 2011, amortization of $3,264, $1,806 and $592, respectively, was recognized in the statement of operations.

The expected amortization of intangible assets for fiscal 2013 to 2017 is $3,500 per year.

11. Goodwill:

A continuity of goodwill is as follows:

	December 31, 2012	December 31, 2011
Balance, beginning of period	$ 55,814	$ 8,202
Acquisition of Emer (note 4(a))	—	50,774

Acquisition of AFV (note 4(b))	—	2,701
Impact of foreign exchange	1,065	(5,863)
Balance, end of period	$ 56,879	$ 55,814

12. Accounts payable and accrued liabilities:

	December 31, 2012	December 31, 2011
Trade accounts payable	$ 37,956	$ 37,651
Accrued payroll	8,539	8,157
Accrued interest	961	1,233
Income taxes payable	876	1,311
Due to joint venture and other payables	177	899
	$ 48,509	$ 49,251

13. Long-term debt:

	December 31, 2012	December 31, 2011
Subordinated debenture notes (a)	$ 36,185	$ 35,398
Long-term payable (b)	9,836	9,330
Senior financing (c)	18,812	24,871
Senior revolving financing (c)	13,185	11,360
Other bank financing (d)	1,171	2,557
Capital lease obligations (e)	1,533	2,629
	80,722	86,145
Current portion	(28,566)	(20,568)
	$ 52,156	$ 65,577

13. Long-term debt (continued):

(a) On September 23, 2011, the Company raised $36,185 (CDN$36,000) through the issuance of debentures to Macquarie Private Wealth Inc. (“Macquarie”) on a private placement basis.

The debentures are unsecured and subordinated to senior indebtedness, mature on September 22, 2014, and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term, which commenced on March 15, 2012.

The debentures are redeemable at the option of the Company at a price equal to $1,150 per $1,000 principal amount of the debentures on or before March 22, 2013. After March 22, 2013 and before maturity, the debentures can be redeemed at a price equal to $1,100 per $1,000 principal amount.

The Company paid to Macquarie a cash commission equal to 3.85% of the gross proceeds of the offering totaling $1,460, which is included in other assets (note 8) and amortized over the term of the debentures.

(b) On July 2, 2010, the Company acquired OMVL for $25,711. A portion of the purchase price amounting to $10,021 (€7,600) is payable on the third anniversary of the closing date. This amount is non-interest bearing and was discounted at market rates of interest on the acquisition date. The difference between the carrying value of this liability and the principal amount is accreted to the principal amount using the effective interest rate of 3.72% over the term to maturity. The amount outstanding is denominated in Euros, exposing the Company to foreign exchange changes. The amount is guaranteed to the sellers of OMVL by Banca Intesa S.p.A with a cross guarantee from the Bank of Montreal with a letter of credit for $10,618 (CDN$10,564).

(c) The senior financing agreement bears interest at the 6-month Euribor plus 1.7% or a rate of 2.0% as at December 31, 2012 and its carrying value is recorded at amortized cost using the effective interest rate method. The principal repayment schedule of the remaining senior financing is as follows for the years ended December 31:

2013	$ 3,718

2014	4,090
2015	4,461
2016	4,647
2017	2,324
	$ 19,240

The senior revolving financing facility bears interest at the 6-month Euribor plus 2.2% or a rate of 2.5% as at December 31, 2012 and will be repaid through one principal payment of $13,185 (€10,000) on September 30, 2017.

The Company has pledged its interest in Emer as a general guarantee for its senior financing and senior revolving financing.

Throughout the entire term of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2012, the Company is in compliance with all covenants under the financing arrangements.

13. Long-term debt (continued):

(d) Other bank financing consists of various unsecured bank financing arrangements that carry rates of interest ranging from 1.01% to 8.00% and are payable on maturity dates ranging from June 23, 2013 to June 23, 2017.

(e) The Company has capital lease obligations that have initial terms of three to five years at interest rates ranging from 3.07% to 7.32%. The capital lease obligations require the following minimum annual payments during the respective fiscal years:

2013	$ 836
2014	418
2015	276
2016	34
2017	2
	1,566
Amount representing interest	(33)
	$ 1,533

(f) The Company has a credit facility for maximum borrowings of CDN$30,000. The credit facility is governed by a margin requirement limiting such borrowings to a calculated amount based on cash and investments held with the creditor. Borrowings may be drawn in the form of direct borrowings, letters of credit, foreign exchange forward contracts and overdraft loans. Outstanding amounts on direct borrowings and overdraft loans drawn under this credit facility bear interest at the prime rate, and letters of credit bear interest at 0.75% per annum. As at December 31, 2012 and 2011, no amounts of this credit facility were drawn.

14. Warranty liability:

A continuity of the warranty liability is as follows:

	December 31, 2012	December 31, 2011	March 31, 2011
Balance, beginning of period	$ 4,401	$ 1,314	$ 1,769
Warranty claims	(3,099)	(1,395)	(2,124)
Warranty accruals	5,303	4,530	1,740
Impact of foreign exchange	(225)	(48)	(71)
Balance, end of period	$ 6,380	$ 4,401	$ 1,314
Current portion	(2,072)	(1,187)	(154)
Long-term portion	4,308	3,214	1,160

15. Other long-term liabilities:

	December 31, 2012	December 31, 2011
Severance indemnity (a)	$ 1,681	$ 1,914
Contingent consideration payable related to AFV acquisition (b)	856	428
Deferred lease inducements	69	118
	$ 2,606	$ 2,460

(a) Italian law requires companies to make a mandatory termination payment to employees. It is paid, as a lump sum, when the employment ends for any reason such as retirement, resignation or layoff. The severance indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. There is no vesting period or funding requirement associated with the liability. The liability recorded in the consolidated balance sheet is the amount that the employee would be entitled to if the employee terminates immediately. This liability for severance indemnities relates primarily to the Company's employees in Italy.

(b) The total purchase price to acquire AFV also includes earn-out payments payable in the Company's shares and tied to revenue and production milestones to be achieved no later than December 31, 2014. This contingent consideration is estimated to have a fair value of $442 as at December 31, 2012 (December 31, 2011 - $428).

The Company also records compensation expense relating to two employees of AFV who receive earn-out payments in the Company's shares that are tied to revenue and production milestones to be achieved no later than December 31, 2014 and contingent upon continuing employments. This contingent consideration is estimated to have a fair value of $414 as at December 31, 2012 (December 31, 2011 - nil).

16. Government assistance:

From time to time, the Company enters into agreements for financial assistance with government agencies. During the year ended December 31, 2012, nine months ended December 31, 2011 and the year ended March 31, 2011, government assistance of $842, $604 and $982, respectively, was received or receivable by the Company, which has been recorded as a reduction of the related research and development expenditures (note 19).

Under the terms of an agreement with the Industry Canada's Industrial Technologies Office ("ITO"), from April 1, 2008 to March 31, 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of $1,357 (CDN$1,350) or 0.33% of the Company's annual revenue provided that gross revenue exceeds $13,569 (CDN$13,500) in any of the aforementioned fiscal years. The royalty payment period may be extended until the earlier of March 31, 2018 or until cumulative royalties total $28,345 (CDN$28,200). For the year ended December 31, 2012, $1,350 (nine months ended December 31, 2011 - $1,327; year ended March 31, 2011 - $1,392) in royalties have been paid or are payable of which $1,350 (December 31, 2011 - $996) remains accrued in accounts payable and accrued liabilities as at December 31, 2012. As at December 31, 2012, cumulative royalties of CDN$5,400 have been paid.

The Company is also obligated to pay royalties to the Government of Canada's Department of Natural Resources equal to 1% of future revenue from engines for power generators until the earlier of ten years from the project completion date (August 30, 2004) or when cumulative royalties total $1,005 (CDN$1,000). As at December 31, 2012, there has been no revenue from the sales of engines for power generators; therefore, no royalty payments have been paid or are payable.

17. Share capital:

On November 15, 2010, the Company issued 6,957,500 common shares at a price of $17.50 per share. Gross proceeds totaled $121,756 and the Company incurred share issue costs of $6,069.

On July 1, 2011, the Company issued 881,860 common shares at a price of $25.06 per share as part of the consideration paid to acquire Emer (note 4(a)).

On October 11, 2011, the Company issued 33,161 common shares at a price of $28.74 per share as part of the consideration paid to acquire AFV (note 4(b)).

On February 27, 2012, the Company issued 6,325,000 common shares at a price of $43.25 per share. Gross proceeds totaled $273,556 and the Company incurred share issuance costs of $8,126.

During the twelve months ended December 31, 2012, the Company issued 513,490 common shares, net of cancellations, upon exercises of stock options and share units (nine months ended December 31, 2011 — 568,276 common shares; twelve months ended March 31, 2011 —

662,108 common shares). The Company issues new shares to satisfy stock option and share unit exercises.

18. Stock options and other stock-based plans:

At the Company's 2011 annual general meeting, the Company's shareholders ratified and approved the Westport Omnibus Plan and reserved 3,026,645 common shares under this plan. Under the Westport Omnibus plan, stock options, RSUs and PSUs may be granted and are exercisable into common shares of the Company for no additional consideration. Any employee, contractor, director or executive officer of the Company is eligible to participate in the Westport Omnibus Plan.

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

(a) Stock options:

The Company grants incentive stock options to employees, directors, officers and consultants. Stock options are granted with an exercise price of not less than the market price of the Company's common shares on the date immediately prior to the date of grant. The exercise period of the options may not exceed eight years from the date of grant. Vesting periods of the options are at the discretion of the Board of Directors and may be based on fixed terms, achieving performance milestones or reaching specified share price targets.

A summary of the status of the Company's stock option plan as of December 31, 2012, December 31, 2011 and March 31, 2011 and changes during the periods then ended are presented as follows:

	December 31, 2012		December 31, 2011		March 31, 2011	
	Number of shares	Weighted average exercise price (CDN $)	Number of shares	Weighted average exercise price (CDN $)	Number of shares	Weighted average exercise price (CDN $)
Outstanding, beginning of period	328,027	$ 8.96	562,014	$ 8.46	1,051,589	$ 8.13
Granted	770,727	33.77	—	—	—	—
Exercised	(93,044)	10.49	(225,845)	7.87	(472,414)	7.19
Cancelled/expired	(9,663)	33.36	(8,142)	4.84	(17,161)	23.24
Outstanding, end of period	996,047	$ 27.78	328,027	$ 8.96	562,014	$ 8.46
Options exercisable, end of period	226,487	$ 8.06	311,360	$ 8.55	455,206	$ 7.75

18. Stock options and other stock-based plans (continued):

(a) Stock options (continued):

During the year ended December 31, 2012, the Company recognized $2,705 (nine months ended December 31, 2011 - $352; years ended March 31, 2011 - $547) in stock-based compensation related to stock options. The fair value of the options granted during the year ended December 31, 2012 was determined using the Black-Scholes option pricing formula simulation with the following weighted average assumptions: expected dividend yield - nil%, expected stock price volatility — 47.79%, risk free interest rate — 0.38%; expected life of options — 3 years. The weighted average grant date fair value was $10.97 for options granted for the fiscal year ended December 31, 2012. No stock options were granted during the nine month period ended December 31, 2011 or the year ended March 31, 2011.

As at December 31, 2012, $5,642 of compensation cost related to stock option awards has yet to be recognized in results from operations and will be recognized over a weighted average period of 2.00 years.

