

Financial Report to Shareholders

For the three and six months ended
June 30, 2012 and 2011

(Q2 FY2012)

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") covers the interim consolidated financial statements for Westport Innovations Inc. ("Westport", the "Company", "we", "us", "our") for the three and six months ended June 30, 2012 and provides an update to our annual MD&A dated February 28, 2012 for the fiscal year ended December 31, 2011. This information 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, 2011. Our interim 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 August 2, 2012.

Additional information relating to Westport, including our Annual Information Form and Form 40-F, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov, respectively. All financial information is reported in U.S. dollars unless otherwise noted.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the 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, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, and timing of when we will adopt or meet certain accounting and regulatory standards. 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 National Instrument 51-102.

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.

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.

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. 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 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 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 leading diesel engine, truck and automotive original equipment manufacturers ("OEMs") to develop, manufacture and distribute our engines to a diverse group of global truck, bus and automotive 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, including light-duty, medium- to heavy-duty, and heavy-duty, as follows:

- Westport Light-Duty ("Westport LD"), which is currently composed of Westport LD, OMVL S.p.A. ("OMVL") and, as of July 1 and October 11, 2011, Emer S.p.A. ("Emer") and Alternative Fuel

Vehicle Sweden AB ("AFV"), respectively, designs, produces and sells high-performance alternative fuel engines, systems and components targeting the high volume light-duty vehicle and engine segments for automotive, industrial and stationary markets. Westport LD offers advanced technology natural gas and liquefied petroleum gas ("LPG") engines and fuel systems for the OEM light-duty automotive, industrial and stationary markets. In North America, Westport LD offers fully-integrated, cost-effective solutions available in light-duty vehicles with the Westport WiNG™ Power System—an advanced, integrated, bi-fuel (natural gas / gasoline) system for fleet customers of commercial and passenger vehicles, initially launched on the Ford F-250 and F-350 platforms. The North American business is supported through Westport LD Michigan Technical Center. In Sweden, Westport LD offers natural gas fuel systems engineered and installed by AFV for the Volvo V70 bi-fuel wagon. Westport LD also offers OMVL and Emer brand kits and components for conversion of engines from gasoline, or petrol, to compressed natural gas ("CNG") or LPG. Westport LD leverages the advanced engineering of the Company and the precision high volume manufacturing of our Italian operations OMVL and Emer. For industrial applications, Westport LD offers complete engine solutions to industrial vehicle OEMs and stationary S-2 packagers globally. The Juniper brand engine provides robust performance for material handling, municipal, construction, and other harsh and challenging applications. Westport LD currently supplies Clark Material Handling with Juniper 2.4-litre CNG and LPG industrial engines based on the Hyundai platform for Clark forklifts sold globally. The Juniper 2.4-litre engine is also available for stationary applications such as engine power units for oilfield applications, where Westport LD sells to Cummins Western Canada, and agricultural installations for electrical power generation.

- Cummins Westport Inc ("CWI"), our 50:50 joint venture with Cummins, Inc., ("Cummins"), serves the medium- to heavy-duty engine markets. CWI's 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 Heavy-Duty ("Westport HD") serves the heavy-duty engines markets and currently offers a 15-litre natural gas engine for the heavy-duty trucking market in North America. Westport HD applies our

proprietary development platform and is 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 HD 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 HD system is our proprietary high pressure direct injection ("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.

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 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. (25% interest), to focus on the Chinese market. WWI develops, manufactures and sells advanced, alternative fuel engines and parts for use in automobiles, buses, heavy-duty trucks, marine applications and power generation. WWI occupies a 20,000 square metre site in China with an annual production capacity of 40,000 engines. The current engines are widely used in city bus, coach and heavy-duty truck applications in China or exported to other regions globally. WWI is integrating Westport HPDI technology into Weichai's heavy-duty engine platform for future products seeking to deliver best-in-class solutions in a rapidly developing market.

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 Inc. 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.