(a) Stock options (continued):

Range of exercise prices (CDN $)	Number outstanding, December 31, 2012	Weighted average remaining contractual life	Weighted average exercise price (CDN $)	Number exercisable, December 31, 2012	Weighted average exercise price (CDN $)
$ 3.22 to $ 3.47	7,218	1.5	$ 3.31	7,218	$ 3.31
4.24 to 4.87	37,458	1.3	4.48	37,458	4.48
5.29 to 9.10	90,301	0.6	6.34	90,301	6.34
10.50 to 11.11	78,655	2.0	11.04	78,655	11.04
14.90 to 16.50	21,188	3.1	15.53	12,855	14.90
29.76 to 33.83	761,227	4.0	33.77	—	—
$ 3.22 to $33.83	996,047	3.42	$ 27.78	226,487	$ 8.06

18. Stock options and other stock-based plans (continued):

(b) Share 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 year ended December 31, 2012, the Company recognized $9,763 (nine months ended December 31, 2011 - $5,827; year ended March 31, 2011 - $4,376) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of December 31, 2012, December 31, 2011 and March 31, 2011 are as follows:

	December 31, 2012		December 31, 2011		March 31, 2011	
	Number of units	Weighted average grant date fair value (CDN $)	Number of units	Weighted average grant date fair value (CDN $)	Number of units	Weighted average grant date fair value (CDN $)
Outstanding, beginning of period	1,250,917	$ 18.04	1,377,237	$ 12.19	1,194,913	$ 8.56
Granted	185,705	$ 35.99	269,292	$ 35.70	424,149	$ 22.78
Exercised	(337,228)	$ 19.34	(391,612)	$ 9.61	(241,825)	$ 12.81
Cancelled/expired	(4,300)	$ 19.67	(4,000)	$ 18.61	—	—
Outstanding, end of period	1,095,094	$ 20.68	1,250,917	$ 18.04	1,377,237	$ 12.19
Units outstanding and exercisable, end of period	262,615	$ 8.86	276,931	$ 7.97	541,534	$ 6.91

18. Stock options and other stock-based plans (continued):

(b) Share units (continued):

	December 31, 2012		December 31, 2011		March 31, 2011	
	Number of units	Weighted average grant date fair value (CDN $)	Number of units	Weighted average grant date fair value (CDN $)	Number of units	Weighted average grant date fair value (CDN $)
Unvested, beginning of period	973,986	$ 20.90	835,703	$ 15.62	1,012,418	$ 8.16
Granted	185,705	$ 35.99	269,292	$ 35.70	424,149	$ 22.78
Vested	(322,912)	$ 21.64	(127,009)	$ 17.55	(548,733)	$ 7.58
Cancelled/expired	(4,300)	$ 18.61	(4,000)	$ 18.61	(52,131)	$ 13.64
Unvested, end of period	832,479	$ 24.41	973,986	$ 20.90	835,703	$ 15.62

As at December 31, 2012, $11,127 of compensation cost related to Units awards has yet to be recognized in results from operations and will be recognized over a weighted average period of 1.02 years.

Of the Units granted during the year ended December 31, 2012, 66,428 Units were subject to market and service conditions. The fair value of these Units was determined using a Monte-Carlo simulation using the following weighted average assumptions: expected dividend yield - nil%; expected stock price volatility – 55.95%; and risk free interest rate – 0.93%. The valuation model determined the grant date fair value based on assumptions about the likelihood of the Company achieving different payout factors as driven by the market conditions. The weighted average grant date fair value was $35.99 for Units granted for the year ended December 31, 2012. For the Units granted after January 1, 2012, payout factors are determined based upon the absolute stock price at the end of two years, equal to the closing price on the last trading day of December 31, 2013. One-half of these Units vest after two years and the remainder after three years from the date of the grant. The impact of market conditions, if any, on compensation expense for these units is determined at the time of the grant with no adjustment to the compensation expense for the actual results of the market condition. The fair value of all other Units was determined based on the market price of the underlying shares on the date of grant.

For the Units granted prior to January 1, 2012, payout factors are determined based upon the absolute stock price at the end of two years and the stock price relative to a Synthetic Clean Tech index of comparative companies two years after the grant date. One-half of these Units vest after two years and the remainder after three years from the date of the grant. The impact of market conditions, if any, on compensation expense for these units is determined at the time of the grant with no adjustment to the compensation expense for the actual results of the market condition.

During the year ended December 31, 2012, 83,218 PSUs vested with a payout factor of 200% (2011 – nil).

18. Stock options and other stock-based plans (continued):

(c) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's stock option awards and share units at December 31, 2012 are as follows:

	December 31, 2012 CDN$	December 31, 2011 CDN$
Stock options:		
Outstanding	$ 4,219	$ 8,138
Exercisable	4,137	7,851
Exercised	2,398	5,849
Share units:		
Outstanding	$ 28,823	$ 42,234
Exercisable	6,912	9,352
Exercised	15,135	7,688

(d) Stock-based compensation:

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

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Research and development	$ 2,251	$ 825	$ 627
General and administrative	6,752	3,302	2,958
Sales and marketing	3,465	2,052	1,338
	$ 12,468	$ 6,179	$ 4,923

19. Research and development expenses:

Research and development expenses are recorded net of program funding received or receivable. The research and development expenses had been incurred and program funding had been received or are receivable as follows:

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Research and development expenses	$ 74,040	$ 37,178	$ 25,602
Program funding (note 16)	(842)	(604)	(982)
Research and development	$ 73,198	$ 36,574	$ 24,620

20. 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 25.0% for the twelve months ended December 31, 2012 (nine months ended December 31, 2011 — 26.5%; year ended March 31, 2011 - 28.0%) as follows:

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Loss before income taxes	$ (97,036)	$ (46,954)	$ (41,721)
Expected income tax recovery	$ 24,259	$ 12,443	$ 11,682
Reduction (increase) in income taxes resulting from:			
Non-deductible stock-based compensation	(3,019)	(1,642)	(1,379)
Other permanent differences	2,158	(87)	(600)
Withholding taxes	(1,187)	(500)	(303)
Change in enacted rates	(62)	(189)	24
Foreign tax rate differences, foreign exchange and other adjustments	382	552	(710)
Non-taxable income from equity investment	3,308	3,974	1,888
Change in valuation allowance	(27,577)	(13,391)	(11,023)
Income tax recovery (expense)	$ (1,738)	$ 1,160	$ (421)

WESTPORT INNOVATIONS INC.
Notes to Consolidated Financial Statements
(Expressed in thousands of United States dollars except share and per share amounts)

Year ended December 31, 2012, nine months ended December 31, 2011
and year ended March 31, 2011

20. Income taxes (continued):

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

	December 31, 2012	December 31, 2011
Deferred income tax assets:		
Net operating loss carry forwards	$ 76,496	$ 51,240
Intangible assets	1,557	873
Property, plant and equipment	5,703	3,109
Financing and share issuance costs	3,248	5,212
Warranty liability	2,013	1,073
Deferred revenue	1,601	861
Inventory	2,300	1,972
Unrealized foreign exchange	595	1,324
Research and development	2,132	2,086
Other	3,917	1,782
Total gross deferred income tax assets	99,562	69,532
Valuation allowance	(89,033)	(61,456)
Total deferred income tax assets	10,529	8,076
Deferred income tax liabilities:		
Intangible assets	8,784	6,696
Property, plant and equipment	3,297	3,878
Other	575	—
Total deferred income tax liabilities	12,656	10,574
Total net deferred income tax liabilities	$ 2,127	$ 2,498
Allocated as follows:		
Current deferred income tax assets	$ 7,183	$ 15
Current deferred income tax liabilities	(65)	—
Long-term deferred income tax assets	—	933
Long-term deferred income tax liabilities	(9,245)	(3,446)
Total net deferred income tax liabilities	$ (2,127)	$ (2,498)

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 income during the future periods in which those temporary differences are expected to reverse. If the evidence does not exist that all the deferred income tax assets will be fully realized, a valuation allowance has been recorded.

20. Income taxes (continued):

(b) (continued):

The following is a summary of the changes in the deferred income tax asset valuation allowance:

	Year ended December 31, 2012	Nine months ended December 31, 2011
Beginning balance	$ 61,456	$ 48,065
Additions	27,639	13,391
Reductions	(62)	—
Ending valuation allowance	$ 89,033	$ 61,456

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

	Net income (loss) before income taxes	Income tax recovery (expense)		
		Current	Deferred	Total
Year ended December 31, 2012:				
Canada	$ (93,688)	$ (1,339)	$ (53)	$ (1,392)
United States	(1,589)	62	—	62
Italy	(318)	(775)	(25)	(800)
Other	(1,441)	(95)	487	392
	$ (97,036)	$ (2,147)	$ 409	$ (1,738)
Nine months ended December 31, 2011:				
Canada	$ (45,899)	$ (500)	$ —	$ (500)
United States	(1,862)	(95)	—	(95)
Italy	(1,342)	(388)	2,205	1,817
Other	2,149	(45)	(17)	(62)
	$ (46,954)	$ (1,028)	$ 2,188	$ 1,160
Year ended March 31, 2011:				
Canada	$ (39,219)	$ (304)	$ (32)	$ (336)
United States	(2,121)	—	—	—
Italy	1,015	372	(457)	(85)
Other	(1,396)	—	—	—
	$ (41,721)	$ 68	$ (489)	$ (421)

(d) As at December 31, 2012, there were no uncertain tax positions that require recognition in the consolidated financial statements. 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 2008 to 2012 taxation years remain open to examination by the Internal Revenue Service and the Italian Revenue Agency, and various years remain open in the other foreign jurisdictions.

(e) The Company has loss carry forwards in the various jurisdictions available to offset future taxableincome as follows:

Expiring in:	2013	2014	2015	2016	2017	2025 and later	Total
Canada	$ 2,717	$ 2,521	$ —	$ —	$ —	$ 283,624	$ 288,862
Italy	—	—	—	—	—	4,247	4,247
United States	—	—	—	—	—	3,433	3,433
Sweden	—	—	—	—	—	4,752	4,752
Other	63	522	215	303	1,821	44	2,968
Total	$ 2,780	$ 3,043	215	$ 303	1,821	$ 296,100	$ 304,262

21. Related party transactions:

Pursuant to the amended and restated JVA, Westport engages in transactions with CWI.

As at December 31, 2012, net amounts due from CWI total $2,127 (2011 - $416). Amounts receivable relate to costs incurred by Westport on behalf of CWI. The amounts are generally reimbursed by CWI to Westport in the month following the month in which the payable is incurred. During the twelve month ended December 31, 2012, nine months ended December 31, 3011 and twelve months ended March 31, 2011 cost reimbursements from CWI consisted of the following:

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Research and development	$ 223	$ 148	$ 314
General and administrative	1,007	338	1,164
Sales and marketing	2,830	2,598	3,501

	$ 4,060	$ 3,084	$ 4,979

CWI also provided a loan to the Company under a demand loan agreement. The loan receivable bore interest monthly at a rate equal to the Bank of Canada prime corporate paper one-month rate in effect on the last day of each month. All outstanding interest was payable in United States dollars on or before December 15, 2012. Interest began accruing on the date in which monies were advanced under the loan agreement. The loan principal and accrued interest was repaid during the year ended December 31, 2012. Loan payable of $19,409 owing to CWI as at December 31, 2011. During the year ended December 31, 2012, interest of $114 (nine months ended December 31, 2011 - $116; year ended March 31, 2011 - $19) was paid to CWI.

All material transactions between the Company and CWI have been eliminated on application of equity accounting.

22. Service and other revenue:

Service and other revenue for the year ended December 31, 2012 consisted of a one-time license revenue of $7,923 for the transfer of proprietary know-how, other fee payments of $1,414, and service revenue of $13,907 under existing development agreements.

During the year ended December 31, 2012, the Company entered into an agreement with an original equipment manufacturer ("OEM") to co-develop natural gas technology for off-road equipment, including mining trucks and locomotives. Under the agreement, the Company provided its proprietary know-how related to the high pressure direct injection ("HPDI") technology by granting a non-exclusive license to the OEM. The Company will also provide ongoing development services to the OEM to assist with the development and commercialization of products. These are considered to be multiple deliverables arrangements and the Company has determined that the license and the development services are separate units of accounting.

Service revenue of $13,907 was recognized as the Company achieved and delivered certain milestones during the year ended December 31, 2012 under certain development agreements. All costs associated with the development agreements were recorded as research and development expenses in the period incurred.

23. Commitments and contingencies:

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

2013	$ 4,785
2014	4,264
2015	3,700
2016	3,372
2017	2,118
Thereafter	1,119
	$ 19,358

For the year ended December 31, 2012, the Company incurred operating lease expense of $4,492 (nine months ended December 31, 2011 - $2,070; year ended March 31, 2011 - $1,599).

As at December 31, 2012, the Company's wholly owned subsidiary Emer has provided a total amount of guarantees to third parties of $489 (€371) (December 31, 2011 - $771 (€594)), which include guarantees to its customers for the completion of specific supplies.

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

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

24. Segmented information:

In December 2012, the Company realigned its business units to focus on product commercialization and global partnerships development. To accommodate the variety in product, system and service solutions, Westport has created three new reportable operating segments. The financial information for the Company's business segments evaluated by the Company's chief operating decision maker ("CODM") includes the results of the CWI and WWI as if it were consolidated, which is consistent with the way Westport manages its business segments. As CWI and WWI is accounted for under the equity method of accounting, an adjustment is reflected in the tables below to reconcile the segment measures to the Company's consolidated measures.

The Company's business operates in six reportable operating segments:

- Westport Applied Technologies, designs, produces, and sells compressed natural gas (CNG), liquefied petroleum gas (LPG), and liquefied natural gas (LNG) components and subsystems for natural gas vehicles of all types;
- Westport On-Road Systems, engineers, designs, and markets complete vehicle systems from automotive to trucking applications and industrial systems to Westport's existing OEM customers;
- Westport New Markets and Off-Road Systems, engineers, designs, and markets Westport proprietary natural gas technologies, including the Westport™ high pressure direct injection (HPDI) technology, and fuel systems for the off-road, large-engine applications such as mine trucks, locomotives, workboats, and petroleum exploration equipment;
- Corporate and Technology Investments, which includes corporate costs such as research and development, general and administrative, marketing, interest and other charges, foreign exchange and depreciation that cannot be attributed to a particular segment and are incurred by all segments.
- CWI which serves the medium- to heavy-duty engine markets. The fuel for CWI engines is typically carried on vehicles as compressed natural gas or liquefied natural gas;
- WWI develops, manufactures, and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach, and heavy-duty truck applications in China or exported to other regions globally; and

These reporting segments offer different products and services and are managed separately as each business requires different technology and marketing strategies.

Comparative periods have been recast to conform to current segment presentation.

The accounting policies for the reportable segments are consistent with those described in note 2. The CODM evaluates segment performance based on the net operating income (loss), which is before income taxes and does not include depreciation and amortization, foreign exchange gains and losses, bank charges, interest and other expenses, interest and other income, and gain on sale of long-term investments. The Company did not record any intersegment sales or transfers for the year ended December 31, 2012, nine months ended December 31, 2011 and the year ended March 31, 2011.

24. Segmented information (continued):

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Revenue:			
Applied Technologies	$ 91,675	$ 55,064	$ 22,053
On-Road Systems	40,706	22,451	6,594
Corporate and Technology Investments	23,245	10,181	8,128
CWI	198,015	138,844	111,287
WWI	272,086	84,917	53,127
Total segment revenues	625,727	311,457	201,189
Less: equity investees revenues	470,101	223,761	164,414
Total consolidated revenues	$ 155,626	$ 87,696	$ 36,775

Net operating income (loss) excluding depreciation and amortization:			
Applied Technologies	$ 10,868	$ 1,051	$ (5,170)
On-Road Systems	(43,503)	(32,625)	(19,985)
New Markets and Off-Road Systems	(12,324)	(2,670)	—
Corporate and Technology Investments	(50,022)	(19,767)	(15,698)
CWI	35,368	42,832	25,399
WWI	9,765	4,879	3,373
Net segment operating income (loss)	(49,848)	(6,300)	(12,081)
Less: equity investees operating income	45,133	47,711	28,772
Net consolidated operating income (loss) excluding depreciation and amortization:	$ (94,981)	$ (54,011)	$ (40,853)
Depreciation and amortization:			
Applied Technologies	$ (7,905)	$ (5,048)	$ (1,305)
On-Road Systems and Corporate	(3,490)	(1,152)	(2,070)
	(11,395)	(6,200)	(3,375)
Net consolidated operating loss before foreign exchange loss (gain), bank changes, interest and other:	(106,376)	(60,211)	(44,228)
Foreign exchange loss (gain), bank changes, interest and other	1,922	904	2,693
Loss before undernoted	(108,298)	(61,115)	(46,921)
Interest on long-term debt and other income (expense), net	(4,928)	(2,337)	(2,385)
Income from investment accounted for by the equity method (note 7)	16,190	16,498	7,585
Loss before income taxes	$ (97,036)	$ (46,954)	$ (41,721)
Total additions to long-lived assets excluding business combinations:	$ 31,566	$ 13,392	$ 3,613

24. Segmented information (continued):

It is impracticable for the Company to allocate additions to long lived assets to the new reporting segment.

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide it by geographical regions. Product and service and other revenues are attributable to geographical regions based on location of the Company's customers. For the year ended December 31, 2012, 38% (nine months ended December 31, 2011 — 28%; year ended March 31, 2011 - 11%) of the Company's product and service revenues were from sales in the Americas (including the United Sates), 9% (nine months ended December 31, 2011 — 15%; year ended March 31, 2011 - 12%) from sales in Asia (including China), and 53% (nine months ended December 31, 2011 — 57%; year ended March 31, 2011 - 77%) from sales elsewhere (including Italy). The Company's revenue earned from Canadian customers is not significant and has been included in revenue from sales in the Americas.

Total goodwill of $51,711 was allocated to Applied Technologies and $5,168 On-Road Systems reporting segments.

As at December 31, 2012, total long-term investments of $18,544 (December 31, 2011 - $25,670) was allocated to the Corporate segment and $574 (December 31, 2011 - $637) was allocated to the On-Road Systems. Total assets are allocated as follows:

	December 31, 2012	December 31, 2011
Applied Technologies	$ 161,206	$ 165,192
On-Road Systems	85,401	49,347
Corporate and unallocated assets	243,470	106,517
CWI	69,577	72,436
WWI	86,997	41,911
	$ 646,651	$ 435,403
Less: equity investees total assets	156,574	114,347
Total consolidated assets	$ 490,077	$ 321,056

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

Long-lived assets information by geographic area:

	December 31, 2012	December 31, 2011
Italy	$ 90,474	$ 94,889
Canada	40,799	27,006
United States	12,463	1,312
Sweden	5,253	5,378
China	6,524	3,087
Australia	601	32
	$ 156,114	$ 131,704
Less: equity investees long-lived assets	5,826	3,900
Total consolidated long-lived assets	$ 150,288	$ 127,804

WESTPORT INNOVATIONS INC.
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25. Financial instruments:

(a) Financial risk management:

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

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company has sustained losses and negative cash flows from operations since inception. At December 31, 2012, the Company has $215,860 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at December 31, 2012:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	$ 48,509	$ 48,509	$ 48,509	$ —	$ —	$ —
Unsecured subordinated debentures (1)	36,185	40,929	2,302	38,627	—	—
Long-term payable (2)	9,386	10,021	10,021	—	—	—
Senior financing (3)	18,812	19,240	3,718	8,551	6,971	—
Senior revolving financing (4)	13,185	13,185	13,185	—	—	—
Other bank financing	1,171	1,176	392	300	342	142
Other long-term debt	1,533	1,533	836	661	36	—
Operating lease commitments	—	19,358	4,785	7,964	5,490	1,119
Royalty payments(5)	—	22,906	1,357	21,549	—	—
	$ 129,605	$ 176,857	$ 85,105	$ 77,652	$ 12,839	$ 1,261

(1) Includes interest at 9%.
(2) Includes interest at 3.72%.
(3) Includes interest at 2.0%, the rate in effect at December 31, 2012.
(4) Includes interest at 2.3%, the rate in effect at December 31, 2012.
(5) From fiscal 2011 to 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of $1,357 (CDN$1,350) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds CDN$13,500 in any aforementioned fiscal year, up to a maximum of $28,333 (CDN$28,189). The Company has assumed the minimum required payments.

The Company expects to be able to meet its future financial obligations with its current source of funds. However, there are uncertainties related to the timing of the Company's cash inflows and outflows, specifically around the sale of inventories and amounts required for market and product development costs. These uncertainties include the volume of commercial sales related to its natural gas engines and fuel system products and the development of markets for, and customer acceptance of, these products. As a result, the Company may need to seek additional equity or arrange debt financing, which could include additional lines of credit, in order to meet its financial obligations.

(c) Credit risk:

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations and arises

principally from the Company's cash and cash equivalents, short-term investments and accounts receivable. The Company manages credit risk associated with cash and cash equivalents and short-term investments by regularly consulting with its current bank and investment advisors and investing primarily in liquid short-term paper issued by Schedule 1 Canadian banks, R1 rated companies and governments. The Company monitors its portfolio, and its policy is to diversify its investments to manage this potential risk.

The Company is also exposed to credit risk with respect to uncertainties as to timing and amount of collectability of accounts receivable and loans receivable. As at December 31, 2012, 83% (December 31, 2011 - 83%) of accounts receivable relates to customer receivables, 1% (December 31, 2011 - 1%) relates to government grants receivable and 16% (December 31, 2010 - 16%) relates to amounts due from joint venture and indirect, income tax and value added taxes receivable. In order to minimize the risk of loss for customer receivables, the Company's extension of credit to customers involves review and approval by senior management as well as progress payments as contracts are executed. Most sales are invoiced with payment terms in the range of 30 days to 90 days. The Company reviews its customer receivable accounts and regularly recognizes an allowance for doubtful receivables as soon as the account is determined not to be fully collectible. Estimates for allowance for doubtful debts are determined by a customer-by-customer evaluation of collectability at each balance sheet reporting date, taking into consideration past due amounts and any available relevant information on the customers' liquidity and financial position.

The carrying amount of cash and cash equivalents, short-term investments and accounts receivable of $260,049 at December 31, 2012 represents the Company's maximum credit exposure.

(d) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company conducts a significant portion of its business activities in foreign currencies, primarily the United States dollar ("U.S.") and the Euro ("Euro"). Cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and long-term debt that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies.

25. Financial instruments (continued):

(d) Foreign currency risk (continued):

The Company's functional currency is the Canadian dollar. The U.S. dollar and the Euro carrying amount of financial instruments subject to exposure to foreign currency risk in the consolidated balance sheet at December 31, 2012 is as follows:

	U.S. dollars	
Cash and cash equivalents	$	169,369
Short-term investments		24,442
Accounts receivable		7,864
Accounts payable		3,673

	Euros	
Cash and cash equivalents	€	387
Current portion of long-term debt		7,459

If foreign exchange rates on December 31, 2012 had changed by 25 basis points, with all other variables held constant, net loss for the year ended December 31, 2012 would have changed by $495 and $18 for US dollar denominated and Euro denominated financial instruments, respectively. The Company's exposure to currencies other than U.S. dollars and Euros is not material.

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

If interest rates for the year ended December 31, 2012 had changed by 50 basis points, with all other variables held constant, net loss for the year ended December 31, 2012 would have changed by $57.

(f) Fair value of financial instruments:

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

25. Financial instruments (continued):

(f) Fair value of financial instruments (continued):

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

The carrying value reported in the balance sheets for obligations under capital lease, which is based upon discounted cash flows, approximates its fair value.

The carrying value reported in the balance sheet for the unsecured subordinated debenture notes (note 13(a)) approximates its fair value, based on market rates of interest for similar indebtedness. Additionally, the interest rate on the notes approximates the interest rate being demanded in the market for debt with similar terms and conditions.

The carrying value reported in the balance sheet for other long-term payable (note 13(b)) is recorded at amortized cost using the effective interest rate method. It is being accreted to the gross proceeds of €7,600 that is payable to OMVL on July 2, 2013 at the effective interest rate of 3.65%. As at December 31, 2012, the fair value of the long-term debt is higher than its carrying value by $70 based on a market interest rate of 2.35%.

The carrying value reported in the balance sheet for senior financing agreements (note 13(c)) approximates its fair value as at December 31, 2012, as the interest rate on the debt is floating and therefore approximates the market rate of interest. The Company's credit spread also has not substantially changed from the 2.2% premium currently paid.

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

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

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

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

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

As at December 31, 2012, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

Westport Management's Discussion and Analysis

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Innovations Inc. ("Westport", the "Company", "we", "us", "our") is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2012. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated March 6, 2013.

On May 30, 2011, the Board of Directors approved a fiscal year-end change from March 31 to December 31 to align the year ends of all consolidated operating companies to the calendar year. As a result of changing our year end, the previous reporting period is a "stub" period of only nine months (April 1, 2011 to December 31, 2011). Due to the difference in period lengths, the consolidated statements of operations and statements of cash flows are not directly comparable.

In our previously filed annual and the interim financial statements in fiscal 2012 and 2011, the Company had identified Cummins Westport Inc. ("CWI") as a variable interest entity ("VIE") and Westport's interest as being that of the primary beneficiary upon adoption of ASU 2009-17 effective April 1, 2010. As a result, the Company consolidated CWI on a line by line basis in its consolidated financial statements reflecting its financial position, results of operations and cash flows.

Based on the Company's ongoing review and adoption of the applicable accounting guidance in ASU 2009-17 and related interpretations, the Company concluded that the presentation of CWI under the equity method is more appropriate as CWI continues to be a VIE but there is no primary beneficiary. Cummins and Westport each own 50% of the common shares of CWI and have equal representation on the Board of Directors. No one shareholder has the unilateral power to govern CWI. The Board of Directors has power over the operating decisions and to direct other activities of CWI that most significantly impact CWI's economic performance as set forth in the governing documents. As decision-making at the Board of Directors' level requires unanimous approval, this power is shared. Accordingly neither party is the primary beneficiary.