For the three months ended June 30, 2012, our consolidated revenues were \$106.1 million compared to \$44.9 million in the prior year period, an increase of \$61.2 million, or 136.3%. This increase in revenue was driven by an increase in Westport LD revenue of \$19.8 million as we began consolidating Emer and AFV as of July 2011 and October 2011, respectively, and CWI, Westport HD and Corporate revenues increased \$25.1 million, \$8.3 million and \$8.0 million, respectively.

For the six months ended June 30, 2012, our consolidated revenues were \$194.7 million compared to \$83.0 million in the prior year period, an increase of \$111.7 million, or 134.6%. This increase in revenue was driven by an increase in Westport LD revenue of \$39.0 million as we began consolidating Emer and AFV as of July 2011 and October 2011, respectively, and CWI, Westport HD and Corporate revenues increased \$52.7 million, \$12.0 million and \$8.0 million, respectively.

Consolidated net loss attributable to the Company for the three months ended June 30, 2012 was \$6.1 million, or \$0.11 loss per diluted share, compared to an \$18.1 million net loss, or \$0.38 loss per diluted share, for the three months ended June 30, 2011. The \$12.0 million decrease in net loss was primarily due to a decrease in net loss in Westport HD of \$2.7 million, corporate net loss of \$9.1 million, and an increase in our share of CWI net income of \$0.7 million, partially offset by an increase in net loss in Westport LD of \$0.5 million.

For the six months ended June 30, 2012 and 2011, consolidated net loss attributable to the Company was \$28.7 million, or a loss of \$0.54 per diluted share, and \$32.5 million, or a loss of \$0.69 per diluted share, respectively. The \$3.8 million decrease in net loss was driven by a decrease in corporate net loss of \$7.2 million, and an increase in our share of CWI net income of \$3.2 million, partially offset by an increase in net loss in Westport LD of \$3.3 million and Westport HD of \$3.3 million.

As of June 30, 2012, our cash, cash equivalents and short-term investments balance was \$307.2 million compared to \$85.7 million at December 31, 2011. For the six months ended June 30, 2012, cash used in operations was \$21.8 million with \$12.6 million used for operating purposes and a \$9.2 million used for working capital. We also paid cash of \$1.1 million for our acquisition of certain assets of AEC, purchased \$13.6 million of property and equipment, purchased \$1.0 million in intangible assets, advanced loans of \$2.6 million to a joint venture partner, and repaid a portion of our long-term debt within Emer totaling \$6.4 million. We also received a repayment on our note receivable of \$2.5 million, drew down our lines of credit for \$1.3 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 \$0.9 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 \$2.1 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 fiscal year ended December 31, 2011 annual consolidated financial statements. We have identified several policies as critical to the measurement of 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 a 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 fiscal year ended December 31, 2011 annual consolidated financial statements and our 2011 Management and Discussion Analysis. Actual amounts may vary significantly from estimates used.

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 wording 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 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. 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

During the six month period ended June 30, 2012, there were no changes to our internal control over financial reporting that could materially impact the consolidated financial statements.

FINANCIAL OVERVIEW**RESULTS FROM OPERATIONS – for the three and six months ended June 30, 2012**

Product revenue for the three months ended June 30, 2012 increased \$44.6 million, or 119.9%, to \$81.8 million from \$37.2 million for the three months ended June 30, 2011. CWI product revenue for the three months ended June 30, 2012 increased \$22.6 million, or 90.0%, to \$47.7 million on sales of 1,972 units compared to \$25.1 million and 1,056 units for the three months ended June 30, 2011, which was primarily attributed to higher sales volume of ISL G engines in the Americas and sales of engines in Latin America. Westport HD revenues for the three months ended June 30, 2012 increased \$2.4 million, or 184.6%, to \$3.7 million on shipments of 75 HD systems compared to \$1.3 million and 17 HD systems in the prior year period. Westport LD revenues for the three months ended June 30, 2012 increased \$19.6 million, or 181.5%, to \$30.4 million compared to \$10.8 million for the three months ended June 30, 2011 as we began consolidating \$19.0 million in Emer and \$1.5 million in AFV product revenue as of July 2011 and October 2011, respectively, and an increase in industrial revenue of \$0.6 million, partially offset by a decrease in product revenue in OMVL of \$1.5 million due to the decline in foreign exchange of the Euro relative to the US dollar and non-recurring business with certain customers.