Commencing with the annual report for the year ended December 31, 2012, the Company is recording the results of CWI using the equity method and has restated its consolidated financial statements for the nine month period ended December 31, 2011 and the year ended March 31, 2011 on a similar basis. This restatement did not affect the reported amounts of net loss, loss per share or shareholders' equity but has impacted certain amounts disclosed. The Company's interest in the net assets of CWI is now presented net on a single line in other long-term investments on the balance sheet and the Company's share of net earnings of CWI is reflected in income from investments accounted for by the equity method on and statements of operations. The assets, liabilities, revenues and expenses of CWI previously included on the balance sheet and statement of operations on a line by line basis are summarized in note 7(b) of our audited consolidated financial statements, for the fiscal year ended December 31, 2012. There was no cumulative effect from adoption of ASU 2009-17 at April 1, 2010.

Additional information relating to Westport, 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.

Westport Management's Discussion and Analysis

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the orders or demand for our products, our investments, cash and capital requirements, the intentions of partners and potential customers, the performance of our products, our future market opportunities, availability of funding and funding requirements, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, availability of funding and funding requirements, timing of when we will adopt or meet certain accounting and regulatory standards and the alignment of our business segments. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward looking statements. These risks include risks related to revenue growth, operating results, industry and products, general economy, conditions of the capital and debt markets, government or accounting policies and regulations, technology innovations, as well as other factors discussed below and elsewhere in this report, including the risk factors contained in the Company's most recent Annual Information Form filed on SEDAR at www.sedar.com. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements except as required by applicable legislation.

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

BUSINESS OVERVIEW

We are a leading provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Our technology and products enable light- (less than 5.9 litre), medium- (5.9 to 8.9 litre), heavy-duty- (11 to 16 litre) and high-horsepower- (greater than 16 litre) petroleum-based fuel engines to use primarily natural gas, giving users a cleaner, and generally less expensive, alternative fuel based on a more abundant natural resource. Through our partnerships and direct sales efforts, to date, we have sold over 73,000 natural gas and propane engines and fuel systems to customers in more than 19 countries. We currently have strategic relationships with three of the world's top four engine producers and supply or have strategic relationships with six of the world's top ten truck producers, as well as eight of the world's top ten automotive manufacturers.

Since our founding in 1995, we have focused on developing technology that allows us to produce more environmentally sustainable engines without compromising the performance, fuel economy, durability and reliability of diesel engines. We have invested over $400 million towards the research, development and commercialization of our proprietary technologies, which allow engines to operate on natural gas while preserving the key benefits of diesel engines. The substitution of natural gas for petroleum-based fuel drives a significant reduction in harmful combustion emissions, such as nitrogen oxides, particulate matter and greenhouse gases, in addition to providing a relatively inexpensive alternative fuel from a more plentiful natural resource. Our systems enable combustion engines to use gaseous fuels, such as natural gas, propane, renewable natural gas or hydrogen. Our research and development efforts and investments have resulted in a substantial patent portfolio that serves as the foundation for our differentiated technology offerings and competitive advantage.

We leverage our proprietary technology by partnering with the world's leading diesel engine and truck original equipment manufacturers ("OEMs") to develop, manufacture and distribute our engines and fuel systems to a diverse group of global truck and bus OEMs. Our strategic relationships with OEMs provide us with access to their manufacturing capacity, supply chain and global distribution networks without incurring the considerable investment associated with these assets. We commercialize our technology in markets where demand for clean, low emission engines is prevalent.

Westport Management's Discussion and Analysis

BUSINESS SEGMENT REALIGNMENT

During the fourth quarter of 2012, Westport created new internal reporting alignments to accommodate the variety in product, system and service solutions provided by Westport. In addition, Westport is expecting to deliver new and existing products across multiple platforms under the single "Westport" brand going forward. We have removed label restrictions described as "Light-Duty", "Heavy-Duty" or "High-Horsepower" to allow us to enter new markets with new and existing products and services under the one brand: "Westport".

Internal operating segments following the realignment include: Westport Applied Technologies, Westport On-Road Systems, Westport New Markets and Off-Road Systems, Cummins Westport, Weichai Westport and Corporate.

The principle focus and responsibilities of the new reporting alignments are summarized below:

Westport Applied Technologies Business Unit

Westport Applied Technologies ("Applied Technologies") designs, manufactures and sells compressed natural gas ("CNG"), liquefied petroleum gas ("LPG"), and liquefied natural gas ("LNG") components and subsystems to over 20 global OEMs including Fiat, Volkswagen, the GAZ Group, Toyota, Chrysler, Tata, and GM and to aftermarket customers in over 60 countries. Sales from Westport wholly owned Italian subsidiaries OMVL S.p.A. ("**OMVL**") and Emer S.p.A (" **Emer**") and Westport's Australian operations are reported under Applied Technologies and are made either directly to OEMs or through one of their many distributors. The Applied Technologies business unit designs and manufactures a range of components from pressure regulators, injectors, ECUs and valves, to filters; sells monofuel and bi-fuel conversion kits; and also offers full engine management solutions and systems that can be launched quickly at a competitive price. The Applied Technologies business unit provides Westport with high volume, scalable manufacturing and assembly. The business unit has a strong customer base in Europe and is targeting growing markets in Asia, and North and South America.

Westport On-Road Systems Business Unit

Westport On-Road Systems ("On-Road Systems") engineers, designs, assembles and sells complete engine and vehicle systems for automotive, light commercial, trucking and industrial applications. Westport's existing On-Road Systems OEM customers and partners include Ford, GM, PACCAR Inc. ("**PACCAR**") (Kenworth and Peterbilt, a PACCAR company), Volvo Car Corporation (" **Volvo Car**"), AB Volvo, and Clark Material Handling ("Clark"). Current products include the Westport WiNG™ Power System for the Ford F-250/F-350 and F-450/F-550 bi-fuel (CNG and gasoline) Super Duty pick-up truck, Westport™ 15L product using Westport high pressure direct injection ("HPDI") technology and offered in Peterbilt and Kenworth heavy-duty trucks, Volvo Car bi-fuel systems (CNG and gasoline) for the V70 Bi-Fuel wagon, and Westport™

2.4L industrial engines sold to Clark and Cummins Western Canada for forklift and oilfield applications, respectively.

The On-Road Systems business unit also has additional product development activities underway with AB Volvo for Westport HPDI-powered heavy-duty trucks and advanced engineering development with General Motors for light-duty vehicles. To facilitate faster adoption of natural gas vehicles, the On-Road Systems business unit also provides additional products and services such as the new Westport™ LNG Tank System and JumpStart mobile fuel services. Growth drivers include growing existing product sales, new product introduction and market expansion.

Westport New Markets and Off-Road Systems Business Unit

Westport New Markets and Off-Road Systems ("Off-Road Systems") has been exploring opportunities for using LNG fuel in the large, off-road engine applications like rail, mining, marine and oil & gas. Westport's existing New Markets and Off-Road Systems OEM customers and partners include Caterpillar Inc. ("**Caterpillar**") and Weichai Power Co. Ltd. (" **Weichai**"). According to industry statistics and Westport analysis, the global fuel usage in these applications is over 24 billion gallons of diesel and the opportunity for significant fuel cost savings and reduced emissions through the use of LNG is highly attractive. In June of 2012, Westport and Caterpillar signed an agreement to collaborate and bring Westport's HPDI technology into these markets. The initial focus of the New Markets and Off-Road Systems business unit is on developing Westport HPDI-based large mine trucks and main line locomotives, and the Weichai Westport Inc. ("**WWI**") 12L development program.

Revenues are expected to come from product and component sales, the cryogenic vessels required to store the LNG, and the control systems which deliver fuel to the engine associated with such vehicles. There is a large market opportunity for cryogenic systems where Westport has technology in LNG storage and pump configurations for transportation based on years of experience in the on-road segment. Westport currently provides a number of cryogenic tank system solutions to carry fuel for large non-Westport HPDI LNG off-road engines currently available as interim solutions in mining, marine and rail until the release of the higher diesel substitution solutions based on direct injection.

Corporate and Technology Investments Business Unit

The Corporate and Technology Investments business unit (" **Corporate and Technology Investments**") includes investments in new research and development programs and revenues and expenses related to development programs with OEMs, corporate oversight and general administrative duties. Corporate and Technology Investments focuses on long term product development and future return on investments.

Westport Joint Ventures

Cummins Westport Inc.

Cummins Westport Inc. ("CWI"), our 50:50 joint venture with Cummins, Inc., ("Cummins"), serves the medium to heavy-duty engine markets. CWI engines are offered by many OEMs of transit and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks, material handling trucks, street sweepers and vehicles for selected industrial applications. The fuel for CWI engines is typically carried on the vehicles as CNG or LNG. CWI engines are produced at certain Cummins' plants, allowing CWI to leverage Cummins' manufacturing footprint without incurring additional capital costs. CWI also utilizes Cummins' supply chain, back office systems and distribution and sales networks.

Weichai Westport Inc.

Weichai Westport Inc. ("WWI"), a joint venture between Westport (35% interest), Weichai Power Co. Ltd., ("Weichai") (40% interest) and Hong Kong Peterson (CNG) Equipment Ltd. ("Hong Kong Peterson") (25% interest) to focus on the Chinese market. WWI develops, manufactures and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach and heavy-duty truck applications in China or exported to other regions globally. WWI's facility in China currently has an annual production capacity of 40,000 engines. Currently, WWI is integrating Westport HPDI technology to create the new 12-litre Weichai Westport HPDI Landking engine designed to deliver the same power, torque and performance as that of the original diesel engine. Expected to be launched in 2013, this engine will fill the gap in the natural gas engine market for heavy-duty trucks in China.

GENERAL DEVELOPMENTS

On February 20, 2012, we announced that we had entered into an amended and restated joint venture agreement ("JVA") with Cummins for the CWI joint venture. The JVA was amended to provide for, among other things, clarification concerning the scope of products within CWI. In addition, the parties have revised certain economic terms of the JVA.

On February 27, 2012, we announced the closing of an offering of common shares of Westport ("Common Shares"), including the exercise of the

underwriters' over-allotment option in full. With the exercise of the option, we issued a total of 6,325,000 Common Shares under the offering for gross proceeds of $273.6 million.

On March 6, 2012, we acquired certain assets of Advanced Engine Components Limited ("AEC") of Perth, Western Australia, for US$1.1 million (AUD $1.1 million) paid in cash and assumed liabilities. On completion of the transaction, we acquired AEC's Australian business assets including its intellectual property, key contracts, inventory and fixed assets. We also assumed AEC's Australian leased facility and kept approximately 10 of AEC's employees.

On May 18, 2012, we announced that Volvo unveiled its plan to launch a 13 liter heavy-duty natural gas engine featuring Westport HPDI technology. The product is scheduled for launch for the North American market in 2014.

On June 5, 2012, we announced a signed agreement with Caterpillar to co-develop natural gas technology for off-road equipment, including mining trucks and locomotives. Caterpillar will fund the development program, and when the products reach commercialization, we expect to participate in the supply of key components.

On October 4, 2012, CWI announced it has begun development on the ISB6.7 G, a mid-range 6.7 liter natural gas engine. The ISB6.7 G is expected to be in production by 2015 and will be designed to meet Environmental Protection Agency (EPA) and California Air Resources Board (CARB) regulations in force at the time of launch.

On November 26, 2012, Westport announced a unique on-board storage solution that provides best in class performance for vehicles using LNG. The new Westport LNG Tank System, is expected to be available in 120 and 150 gallon capacities and is optimized for spark ignited ("SI") natural gas engines such as those sold by CWI. We expect to begin shipping the System by mid-2013. The Westport LNG Tank System features proprietary Westport technology and is expected to provide customers with the ability to fuel even the largest SI engines on a single tank and deliver extended range.

On February 5, 2013, CWI announced it is supplying engines for two of the largest natural gas transit fleet orders in North America, LA Metro and San Diego Metropolitan Transit System for over 900 natural gas buses powered by CWI's 8.9L ISL G engine.

Westport Management's Discussion and Analysis

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the twelve months ended December 31, 2012, nine months ended December 31, 2011 and the twelve months ended March 31, 2011:

Selected Consolidated Statements of Operations Data

(expressed in millions of United States dollars, except for per share amounts, shares outstanding and units shipped)	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
Units shipped [1]	1,956	613	27
Total revenue	$ 155.6	$ 87.7	$ 36.8
Gross margin	53.1	20.6	12.8
GM %	*34%*	*23%*	*35%*
Net loss	(98.8)	(45.8)	(42.1)
Net loss per share — basic and diluted [2]	(1.83)	(0.96)	(1.00)
Weighted average shares outstanding	54,072,513	47,933,348	42,305,889
Cash used in operations before changes in non-cash working capital [3]	(89.1)	(50.5)	(38.8)

(1) Units shipped include HD-15 litre LNG systems, Volvo V70 b-fuel V70 cars and F-250/F-350 bi-fuel pick-up trucks
(2) Fully diluted loss per share is the same as basic loss per share as the effect of conversion of stock options, warrants and performance share units would be anti-dilutive.
(3) See non-GAAP financial measures.

Selected Balance Sheet Data

	December 31, 2012	December 31, 2011
Cash and short-term investments	$ 215.9	$ 67.6
Total assets	490.1	321.1
Long-term financial liabilities [1]	52.2	65.6

(1) Excluding warranty liability, deferred revenue, deferred income tax liabilities and other long-term liabilities.

Selected CWI Statements of Operations Data

(expressed in millions of United States dollars, except for units shipped)	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
Units shipped	6,804	4,692	3,629
Total revenue	$ 198.0	$ 138.8	$ 111.3
Gross margin	61.4	60.0	44.3
GM %	31%	43%	40%
Segment Operating Income - CWI	35.4	42.8	25.4
Income attibutable to the Company	13.2	15.0	6.5

Selected WWI Statements of Operations Data

(expressed in millions of United States dollars, except for units shipped)	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
Units shipped	22,025	6,680	1,771
Total revenue	$ 272.1	$ 84.9	$ 53.1
Gross margin	37.8	14.6	10.0
GM %	14%	17%	19%
Segment Operating Income - WWI	9.8	4.9	3.4
Income attibutable to the Company	2.9	1.4	1.0

Westport Management's Discussion and Analysis

OVERVIEW OF YEAR ENDED DECEMBER 31, 2012 RESULTS

Operating Results

Total Consolidated Revenues

(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Change $	Change %
Applied Technologies	$ 91.7	$ 55.0	$ 36.6	67%
On-Road Systems	40.7	22.5	18.3	81%
Corporate and Technology Investments	23.2	10.2	13.1	128%

Total consolidated revenues	$ 155.6	$ 87.7	$ 67.9	77%

For the year ended December 31, 2012, consolidated revenue increased $67.9 million, or 77%, to $155.6 million from $87.7 million for the nine months ended December 31, 2011. This increase in revenue was driven by an increase in Applied Technologies revenue due to full year contributions from Emer, an increase in On-Road Systems revenues due to higher 15L unit sales and the launch of the F-250 / F-350 bi-fuel pick-up truck in June 2012 and Corporate revenue driven primarily by the transfer of the proprietary know-how related to the HPDI technology .

Consolidated net loss attributable to the Company for the twelve months ended December 31, 2012 was $98.8 million, or $1.83 loss per diluted share, compared to a $45.8 million net loss, or $0.96 loss per diluted share, for the nine months ended December 31, 2011. The $53.0 million increase in net loss was driven by an increase in net losses in Corporate and On-Road Systems as product development costs increased by a greater percentage relative to operating margin from our products.

Capital Management

On February 27, 2012, we announced the closing of an offering of common shares of Westport ("Common Shares"), including the exercise of the underwriters' over-allotment option in full. With the exercise of the option, we issued a total of 6,325,000 Common Shares under the offering for gross proceeds of $273.6 million.

Cash, cash equivalents and Investments

As of December 31, 2012, our cash, cash equivalents and short-term investments balance was $215.9 million compared to $67.6 million at December 31, 2011. For the twelve months ended December 31, 2012, cash used in operations was $85.7 million with $89.1 million used for operating purposes and $3.4 million provided from working capital. We also paid cash of $1.1 million for our acquisition of certain assets of AEC, purchased $30.4 million of property and equipment, purchased $1.0 million in intangible assets, repaid a portion of our long-term debt totaling $6.7 million, and we received a dividend of $22.6 million from CWI. We received a repayment on our note receivable of $2.5 million, loan repayments net of advances of $19.4 million to a joint venture partner, drew down our lines of credit for $1.1 million, issued shares through a public share offering resulting in cash inflow of $265.4 million (net of share issuance costs) and issued shares through the exercise of stock options, which resulted in an additional $1.0 million in cash. Foreign exchange on Canadian dollar and Euro denominated cash, cash equivalents and short-term investments and unrealized foreign exchange impacts on certain foreign currency denominated balances resulted in an unfavorable $0.1 million impact on our cash, cash equivalents and short-term investments balance.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. The Company's accounting policies are described in Note 2 of our calendar year 2012 annual consolidated financial statements. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock-based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in Note 2 of our calendar year 2012 annual consolidated financial statements. Actual amounts may vary significantly from estimates used.

Variable Interest Entities

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

Warranty Liability

Estimated warranty costs are recognized at the time we sell our products and included in cost of revenue. We use historical failure rates and costs to repair product defects during the warranty period, together with information on known products to estimate the warranty liability. The ultimate amount payable and the timing will depend on actual failure rates and the actual cost to repair. We review our warranty provision quarterly and record adjustments to our assumptions based on the latest information available at that time. Since a number of our products are new in the market, historical data may not necessarily reflect actual costs to be incurred, and this exposes the Company to potentially significant fluctuations in liabilities. New product launches require a greater use of judgment in developing estimates until claims experience becomes available. Product specific experience is typically available four or five quarters after product launch, with a clear experience trend not evident

until eight to twelve quarters after launch. We generally record warranty expense for new products upon shipment using a factor based upon historical experience from previous engine generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. Adjustments to the warranty provision are recorded in cost of revenue.

Revenue Recognition

Our primary source of revenue is from the sale of kits, Westport LNG systems and parts, and Westport CNG and LPG fuel systems for OEMs in the light-duty automotive and industrial markets. Product and parts revenue is recognized when the products are shipped and title passes to the customer. Revenue also includes fees earned from performing research and development activities for third parties, as well as technology license fees from third parties. Revenue from research and development activities is recognized as the services are performed. Revenue from technology license fees is recognized over the duration of the licensing agreement. Amounts received in advance of the revenue recognition criteria being met are recorded as deferred revenue.

The Company also earns service revenue from research and development arrangements under which the Company provides contract services relating to developing natural gas engines or biogas engines for use in products and providing ongoing development services to assist with the development and commercialization of products. Service revenue is recognized using the milestone method upon completion of project milestones as defined and agreed to by the Company and partner. The Company recognizes consideration earned from the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The Company has deemed all milestone payments within the contract to be substantive. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of deliverables and the payment terms within the contract. Certain milestones under the contract have yet to be defined.

When an arrangement includes multiple deliverables, the Company allocates the consideration to each separate deliverable (unit of accounting) based on relative selling prices. A separate unit of accounting is identified if the delivered item(s) have standalone value and the delivery or performance of undelivered items is considered probable and within the control of the Company. Revenue for each unit of account is recognized in accordance with the above revenue recognition principles. The Company has determined that the license and the development services are separate units of accounting.

Inventories

Inventories consist of fuel systems, component parts, work-in-progress and finished goods associated with our Westport systems. We carry inventory at the lower of weighted average cost and net realizable value. In establishing whether or not a provision is required for inventory obsolescence, we estimate the likelihood that inventory carrying values will be affected by changes in market demand for our products and by changes in technology, which could make inventory on hand obsolete. We perform regular reviews to assess the impact of changes in technology, sales trends and other changes on the carrying value of inventory. When we determine that such changes have occurred and would have a negative impact on the carrying value of inventory on hand, adequate provisions are recorded. Unforeseen changes in these factors could result in the recognition of additional inventory provisions.

Property, Plant and Equipment and Intangible Assets

We consider whether or not there has been an impairment in our long-lived assets, such as equipment, furniture and leasehold improvements and intangible assets, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such assets are not recoverable, we are required to write down the assets to fair value. When quoted market values are not available, we use the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value to determine whether or not a write down is required.

Stock-Based Compensation

We account for stock-based compensation related to stock options, performance share units and restricted share units granted to employees and directors using the fair value method. The resulting compensation expense for stock options is calculated using the Black-Scholes valuation method net of estimated forfeitures and is recognized in results from operations over the period in which the related employee services are rendered. We account for performance shares by calculating the fair value using a Monte-Carlo simulation and restricted share units by calculating the fair value based on the market price of the Company's common shares on the date of grant. The compensation expense is recorded in the period it is earned, which generally is the period over which the units vest.

Goodwill

We do not amortize goodwill but instead test it annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at November 30. We use a two-step test to identify the potential

impairment and to measure the amount of impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired; otherwise, goodwill is impaired and the loss is measured by performing step two. Under step two, the impairment loss is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill. We determine fair value using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as our future expectations.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,* ("ASU 2011-04"). ASU 2011-04 changes the language used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statement note disclosures.

Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12"), which defers certain requirements within ASU 2011-05. These amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. This new guidance is to be applied retrospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statement note disclosures.

Intangibles — Goodwill and other

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment* ("ASU 2011-08"), which allows an entity to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's goodwill impairment test and the Company's consolidated financial statement note disclosures.

Balance Sheet

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). ASU 2011-11 enhances disclosures regarding financial instruments and derivative instruments. Entities are required to provide both net information and gross information for these assets and liabilities in order to enhance comparability between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. This new guidance is to be applied retrospectively and is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The Company anticipates that the adoption of this standard will expand its consolidated financial statement footnote disclosures.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

supervision and with the participation of management, including the CEO and CFO, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a—15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The CEO and CFO have concluded that as of December 31, 2012, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified therein and accumulated and reported to management to allow timely discussions regarding required disclosure.

We have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. No changes were made in our internal control over financial reporting during the year ended December 31, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The CEO and CFO, together with other members of management, are responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Internal control over financial reporting is designed under our supervision, and effected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States and the requirements of the Securities and Exchange Commission in the United States, as applicable. There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Management, including the CEO and CFO, has evaluated the effectiveness of internal control over financial reporting, as defined in Rules 13a—15(f) and 15d—15(f) of the Exchange Act, in relation to criteria described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, Management has determined that internal control over financial reporting was effective as of December 31, 2012. KPMG LLP, our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has also expressed an unmodified opinion on the effective operation of our internal control over financial reporting as of December 31, 2012.

FINANCIAL OVERVIEW

RESULTS FROM OPERATIONS

Total Revenue

The following table summarizes total revenue by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Total Revenues
(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Change $	Change %
Applied Technologies	$ 91.7	$ 55.0	$ 36.6	67%
On-Road Systems	40.7	22.5	18.3	81%
New Markets and Off-Road Systems	—	—	—	0%
Corporate and Technology Investments	23.2	10.2	13.1	128%
CWI	198.0	138.8	59.2	43%
WWI	272.1	84.9	187.2	220%
Total segment revenues	$ 625.7	$ 311.5	$ 314.2	101%
Less: Equity investees revenues	$ 470.1	$ 223.8	246.3	110%
Total consolidated revenues	$ 155.6	$ 87.7	$ 67.9	77%

Applied Technologies revenue for the twelve months ended December 31, 2012 increased $36.6 million, or 67%, to $91.7 million from $55.0 million for the nine months ended December 31, 2011. The increase in revenue was driven by six additional months of contributions from Emer as we began consolidating Emer on July 1, 2011 and contributions from AFV since we began consolidating AFV in the fourth quarter of the prior year period.

On-Road Systems revenue for the twelve months ended December 31, 2012 increased $18.3 million, or 81% from $22.5 million to $40.7 million. The increase related to shipments of 393 15L systems compared to 272 15L systems for the nine months ended December 31, 2011, which resulted in an increase in revenue of $5.4 million from $15.9 million in the prior year period to $21.3 million in the current year. There was also an increase of $1.5 million due to increased shipments of 2.4 litre industrial systems to forklift and oilfield customers and $5.4 million from the launch of the F-250/F-350 bi-fuel super duty pick-up truck in the United States. Revenue generated from the Volvo V-70 bi-fuel CNG Wagon increased $4.9 million from $2.6 million in the prior year period to $7.5 million in the current year. On-Road parts revenue for the twelve months ended December 31, 2012 increased $1.1 million to $3.5 million compared with $2.4 million for the nine months end December 31, 2011.

The New Markets and Off-Road Systems business unit is a new business unit and has not generated revenue in the current year.