For the six months ended June 30, 2012 and 2011, product revenue was \$194.7 million and \$83.0 million, respectively, representing an increase of \$111.7 million or 134.6%. CWI product revenue for the six months ended June 30, 2012 increased 27.6% to \$91.2 million on sales of 3,915 units compared to \$43.5 million and 1,829 units in the prior year period, which was primarily attributed to higher sales volume of ISL G engines in the Americas and sales of engines in Asia and Latin America. Westport HD revenues for the six months ended June 30, 2012 increased 552.6% to \$12.4 million on shipments of 226 HD systems compared to \$1.9 million in the prior year period, which consisted of 19 HD systems and 4 demonstration trucks. Westport LD revenues for the six months ended June 30, 2012 increased 213.1% to \$57.3 million compared to \$18.3 million in the prior year period as we began consolidating product revenue of \$35.5 million in Emer and \$3.9 million in AFV in the current year period, and an increase in industrial revenue of \$1.0 million offset by a decrease in product revenue in OMVL of \$1.8 million due to the decline in foreign exchange of the Euro relative to the US dollar and non-recurring business with certain customers.

Product Revenue by Geographic Region

(as a percentage of revenue)

	Three months		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Americas	65%	62%	58%	59%
Asia	10%	16%	17%	17%
Rest of the world	25%	22%	25%	23%

Parts revenue for the three months ended June 30, 2012 was \$10.2 million compared to \$7.7 million for the three months ended June 30, 2011, an increase of \$2.5 million, or 32.5%. CWI parts revenue for the three months ended June 30, 2012 was \$9.3 million compared with \$6.9 million for the three months end June 30, 2011, an increase of \$2.4 million or 34.8%. Westport HD parts revenue for the three months ended June 30, 2012 was \$0.6 million compared with \$0.8 million for the three months end June 30, 2011, a decrease of \$0.2 million. Westport LD parts revenue for the three months ended June 30, 2012 was \$0.3 million compared with nil for the three months end June 30, 2011 due to an increase in part sales in Australia. The number of engines in the field, their age and their reliability all impacted parts revenue each period.

Parts revenue for the six months ended June 30, 2012 was \$20.0 million compared to \$15.3 million in the prior year period, an increase of \$4.7 million, or 30.7%. CWI parts revenue for the six months ended June 30, 2012 was \$18.4 million compared with \$13.6 million in prior year period, an increase of \$4.8 million or 35.3%. Westport HD parts revenue for the six months ended June 30, 2012 was \$1.2 million compared with \$1.7 million in prior year period. Westport LD parts revenue for the six months ended June 30, 2012 was \$0.4 million compared with nil in prior year period due to an increase in part sales in Australia.

Service and other revenue for the three and six months ended June 30, 2012 was \$14.1 million compared to nil and \$4.1 million for the three and six months ended June 30, 2011, respectively. 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 related to our recently announced agreement with Caterpillar Inc. We recognized \$6.1 million under our development agreements during the three months ended June 30, 2012 compared to nil for the three months ended June 30, 2011. This change was due to the timing of delivering certain milestones during the periods under our development agreements. All costs associated with our development agreements were recorded as research and development expenses in the period incurred in the consolidated statement of operations.

Gross margin increased \$25.3 million to \$40.5 million, or 38.2% of total revenue, for the three months ended June 30, 2012 compared to \$15.2 million, or 33.9% of total revenue, for the three months ended June 30, 2011. CWI gross margin and gross margin percentage for the three months ended June 30, 2012 were \$17.4 million and 30.6%, respectively, compared to \$14.0 million and 43.9%, respectively, for the three months ended June 30, 2011. This decrease in gross margin percentage was due primarily to a warranty adjustment of \$2.1 million, extended coverage adjustment of \$1.6 million and \$1.1 million in extended coverage claims in the current year period, partially offset by an increase in parts margin percentage due to the mix of parts sold.

Westport HD gross margin (including product, parts and service) and gross margin percentage for the three months ended June 30, 2012 were \$6.4 million and 61.3%, respectively, compared to negative \$1.0 million and negative 51.4%, respectively, for the three months ended June 30, 2011. The increase in gross margin and gross margin percentage was due to the recognition of \$6.1 million under our development agreements in the current year period compared to nil in the prior year period as milestones were achieved during the current year period, excluding these payments Westport HD gross margin percentage was 6.3%. An increase in units sold during the current year period contributed to the higher gross margin while the prior year period also included a campaign expense of \$0.8 million, which contributed to the prior period's negative gross margin and gross margin percentage.

Westport LD gross margin and gross margin percentage for the three months ended June 30, 2012 were \$8.7 million and 28.4%, respectively, compared to \$2.2 million and 20.6%, respectively, for the three months ended June 30, 2011. The increase in gross margin and gross margin percentage is primarily due to the consolidation of Emer since July 2011.

Corporate gross margin and gross margin percentage for the three and six months ended June 30, 2012 were \$8.0 million and 100.0%, respectively, compared to nil for the three and six months ended June 30, 2011. The gross margin represents the recognition of a license fee of \$8.0 million from Caterpillar Inc. in the current year period.

Gross margin and gross margin percentage for the six month period ended June 30, 2012 were \$69.0 million and 35.4%, compared to \$28.8 million and 36.4% for the six month period ended June 30, 2011, respectively. CWI gross margin and gross margin percentage for the six months ended June 30, 2012 were \$37.1 million and 33.8%, respectively, compared to \$25.5 million and 44.7%, respectively, for the six months ended June 30, 2011. The decrease in gross margin percentage was primarily due to a warranty adjustment of \$3.0 million, extended coverage adjustment of \$2.9 million, and \$3.2 million in extended coverage claims and mix of sales. Westport HD gross margin (including product, parts, and service and other) and gross margin percentage for the six months ended June 30, 2012 were \$7.8 million and 39.8%, respectively, compared to \$3.3 million and 43.9%, respectively, for the six months ended June 30, 2011. The increase in margin was due to \$6.1 million in service and other revenue recognized in the current year period compared to \$4.1 million in the prior year period and an increase in units sold in the current year period. Westport LD gross margin and gross margin percentage for the six months ended June 30, 2012 were \$16.1 million and 28.1%, respectively, compared to \$4.0 million and

21.6%, respectively, for the six months ended June 30, 2011. The increase is primarily due to the consolidation of Emer since July 2011.

Research and development expenses, net of program funding, for the three months ended June 30, 2012, increased \$9.1 million to \$20.5 million, which represents 19.4% of revenues, compared to \$11.4 million or 25.3% of revenues, for the three months ended June 30, 2011. CWI research and development expenses were \$2.4 million for the three months ended June 30, 2012 compared with \$1.7 million for the three months ended June 30, 2011. The \$0.7 million increase was primarily due to a decrease in government funding of \$0.4 million and an increase in costs to support new product development programs of \$0.8 million. This was partially offset by a decrease in technology royalty fee of \$0.5 million, which the Company is no longer required to pay. Westport HD research and development expenses, which include costs incurred under the our development agreements, were \$8.4 million for the three months ended June 30, 2012 compared with \$6.1 million for the three months ended June 30, 2011. The \$2.3 million increase was primarily as a result of an increase in costs incurred under our development agreements in the current year period of \$4.0 million of which \$3.8 million was reimbursed in the current quarter, compared with \$2.6 million in the prior year period, and \$0.9 million in costs to support new product development programs. Westport LD research and development expenses were \$3.5 million for the three months ended June 30, 2012 compared with \$1.6 million for the three months ended June 30, 2011. The \$1.9 million increase was primarily related to efforts to expand product offerings to light-duty automotive OEMs of \$0.7 million and consolidation of Emer and AFV in the current year period of \$1.2 million. Corporate research and development expenses were \$6.2 million for the three months ended June 30, 2012 compared with \$2.0 million for the three months ended June 30, 2011. The increase in corporate research and development expenses were primarily due to investments in developing new product development programs.