Corporate and Technology Investments revenue for the twelve months ended December 31, 2012 increased $13.1 million, or 128% from $10.2 million to $23.2 million. Included in the current year was one-time license revenue of $8.0 million for the transfer of the proprietary know-how related to the HPDI technology and other fee payments of $1.4 million. We recognized $13.5 million (2011 - $10.2 million) under our development agreements due to the timing of delivering certain milestones during the periods. All costs associated with our development agreements were recorded as research and development expenses in the period incurred in the consolidated statement of operations.

CWI revenue for the twelve months ended December 31, 2012 increased $59.2 million, or 43% from $138.8 million to $198.0 million . CWI product revenue for the twelve months ended December 31, 2012 increased $47.2 million, or 41%, to $161.7 million on sales of 6,804 units compared to $114.5 million and 4,692 units for the nine months ended December 31, 2011, which was primarily attributed to higher sales volume of ISL G engines in the Americas and sales of engines in Asia and Latin America. CWI parts revenue for the twelve months ended December 31, 2012 was $36.3 million compared with $24.3 million for the nine months end December 31, 2011. The number of engines in the field, their age and their reliability impact parts revenue each period.

WWI revenue for the twelve months ended December 31, 2012 increased $187.2 million, or 220% from $84.9 million to $272.1 million . WWI shipped 22,025 units in 2012 compared with 6,680 units for the nine months ended December 31, 2011.

The following table summarizes total revenue by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Total Revenues

(expressed in millions of U.S. dollars)

	Nine months ended December 31, 2011	Twelve months ended March 31, 2011	Change $	Change %
Applied Technologies	$ 55.0	$ 22.1	$ 32.9	150%
On-Road Systems	22.5	6.6	15.9	240%
New Markets and Off-Road Systems	—	—	—	0%
Corporate and Technology Investments	10.2	8.1	2.1	25%
CWI	138.8	111.3	27.5	25%
WWI	84.9	53.1	31.8	60%
Total segment revenues	$ 311.5	$ 201.2	$ 110.3	55%
Less: Equity investees revenues	$ 223.7	$ 164.4	59.3	36%
Total consolidated revenues	$ 87.7	$ 36.8	$ 50.9	138%

Applied Technologies revenue for the nine months ended December 31, 2011 increased $32.9 million, or 150%, to 55.0 million from $22.1 million for the twelve months ended March 31, 2011. The increase in revenue was driven by six months of contributions from Emer or $31.8 million as we began consolidating Emer on July 1, 2011. OMVL revenue increased from $22.1 million from the date of acquisition of July 3, 2010 to March 31, 2011 to $23.3 million for the nine month period ended December 31, 2011.

On-Road Systems revenue for the nine months ended December 31, 2011 increased $15.9 million, or 240% from $6.6 million to $22.5 million. The increase related to shipments of 272 15L systems or $16.1 million in revenue compared to $2.2 million and 27 15L systems for the twelve months ended March 31, 2011. Revenue generated from the Volvo V-70 bi-fuel CNG Wagon was $2.6 million for the nine months ended December 31, 2011 compared to Nil in the prior year period as we acquired AFV in October 2011. Sales of 2.4L industrial forklift engines generated $1.6 million in revenue during the nine months ended December 31, 2011 compared with $1.7 million for the twelve months ended March 31, 2011. On-Road parts revenue for the nine months ended December 31, 2011 was $2.4 million compared with $2.7 million for the twelve months end March 31, 2011.

Corporate and Technology Investments revenue for the nine months ended December 31, 2011 increased $2.1 million, or 25% from $8.1 million to $10.2 million. The increase was due to the timing of milestone payments under our development agreements.

CWI revenue for the nine months ended December 31, 2011 increased $27.6 million, or 25%, to $138.8 million on sales of 4,692 units compared to $111.3 million and 3,629 units for the twelve months ended March 31, 2011, which was primarily attributed to higher sales volume of ISL G engines in the Americas.

WWI revenue for the nine months ended December 31, 2011 increased $31.9 million, or 60% from $53.1 million to $85.0 million . WWI shipped 6,680 units in the nine month period ended December 31, 2011 compared with 4,822 units for the twelve month period ended March 31, 2011.

Gross Margin

The following table presents gross margin by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Gross Margin

(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	% of Revenue	Nine months ended December 31, 2011	% of Revenue	Change $	Change %
Applied Technologies	$ 25.3	28%	$ 11.1	20%	$ 14.1	127%
On-Road Systems	4.6	11%	(0.7)	-3%	5.3	747%
New Markets and Off-Road Systems	—	0%	—	0%	—	0%
Corporate and Technology Investments	23.2	100%	10.2	100%	13.1	128%
CWI	61.4	31%	60.0	43%	1.4	2%
WWI	37.8	14%	14.6	18%	23.2	160%
Total segment revenues	$ 152.4	24%	$ 95.2	31%	$ 57.2	60%
Less: Equity investees gross margin	$ 99.3	21%	$ 74.6	33%	24.7	33%
Total consolidated gross margin	$ 53.1	34%	$ 20.6	23%	$ 32.5	158%

Applied Technologies gross margin increased $14.1 million to $25.3 million, or 28% of revenue, for the year ended December 31, 2012 compared to $11.1 million, or 20% of revenue for the nine months ended December 31, 2011. The increase in gross margin percentage is due to contributions from Emer representing a higher proportion of the revenue, and we consolidated Emer for twelve months in 2012 versus 6 months in the comparative period. Emer has a higher gross margin percentage relative to OMVL due to customer mix and economies of scale.

On-Road Systems gross margin increased $5.3 million to $4.6 million, or 11% of revenue from negative $0.7 million, or negative 3% of revenue for the nine months ended December 31, 2011. The increase in gross margin percentage was due primarily to business mix with the launch of the WING System as well as launch customer pricing on the 15L product, and materials variance on certain shipments during the nine month period ended December 31, 2011.

Corporate and Technology Investments gross margin increased $13.1 million from $10.2 million to $23.2 million. The gross margin percentage was 100% in both periods as Corporate gross margin relates entirely to license revenue and milestone payments under our development agreements.

CWI gross margin increased $1.4 million to $61.4 million, or 31% of revenue from $60.0 million or 43% of revenue. CWI product margin and product gross margin percentage for the twelve months ended December 31, 2012 were $46.5 million and 28.8%, respectively, compared to $51.0 million and 44.5%, respectively, for the nine months ended December 31, 2011. This decrease in gross margin percentage was due primarily to warranty adjustments of $9.5 million, extended coverage adjustments of $2.5 million, and net extended coverage claims of $4.3 million in the 2012 period recorded in accordance to CWI's warranty evaluation process, during which engine component failure rates and repair costs are compared to expected costs. Excluding these warranty related adjustments, CWI's gross margin percentage would have been 38.8%. CWI parts gross margin percentage was 41.3% for the twelve months ended December 31, 2012 compared to 37.1% for the nine months ended December 31, 2011.

WWI gross margin increased $23.2 million to $37.8 million, or 14% of revenue from $14.6 million or 18% of revenue. The decrease in gross

margin percentage related primarily to business mix with a high proportion of engine sales at a lower range of engine displacement.

The following table presents gross margin by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Gross Margin

(expressed in millions of U.S. dollars)

	Nine months ended December 31, 2011	% of Revenue	Twelve months ended March 31, 2011	% of Revenue	Change $	Change %
Applied Technologies	$ 11.1	20%	$ 5.3	24%	$ 5.9	112%
On-Road Systems	(0.7)	-3%	(0.6)	-9%	(0.1)	20%
New Markets and Off-Road Systems	—	0%	—	0%	—	0%
Corporate and Technology Investments	10.2	100%	8.1	100%	2.1	25%
CWI	60.0	43%	44.3	40%	15.7	35%
WWI	14.6	18%	10.0	19%	4.6	49%
Total segment gross margin	$ 95.2	31%	$ 67.1	33%	$ 28.1	42%
Less: Equity investees gross margin	$ 74.6	33%	$ 54.3	33%	20.3	37%
Total consolidated gross margin	$ 20.6	23%	$ 12.8	35%	$ 7.8	61%

Applied Technologies gross margin increased $5.9 million to $11.1 million, or 20% of revenue, for the nine month period ended December 31, 2011 compared to $5.3 million, or 24% of revenue for the twelve months ended March 31, 2011. The decrease in gross margin percentage is due primarily to additional cost of sales adjustments arising from inventory fair value adjustments in the quarter immediately subsequent to the acquisition of Emer.

On-Road Systems gross margin decreased $0.1 million to negative $0.7 million, or negative 3% of revenue for the nine months ended December 31, 2011 from negative $0.6 million, or negative 9% of revenue for the twelve months ended March 31, 2011. The negative gross margin percentages relate to launch customer pricing on the 15L product, and materials variance on certain shipments during the nine month period ended December 31, 2011 while in the twelve month period ended March 31, 2011, the negative gross margin percentage was driven by campaign accruals relating to the 15L product.

CWI gross margin increased $15.7 million to $60.0 million, or 43% of revenue from $44.3 million or 40% of revenue. CWI product gross margin and product gross margin percentage for the nine months ended December 31, 2011 were $51.0 million and 44.5%, respectively, compared to $33.7 million and 39.9%, respectively, for the twelve months ended March 31, 2011. This increase in gross margin percentage was due primarily to a reduction in warranty accrual rates compared to the prior year period driven by improved product reliability and product mix. CWI parts gross margin percentage remained consistent at 37.1% for the nine months ended December 31, 2011 compared to 39.6% for the twelve months ended March 31, 2011.

WWI gross margin increased $4.6 million to $14.6 million, or 18% of revenue from $10.0 million or 19% of revenue. The decrease in gross margin percentage related primarily to business mix as gross margin varies depending on size and horsepower rating of engines sold.

Research and Development Expenses

The following table presents details of R&D expense by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Research and Development

(expressed in millions of U.S. dollars)

	Twelve months ended December 31,	Nine months ended December 31,	Change

	2012	2011	Change $	Change %
Applied Technologies	$ 3.1	$ 2.5	$ 0.6	24%
On-Road Systems	25.3	16.8	8.5	51%
New Markets and Off-Road Systems	2.8	1.3	1.6	124%
Corporate and Technology Investments	42.0	16.0	25.9	162%
Total research and development	$ 73.2	$ 36.6	$ 36.6	100%

Research and development expenses, net of program funding, for the twelve months ended December 31, 2012, increased $36.6 million to $73.2 million compared to $36.6 million for the nine months ended December 31, 2011. Applied Technologies research and development expenses increased $0.6 million primarily due to the consolidation of Emer for twelve months compared with six months in the comparative period. On-Road Systems research and development expenses increased $8.5 million primarily in relation to efforts to expand product offerings to OEMs to include the launch of the F-250/F-350 bi-fuel super duty pick-up truck and from the recording expenses relating to our operation in Sweden relating to Volvo bi-fuel cars for twelve months compared with two months in the comparative period. Corporate research and development expenses increased $25.9 million from $16.0 million to $42.0 million driven by increases in investments under our development agreements and new programs.

The following table presents details of R&D expense by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Research and Development

(expressed in millions of U.S. dollars)

	Nine months ended December 31, 2011	Twelve months ended March 31, 2011	Change $	Change %
Applied Technologies	$ 2.5	$ 1.0	$ 1.4	142%
On-Road Systems	16.8	12.5	4.4	35%
New Markets and Off-Road Systems	1.3	0.3	1.0	354%
Corporate and Technology Investments	16.0	10.9	5.2	48%
Total research and development	$ 36.6	$ 24.6	$ 12.0	49%

Research and development expenses, net of program funding, for the nine months ended December 31, 2011, increased $12.0 million, and 49%, to $36.6 million compared to $24.6 million for the twelve months ended March 31, 2011. The increase related to primarily to product development costs incurred in the On-Road Systems related to the launch of the F-250/F-350 bi-fuel super duty pick-up truck of $7.7 million offset by lower ongoing product support costs related to the 15L product due to the nine month period ended December 31, 2011 being compared against the twelve month period ended March 31, 2011. The increase in Corporate research and development expenses of $5.2 million related to higher costs incurred under our development agreements with an increased level of activity.

General and Administrative Expenses

The following table presents details of G&A expense by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

General and Administrative

(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Change $	Change %
Applied Technologies	$ 7.9	$ 5.5	$ 2.4	45%
On-Road Systems	9.8	3.8	5.9	156%
New Markets and Off-Road Systems	1.0	—	1.0	n/a
Corporate and Technology Investments	26.1	13.4	12.7	94%
Total general and administrative	$ 44.8	$ 22.7	$ 22.1	97%

General and administrative expenses increased $22.0 million for the year ended December 31, 2012 from $22.7 million for the nine month period ended December 31, 2011 to $44.8 million for the year ended December 31, 2012. Applied Technologies general and administrative expenses increased $2.4 million due to the acquisition of Emer in July 2011. On-Road Systems general and administrative expenses increased $5.9 million due to the additional three months in the current period versus the comparative period, an increase in compensation due to headcount ramp up to support the business and higher facilities and office expenses related to the launch of our Detroit and Kentucky facilities supporting the F-250/F-350 development and advanced engineering development of our light duty vehicles, and the costs related to running our Sweden operations for a full year versus two months in the comparative period. Off-Road Systems had an increase from $0 to $1.0 million as there was limited activity other than sales and marketing activity in the comparative period. Corporate general and administrative expenses increased $12.7 million primarily due to an increase in salaries and benefits of $7.7 million related to higher headcount to support new programs and global market development efforts, higher professional services and facilities costs of $3.7 million and by the additional three months in comparing the current twelve month period to the prior nine month period.

The following table presents details of G&A expense by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

General and Administrative

(expressed in millions of U.S. dollars)

	Nine months ended December 31, 2011	Twelve months ended March 31, 2011	Change $	Change %
Applied Technologies	$ 5.5	$ 2.2	$ 3.3	152%
On-Road Systems	3.8	1.3	2.5	196%
New Markets and Off-Road Systems	—	—	—	n/a
Corporate and Technology Investments	13.4	11.5	1.9	16%
Total general and administrative	$ 22.7	$ 15.0	$ 7.7	51%

General and administrative expenses increased $7.7 million, and 51%, to $22.7 million for the nine month period ended December 31, 2011 from $15.0 million for the twelve month period ended March 31, 2011. Applied Technologies general and administrative expenses increased $3.3 million due to the July 1, 2011 acquisition of Emer. On-Road Systems general and administrative expenses increased $2.5 million due to expenses associated with our operations in Sweden and higher costs related to support of the 15L program. Corporate general and administrative costs increased by $1.9 million primarily due to an increase salaries and benefits related to headcount to support new programs and global market development efforts.

Sales and Marketing Expenses

The following table presents details of S&M expense by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Sales and Marketing

(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Change $	Change %
Applied Technologies	$ 3.5	$ 1.8	$ 1.7	95%
On-Road Systems	12.8	7.8	5.0	65%
New Markets and Off-Road Systems	8.5	1.4	7.0	489%
Corporate and Technology Investments	5.4	4.3	1.0	24%
Total sales and marketing	$ 30.1	$ 15.3	$ 14.8	97%

Sales and marketing expenses increased $14.8 million, and 97%, from $15.3 million for the year ended December 31, 2012 to $30.1 million for the nine month period ended December 31, 2011. Applied Technologies sales and marketing expenses increased $1.7 million due to the acquisition of Emer, which resulting in twelve months of expenses in 2012 compared with six months of expenses in the comparative period, as

the acquisition occurred on July 1, 2011. On-Road Systems sales and marketing expenses increased as a result of the launch of the F-Series super duty products and sales and marketing costs related to the Volvo V-70 bi-fuel wagon. Field support expenses and sales and marketing costs related to the 15L also increased by $2.9 million compared with the prior period due to higher volumes, more units in the field and the comparison of a twelve month period to a nine month period. Off-Road Systems sales and marketing expenses increased $7.0 million as a result of market development initiatives for Off-Road applications and increased sales and marketing effort and OEM activities in China. Corporate sales and marketing expenses increased primarily due to the comparison of a twelve month current period against a nine month prior period.

The following table presents details of S&M expense by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Sales and Marketing

(expressed in millions of U.S. dollars)

	Nine months ended December 31, 2011	Twelve months ended March 31, 2011	Change $	Change %
Applied Technologies	$ 1.8	$ 0.8	$ 1.0	114%
On-Road Systems	7.8	7.8	0.0	0%
New Markets and Off-Road Systems	1.4	1.1	0.3	26%
Corporate and Technology Investments	4.3	4.3	0.0	1%
Total sales and marketing	$ 15.3	$ 14.0	$ 1.3	9%

Sales and marketing expenses increased $1.3 million, and 9%, to $15.3 million for the nine month period ended December 31, 2011 from $14.0 million for the twelve month period ended March 31, 2011. Applied Technologies sales and marketing expenses increased $1.0 million despite the current period being nine months in duration while the comparative period was twelve months, due to the acquisition of Emer in July 2011. On-Road Systems sales and marketing expenses were $7.8 million in both the current nine month period and the comparative twelve month period as the impact of the shorter period was offset by higher compensation and travel related expenditures with the ramp up of the 15L program and increased field support with more vehicles in service. Off-Road Systems sales and marketing expenses increased $0.3 million due to increasing sales and marketing activities in China. Corporate sales and marketing costs increased due to increases in corporate development activities.

Unconsolidated Joint Venture Operating Expenses

The following table presents details of the operating expense of our joint ventures for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Unconsolidated Joint Venture Operating Expenses

(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Change $	Change %
CWI	$ 26.1	$ 17.2	$ 8.9	52%
WWI	28.1	9.7	18.4	189%
Total JV Operating Expenses	$ 54.2	$ 26.9	27.3	102%

CWI operating expenses were $26.1 million for the twelve months ended December 31, 2012 compared with $17.2 million for the nine months ended December 31, 2011. The $8.9 million increase was primarily due to the additional three months in comparing the current twelve month period to the prior nine month period, higher material and salary related costs associated with product development of $4.9 million, and an increase in policy expense, market development support and travel expenditures.

WWI operating expenses were $28.1 million for the twelve months ended December 31, 2012 compared with $9.7 million for the nine months ended December 31, 2011. The increase relates primarily to higher product development costs and increased salary, facilities and support costs

associated with rapid growth.

The following table presents details of the operating expense of our joint ventures for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Unconsolidated Joint Venture Operating Expenses
(expressed in millions of U.S. dollars)

	Nine months ended December 31, 2011	Twelve months ended March 31, 2011	Change $	Change %
CWI	$ 17.2	$ 18.9	$ (1.7)	-9%
WWI	9.7	6.6	3.1	46%
Total JV Operating Expenses	$ 26.9	$ 25.5	1.4	5%

CWI operating expenses were $17.2 million for the nine months ended December 31, 2011 compared with $18.9 million for the twelve months ended March 31, 2011. The $1.7 million decrease was primarily due to the additional three months in comparing the prior twelve month period to the current nine month period.

WWI operating expenses were $9.7 million for the nine months ended December 31, 2011 compared with $6.6 million for the twelve months ended March 31, 2011. The increase relates primarily to higher product development costs and increased salary, facilities, and support costs associated with rapid growth.

Foreign exchange gains and losses reflected net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly composed of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. In addition, the Company has foreign exchange exposure on its non-OMVL and Emer Euro denominated monetary assets and liabilities including the Euro denominated long-term liability payable to the Sellers of OMVL. For the twelve months ended December 31, 2012, we recognized a net foreign exchange loss of $1.2 million with the movement in the Canadian dollar relative to the U.S. dollar. A majority of the foreign exchange loss for the twelve months ended December 31, 2012 is unrealized.

For the nine months ended December 31, 2011, we recognized a net foreign exchange gain of $0.1 million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange loss of $2.2 million for the twelve months ended March 31, 2011. A majority of the foreign exchange gain for the nine months ended December 31, 2011 was unrealized.

Depreciation and amortization for the twelve months ended December 31, 2012 was $11.4 million compared to $6.2 million for the nine months ended December 31, 2011 and $3.4 million for the twelve months ended March 31, 2011. The increases primarily related to depreciation of property and equipment and intangible assets acquired in the purchase of Emer and AFV.

Income from investment accounted for by the equity method primarily relates to our 50% interest in CWI and our 35% interest in WWI.

Income from investment accounted for by the equity method
(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
CWI - 50% interest	$ 13.2	$ 15.0	$ 6.5
WWI - 35% interest	2.9	1.3	1.0
Other	0.1	0.1	0.1
Income from investment accounted for by the equity method	$ 16.2	$ 16.5	$ 7.6

Interest on long-term debt and amortization of discount expense primarily relates to our CDN$ debentures, amortization of deferred financing charges and interest on our senior financing facilities.

Interest on long-term debt and amortization of discount
(expressed in millions of U.S. dollars)

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
CDN debentures - 9% per annum	$ 3.3	$ 1.9	$ 3.0
Amortization of deferred financing charges	0.4	—	—
Interest expense on senior financing facilities	1.3	0.8	—
Accretion expense relating to the long-term payable	0.3	0.3	0.3
Other	0.1	—	—
Total Interest on long-term debt	$ 5.4	$ 3.0	$ 3.3

Interest on long-term debt for the twelve months ended December 31, 2012 of $5.4 million is higher compared to the nine months ended December 31, 2011 due to the additional 3 months interest expense and amortization of deferred financing costs on the CDN $36.0 million debentures issued on September 30, 2011.

Interest on long-term debt for nine months ended December 31, 2011 of $3.0 million is lower compared to the twelve months ended March 31, 2011 due to the difference of 3 months interest expense offset by the related interest expense on Emer senior financing facilities assumed as part of the acquisition of Emer (note 4(a)).

Income tax expense for the twelve months ended December 31, 2012 was $1.7 million compared to an income tax recovery of $1.2 million for the nine months ended December 31, 2011 and an income tax expense of $0.4 million for the twelve months ended March 31, 2011.

Applied Technologies recorded an income tax expense of $0.8 million for the twelve months ended December 31, 2012 compared to an income tax recovery of $1.8 million for the nine months ended December 31, 2011 and an income tax expense of $0.1 million for the twelve months ended March 31, 2011. Differences were primarily due to higher taxable income in Emer and OMVL in the current year period compared to losses realized by Emer and OMVL in the prior year periods.

Corporate recorded an income tax expense of $1.4 million for the twelve months ended December 31, 2012 compared to an income tax expense of $0.5 million for the nine months ended December 31, 2011 and an income tax expense of $0.3 million for the twelve months ended March 31, 2011, which relates to the withholding taxes on dividends paid by CWI. The dividends paid by CWI during the current year period were greater than then dividends paid in the prior year periods.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at December 31, 2012, our cash, cash equivalents and short-term investment position was $215.9 million, an increase of $148.3 million from $67.6 million at December 31, 2011. Cash and cash equivalents consist of guaranteed investment certificates, term deposits and bankers acceptances with maturities of 90 days or less when acquired. Short-term investments consist of investment grade bankers' acceptances, term deposits and commercial paper. We invest primarily in short-term paper issued by Schedule 1 Canadian banks, R1 high rated corporations and governments.

For the twelve months ended December 31, 2012, our cash used in operations was $85.7 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was $89.1 million. Changes in non-cash working capital resulted in an increase of $3.4 million. The $3.4 million change in working capital was impacted, by increases in warranty liability of $2.0 million, deferred revenue of $3.1

million, inventory of $7.9 million and accounts payable and accrued liabilities of $0.7 million and offset by decrease in prepaid expenses of $0.2 million and accounts receivable of $6.7 million. Cash used in investing activities included purchase of fixed assets of $30.4 million, acquisition of assets of AEC of $1.1 million, purchase of intangible assets of $1.0 million, and net purchase of short-term investments of $22.5 million, loan repayments net of advances of $19.4 million, offset by $22.6 million in dividends received from CWI and $2.5 million repayment on our note receivable. Cash provided by financing activities included $265.4 million, net of share issuance costs, raised in a public share offering, $1.0 million in shares issued for stock option exercises and $1.1 million drawn from our operating lines of credit.

Foreign exchange resulted in a negative adjustment to cash and cash equivalents of $0.1 million as a portion of our cash balances are maintained in Canadian dollars and Euro.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI dividends and borrowings under our credit facility to fund our committed milestones and obligations for our current programs. We will also continue to seek third party and government funding on commercially acceptable terms to offset costs of our investments; however, there are no guarantees that we will be successful in obtaining third party funding on acceptable terms or at all.

On February 27, 2012, the Company issued a total of 6,325,000 Common Shares at a price of $43.25 per share for gross proceeds of $273.6 million. The net proceeds of $265.4 million (net of share issuance costs of $8.1 million) will be used by us to further our business objectives of developing technology and relationships in new and adjacent market opportunities with OEMs focused on industrial and automotive, and On-Road and Off-Road applications and capital expenditures including new test facilities.