For the six months ended June 30, 2012, research and development expenses increased \$15.4 million to \$36.7 million, which represents 18.9% of revenue, compared to \$21.3 million or 25.7% of revenue in the prior year period. CWI research and development expenses increased \$0.3 million primarily due to an increase in costs to support product development programs of \$1.3 million partially offset by a decrease in technology royalty fee of \$1.0 million. Westport HD research and development expenses, which include costs incurred under our development agreements, were \$14.7 million compared with \$10.4 million in prior year period primarily as a result of an increase in costs incurred under our development agreements in the current year of \$6.8 million compared with \$3.0 million in the prior year period. Westport LD research and development expenses were \$8.3 million compared with \$2.6 million in the prior year period primarily related to efforts to expand product offerings to light-duty automotive OEMs to include the launch of the Westport WiNG Power System and consolidation of Emer in

the current year period. Corporate research and development expenses increased \$5.1 million to \$9.3 million and were primarily due to investments in developing new product development programs.

Research and Development Expenses				
<i>(expressed in thousands of United States dollars)</i>				
	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Research and development expenses	\$ 21,253	\$ 12,775	\$ 38,539	\$ 23,247
Program funding	(710)	(1,425)	(1,831)	(1,943)
Research and development, net	<u>\$ 20,543</u>	<u>\$ 11,350</u>	<u>\$ 36,708</u>	<u>\$ 21,304</u>

General and administrative expenses for the three months ended June 30, 2012 increased \$2.6 million to \$9.1 million compared to \$6.5 million for the three months ended June 30, 2011. CWI general and administrative expenses were \$0.4 million for the three months ended June 30, 2012 compared with \$0.3 million for the three months ended June 30, 2011. Westport HD general and administrative expenses were \$0.8 million for the three months ended June 30, 2012 compared with \$0.2 million for the three months ended June 30, 2011. The \$0.6 million increase was primarily related to increased headcount to support this growing business. Westport LD general and administrative expenses for the three months ended June 30, 2012 were \$3.2 million compared to \$1.0 million for the three months ended June 30, 2011. The \$2.2 million increase was primarily due to costs related to an increase in headcount of \$0.7 million and the consolidation of Emer and AFV of \$1.5 million in the current year period. Corporate general and administrative expenses were \$4.6 million for the three months ended June 30, 2012 compared with \$5.1 million for the three months ended June 30, 2011.

For the six months ended June 30, 2012, general and administrative expenses increased \$8.5 million from \$12.5 million in the prior year period to \$21.0 million in the current year period. CWI general and administrative expenses increased \$0.3 million primarily due to higher professional services and compensation costs. Westport HD general and administrative expenses increased \$0.9 million to \$1.5 million in the current year period due to increased headcount to support this growing business and an increase in compensation expense. Westport LD general and administrative expenses increased \$4.4 million to \$6.4 million primarily due to costs of \$1.6 million related to our new Detroit facility and the consolidation of Emer and AFV of \$2.8 million in the current year period. Corporate general and administrative expenses increased \$2.9 million to \$12.3 million primarily due to increase in professional services.

Sales and marketing expenses for the three months ended June 30, 2012 increased \$3.1 million to \$10.4 million compared to \$7.3 million for the three months ended June 30, 2011. CWI's sales and marketing expenses were \$3.0 million for the three months ended June 30, 2012 compared to \$2.7 million in for the three months ended June 30, 2011. The \$0.3 million increase in CWI sales and marketing expense was related primarily to an increase in market development and support expenditures. Westport HD sales and marketing expenses were \$4.9 million for the three months ended June 30, 2012 compared with \$3.0 million for the three months ended June 30, 2011. The \$1.9 million increase was primarily due to an increase in compensation and travel costs. Westport LD sales and marketing expenses were \$1.7 million for the three months ended June 30, 2012 compared with \$0.5 million for the three months ended June 30, 2011. The \$1.2 million increase was primarily related to OEM and market development initiatives and the consolidation of Emer and AFV in the current year period. Corporate sales and marketing expenses were \$0.8 million for the three months ended June 30, 2012 compared to \$1.0 million for the three months ended June 30, 2011.

For the six month period ended June 30, 2012, sales and marketing expenses increased by \$4.9 million from \$14.1 million in the prior year period to \$19.0 million in the current year. CWI sales and marketing expenses increased by \$0.8 million to \$5.5 million in the current year period primarily due to an increase in market development and support expenditures. Westport HD expenses increased \$2.6 million to \$9.2 million dollars in the current year period due to an increase in compensation costs and travel costs of \$2.6 million. Westport LD expenses increased \$1.9 million to \$3.0 million in the current year period and were related to OEM and market development initiatives and the consolidation of Emer and AFV in the current year period. Corporate expenses decreased \$0.5 million to \$1.3 million in the current year period.

Foreign exchange gains and losses reflected net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our non-CWI net U.S. dollar denominated monetary assets and liabilities 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 Societa Italiana Tecnomeccaica La Precisa S.p.A and SIT International B.V., ("the Sellers") of OMVL. For the three months ended June 30, 2012, we recognized a net foreign exchange gain of \$4.9 million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange loss of \$0.1 million for the three months ended June 30, 2011. For the six months ended June 30, 2012, we recognized a net foreign exchange gain of \$4.5 million compared to a net foreign exchange gain of \$3.3 million in the comparative period.

A majority of the foreign exchange gain and loss for the three and six months ended June 30, 2012 and 2011 is unrealized.

Depreciation and amortization for the three and six months ended June 30, 2012 was \$2.8 million and \$5.3 million compared to \$0.9 million and \$1.9 million, respectively, for the same periods in the prior year. The increase primarily related to depreciation of property and equipment and intangible assets acquired in the purchase of Emer and AFV.

Income from investments accounted for by the equity method for the three months ended June 30, 2012 was \$1.0 million and relates to our 35% interest in WWI of \$1.1 million and a loss in our 50% interest in Minda-Emer Technologies Ltd. of \$0.1 million. For the six months ended June 30, 2012, we recorded income from WWI of \$1.7 million and \$0.1 in Minder-Emer Technologies Ltd. For the three and six months ended June 30, 2011, we recorded income from WWI of \$0.4 million and \$0.8 million, respectively.

Interest on long-term debt and amortization of discount expense for the three months ended June 30, 2012 was \$1.4 million and relates to the accretion expense relating to the long-term payable to the Sellers of OMVL of \$0.1 million, interest expense on the CDN \$36.0 million debentures issued on September 23, 2011, bearing interest at 9% per annum of \$0.9 million, and interest expense on Emer senior financing facilities of \$0.4 million. Interest on long-term debt and amortization of discount expense for three months ended June 30, 2011 of \$1.0 million related to interest and accretion on the CDN \$15.0 million debentures of \$0.9 million, which matured and was repaid in full on July 3, 2011, and \$0.3 million of accretion expense relating to the long-term payable to, the Sellers of OMVL.

Interest on long-term debt and amortization of discount expense for six months ended June 30, 2012 was \$2.7 million and relates to the accretion expense relating to the long-term payable to the Sellers of OMVL of \$0.2 million, interest expense on the CDN \$36.0 million debentures issued on September 23, 2011, bearing interest at 9% per annum of \$1.8 million, and interest expense on Emer senior financing facilities of \$0.7 million. Interest on long-term debt and amortization of discount expense for six months ended June 30, 2011 of \$1.9 million related to interest and accretion on the CDN \$15.0 million debentures of \$1.7 million, which matured and was repaid in full on July 3, 2011, and \$0.4 million of accretion expense relating to the long-term payable to, the Sellers of OMVL.

Income tax expense for the three months ended June 30, 2012 was \$5.1 million compared to \$3.7 million for the three months ended June 30, 2011. CWI income tax expense was \$4.3 million for the three months ended June