Westport's capital requirements will vary depending on a number of factors, including the timing and size of orders for our LNG systems, our ability to successfully launch products on time, our supply chain and manufacturing requirements, our success in executing our business plan, relationships with current and potential strategic partners, commercial sales and margins, product reliability, progress on research and development activities, capital expenditures and working capital requirements. We also continue to review investment and acquisition opportunities on a regular basis for technologies, businesses and markets that would complement our own products or assist us in our commercialization plans. Significant new orders, expanded engine programs, acquisitions or investments could require additional funding. If such additional funding is not available to us, if expected orders do not materialize or are delayed, or if we have significant overspending in our programs, we may be required to delay, reduce or eliminate certain research and development activities, reduce or cancel inventory orders, and possibly forego new program, acquisition or investment opportunities. Any of those circumstances could potentially result in a delay of the commercialization of our products in development and could have an adverse effect on our business, results of operations, liquidity and financial condition.

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

Westport Management's Discussion and Analysis

SHARES OUTSTANDING

For the twelve months ended December 31, 2012, nine months ended December 31, 2011 and twelve months ended March 31, 2011, the weighted average number of shares used in calculating the loss per share was 54,072,513, 47,933,348 and 42,305,889, respectively. During the twelve months ended December 31, 2012, we granted 770,727 stock options and 185,705 share units relating to our long-term incentive programs. The shares, share options and performance share units outstanding and exercisable as at the following dates are shown below:

	December 31, 2012		March 6, 2013	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Shares outstanding	55,294,091		55,307,523	
Share Options				
- Outstanding	996,047	27.78	979,103	27.96
- Exercisable	226,487	8.06	403,647	20.06
Share Units				
- Outstanding	1,095,094	N/A	1,054,604	N/A
- Exercisable	262,615	N/A	262,615	N/A

(weighted average exercise prices are presented in Canadian dollars)

SUMMARY OF QUARTERLY RESULTS AND DISCUSSION OF THE QUARTER ENDED DECEMBER 31, 2012

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

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

Selected Consolidated Quarterly Operations Data (unaudited)

Three months ended	31-Mar-11[1]	30-Jun-11[1]	30-Sep-11[1]	31-Dec-11[1]	31-Mar-12[1]	30-Jun-12[1]	30-Sep-12[1]	31-Dec-12[1]
Units shipped	2	17	85	511	493	232	607	624
(expressed in millions of United States dollars except for per share amounts)								
Product revenue	$ 8.0	$ 12.1	$ 31.0	$ 32.0	$ 35.3	$ 34.3	$ 28.3	$ 31.0
Parts revenue	1.0	0.8	0.5	1.0	0.7	0.7	1.0	1.2
Service and other revenue	4.1	—	0.4	9.8	—	14.1	1.4	7.8
Total revenue	13.1	12.9	31.9	42.9	36.0	49.1	30.7	39.9
Cost of product and parts revenue	6.9	11.7	26.8	28.5	27.1	26.0	22.9	26.5
Gross margin	6.1	1.2	5.1	14.4	8.9	23.1	7.8	13.3
Gross margin percentage	*47%*	*9%*	*16%*	*33%*	*25%*	*47%*	*25%*	*33%*
Net loss for the period	$ (14.4)	$ (18.1)	$ (13.2)	$ (14.5)	$ (22.6)	$ (6.1)	$ (32.5)	$ (37.6)
Loss per share								
Basic	$ (0.31)	$ (0.38)	$ (0.27)	$ (0.30)	$ (0.44)	$ (0.11)	$ (0.59)	$ (0.68)
Diluted [2]	$ (0.31)	$ (0.38)	$ (0.27)	$ (0.30)	$ (0.44)	$ (0.11)	$ (0.59)	$ (0.68)
Income from unconsolidated joint ventures.								
CWI net income attributable to the Company	2.3	2.9	4.7	5.3	4.8	3.6	3.6	1.2
WWI net income attributable to the Company	0.4	0.4	0.4	0.5	0.6	1.1	0.7	0.5

(1) Figures have been restated from those previously presented to reflect the retrospective accounting for its interests in its VIE's on an equity basis.

(2) Fully diluted loss per share is not materially different as the effect of stock options, warrants and restricted and performance share units would be anti-dilutive.

THREE MONTHS ENDED DECEMBER 31, 2012 AND 2011

Our consolidated revenue for the three months ended December 31, 2012 was $39.9 million, a decrease of $3.0 million, or 7.0%, from $42.9 million for the three months ended December 31, 2011. Corporate revenues for the quarter ended December 31, 2012 decreased due to a reduction in service revenue of $2.1 million recorded in the current quarter under our development agreements. On-Road Systems product revenue decreased as 15L unit sales decreased 61 units to 109 units for the quarter ended December 31, 2012 compared to 170 units in the prior year period offset by an increase in revenue from the launch of F-250/F-350 bi-fuel super duty pick-up.

Our consolidated net loss for the three months ended December 31, 2012 was $37.6 million, or a loss of $0.68 per diluted share, compared to a net loss of $14.5 million, or a loss of $0.30 per diluted share, for the three months ended December 31, 2011. The $23.1 million increase in net loss relates primarily to lower On-Road Systems revenue due to a decrease in units sold, lower Corporate service revenue and overall increase in operating expenses in On-Road Systems and Corporate primarily due to increase in investment in new product programs, global market development efforts and new business development.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	48.5	48.5	48.5	—	—	—
Unsecured subordinated debentures (1)	36.2	40.9	2.3	38.6	—	—
Long-term payable (2)	9.4	10.0	10.0	—	—	—
Senior financing (3)	18.8	19.2	3.7	8.6	7.0	—
Senior revolving financing (4)	13.2	13.2	13.2	—	—	—
Other bank financing	1.2	1.2	0.4	0.3	0.3	0.1
Other long-term debt	1.5	1.5	0.8	0.7	0.0	—
Operating lease commitments	—	19.4	4.8	8.0	5.5	1.1
Royalty payments (5)	—	22.9	1.4	21.5	—	—
	$ 128.8	$ 176.9	$ 85.1	$ 77.7	$ 12.8	$ 1.3

(1) Includes interest at 9%.
(2) Includes interest at 3.72%.
(3) Includes interest at 2.0%, the rate in effect at December 31, 2012.
(4) Includes interest at 2.3%, the rate in effect at December 31, 2012.
(5) From fiscal 2011 to 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of $1,357 (CDN$1,350) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds CDN$13,500 in any aforementioned fiscal year, up to a maximum of $28,333 (CDN$28,189). The Company has assumed the minimum required payments.

Contractual Commitments

Capital lease obligations related primarily to office equipment and machinery, have initial terms of three to five years and have interest rates ranging from 3.07% to 7.32%. Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment.

Short-term Debt

The senior financing agreement of $18.8 million bears interest at the 6-month Euribor plus 1.7% with quarterly principal and interest payments. The senior revolving facility of $13.2 million bears interest at the 6-month Euribor plus 2.20% and will be repaid on September 30, 2017.

On July 2, 2010, we acquired OMVL and portion of the purchase price amounting to $10.0 million (€7.6 million) is payable on the third anniversary of the closing date. This amount is non-interest bearing and was discounted at market rates of interest on the acquisition date. The amount is guaranteed to the sellers of OMVL by Banca Intesa S.p.A with a cross guarantee from the Bank of Montreal with a letter of credit for $10.6 million (CDN$10.6 million).

Subordinated Debenture Notes

On September 23, 2011, we raised CDN $36.0 million through the issuance of debentures. The debentures are unsecured and subordinated to senior indebtedness, mature on September 22, 2014 and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term, which commenced on March 15, 2012. We paid to Macquarie Private Wealth Inc. a cash commission equal to 3.85% of the gross proceeds of the offering.

Royalty Payments

Royalty payments include annual royalties payable to ITO as outlined in "Government Funding" below.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Government Funding

We are continually exploring strategic opportunities to work with governments to provide them with alternative fuel solutions. As a result of our government partnerships, we recognized $0.8 million in government funding during the twelve months ended December 31, 2012 compared with $0.4 million for the nine months ended December 31, 2011 and $1.0 million for the twelve months ended March 31, 2011.

Under certain repayment terms, we are obligated to repay royalties as follows:

AGREEMENT	DESCRIPTION	ROYALTIES	TERM
INDUSTRIAL TECHNOLOGIES OFFICE (FORMERLY TECHNOLOGY PARTNERSHIPS CANADA)	Fund 30% of the eligible costs of, among other research projects, the adaptation of Westport's technology to diesel engines, up to $18.9 million CDN.	Annual royalties equal to the greater of $1.35 million CDN or 0.33% of annual gross revenues from all sources, provided that gross revenues exceed $13.5 million CDN.	Fiscal 2010 to fiscal 2015, inclusive; royalty period may be extended until the earlier of March 31, 2018 or until cumulative royalties total $28.2 million CDN.
DEPARTMENT OF NATURAL RESOURCES CANADA	Funded $1.0 million CDN for demonstration of a low emissions natural gas power generator in Grande Prairie, Alberta.	1% of revenues from future sales of natural gas engines for power generators.	Earlier of 10 years from project completion date (August 30, 2004), or when cumulative royalties total $1.0 million CDN.

For the year ended December 31, 2012, royalties of $1.4 million (CDN $1.4 million) relating to ITO were paid and an additional $1.4 million (CDN $1.4 million) was accrued during the year. Cumulative royalties paid relating to ITO as at December 31, 2012 total $5.4 million CDN.

BUSINESS RISKS AND UNCERTAINTIES

An investment in our business involves risk and readers should carefully consider the risks described in our Annual Information Form 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 Annual Information Form, 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 Annual Information Form 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 Annual Information Form for the year ended December 31, 2012 under the heading "Risk Factors" and is available on SEDAR at www.sedar.com.

NON-GAAP MEASURES

We use certain non-GAAP measures to assist in assessing our financial performance and liquidity. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures and reconciliations to financial statement line items for the periods indicated are as follows:

Cash flows from operations before changes in non-cash working capital

(expressed in millions of U.S. dollars)	Twelve Months ended December 31 2012	Nine Months ended December 31 2011	Twelve Months ended March 31 2011
Cash flow from operations			
Net loss for the year	$ (98.8)	$ (45.8)	$ (42.1)
Items not involving cash:			
Depreciation and amortization	11.4	6.2	3.4
Stock-based compensation expense	12.5	6.2	4.9
Deferred income tax (recovery) expense	(0.4)	(2.2)	0.5
Income from investment accounted for by the equity method	(16.2)	(16.5)	(7.6)
Accretion of long-term debt	2.1	1.0	2.0
Other	0.3	0.6	0.1
Cash flows from operations before changes in non-cash operating working capital	$ (89.1)	$ (50.5)	$ (38.8)

Exhibit 99.4

CERTIFICATION

I, David R. Demers, certify that:

1 I have reviewed this annual report on Form 40-F of Westport Innovations Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-5(f) for the issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 7, 2013

By: /s/ David R. Demers
Name: David R. Demers
Title: Chief Executive Officer

Exhibit 99.5

CERTIFICATION

I, William Larkin, certify that:

1 I have reviewed this annual report on Form 40-F of Westport Innovations Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-5(f) for the issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 7, 2013

By: /s/ William Larkin
Name: William Larkin
Title: Chief Financial Officer

Exhibit 99.6

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Westport Innovations Inc. (the "Company") on Form 40-F for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Demers, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 7, 2013

/s/ David R. Demers

David R. Demers
Chief Executive Officer

This certification accompanies this annual report on Form 40-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 99.7

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Westport Innovations Inc. (the "Company") on Form 40-F for the period ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Larkin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 7, 2013

/s/ William Larkin

William Larkin
Chief Financial Officer

This certification accompanies this annual report on Form 40-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 99.8



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Canada

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Consent of Independent Registered Public Accounting Firm

To the Board of Directors of Westport Innovations Inc.:

We consent to the use of our reports, each dated March 6, 2013, with respect to the consolidated financial statements of Westport Innovations Inc. as at December 31, 2012 and December 31, 2011 and for the year ended December 31, 2012, the nine month period ended December 31, 2011 and the year ended March 31, 2011 and the effectiveness of internal control over financial reporting as at December 31, 2012 which appear in this annual report on Form 40-F.

We also consent to the incorporation by reference of such reports in the registration statements (No. 333-168847) on Form S-8 and (No. 333-178714) on Form F-10 of the Company.

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

Chartered Accountants

March 7, 2013
Vancouver, Canada

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.