30, 2012 compared to \$3.5 million for the three months ended June 30, 2011 due to higher taxable income. Westport LD income tax expense was \$0.5 million for the three months ended June 30, 2012 compared to an income tax expense of \$0.2 million for the three months ended June 30, 2011 due to taxable income in Emer and OMVL in the current year period. Corporate income tax expense was \$0.3 million for the three months ended June 30, 2012 compared to nil for the three months ended June 30, 2011. The current period amount relates to the deferred tax liability of Westport's share of CWI's undistributed earnings for the period. For the six months ended June 30, 2012 and 2011, consolidated income tax expense was \$11.3 million and \$6.0 million, respectively, with the current year period relating to CWI, Emer, OMVL and AFV the and prior period amount relating primarily to CWI and OMVL.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at June 30, 2012, our cash, cash equivalents and short-term investment position was \$307.2 million, an increase of \$221.5 million from \$85.7 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 six months ended June 30, 2012, our cash used in operations was \$21.8 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was \$12.6 million. Changes in non-cash working capital resulted in a reduction of \$9.2 million. The \$9.2 million change in working capital was impacted, by increases in warranty liability of \$7.7 million, deferred revenue of \$3.0 million, accounts receivable of \$4.5 million, inventory of \$9.2 million, and prepaid expenses of \$3.8 million partially offset by a decrease in accounts payable and accrued liabilities of \$2.4 million. Cash used in investing activities included cash paid to purchase short-term investments of \$79.0 million, purchase of fixed assets of \$13.6 million, loan advances of \$2.6 million, acquisition of assets of AEC of \$1.1 million, and purchase of intangible assets of \$1.0 million offset by repayment on our note receivable of \$2.5 million. Cash provided by financing activities included \$265.4 million, net of share issuance costs, raised in a public share offering, \$0.9 million in shares issued for stock option exercises and \$1.4 million drawn from our operating lines of credit. This is offset by repayment of a portion of the long-term debt within Emer of \$6.4 million.

Foreign exchange resulted in an unfavorable adjustment to cash and cash equivalents of \$1.2 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 profits 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 \$265.5 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 light-duty industrial and automotive and heavy-duty and high-horsepower 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 "Risks and Uncertainties" section of this MD&A and of our Annual Information Form.

SHARES OUTSTANDING

For the three months ended June 30, 2012 and 2011 the weighted average number of shares used in calculating the loss per share was 54,941,622 and 47,141,868, respectively. During the three months ended June 30, 2012, we granted 11,250 stock options and 7,226 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:

	June 30, 2012		August 2, 2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Shares outstanding	54,994,694		55,008,979	
Share Options				
- Outstanding	1,017,264	27.60	1,015,449	27.63
- Exercisable	238,204	8.00	236,389	8.02
Share Units				
- Outstanding	1,303,856	N/A	1,291,386	N/A
- Exercisable	251,362	N/A	238,892	N/A
<i>(weighted average exercise prices are presented in Canadian dollars)</i>				

SELECTED QUARTERLY FINANCIAL DATA (unaudited)

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 financial data for our last eight quarters:

Selected Quarterly Operations Data (unaudited)								
Three months ended	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12
Units shipped	1,115	1,036	775	1,073	1,710	2,181	2,094	2,047
<i>(expressed in thousands of United States dollars except for per share amounts)</i>								
Product revenue	\$ 34,189	\$ 30,976	\$ 26,440	\$ 37,162	\$ 72,232	\$ 80,288	\$ 78,812	\$ 81,770
Parts revenue	\$ 6,663	\$ 8,553	\$ 7,622	\$ 7,704	\$ 8,458	\$ 10,516	\$ 9,797	\$ 10,245
Engineering Service Revenue	\$ 4,052	\$ -	\$ 4,076	\$ -	\$ 351	\$ 9,830	\$ -	\$ 14,080
Total revenue	\$ 44,904	\$ 39,529	\$ 38,138	\$ 44,866	\$ 81,041	\$ 100,634	\$ 88,609	\$ 106,095
Cost of sales	\$ 27,082	\$ 26,663	\$ 20,499	\$ 29,663	\$ 55,236	\$ 61,031	\$ 60,114	\$ 65,583
Gross margin	\$ 17,822	\$ 12,866	\$ 17,639	\$ 15,203	\$ 25,805	\$ 39,603	\$ 28,495	\$ 40,512
Gross margin percentage	40%	33%	46%	34%	32%	39%	32%	38%
Net loss for the period attributable to the Company	\$ (6,217)	\$ (13,495)	\$ (14,377)	\$ (18,113)	\$ (13,162)	\$ (14,519)	\$ (22,627)	\$ (6,057)
Loss per share:								
Basic	\$ (0.16)	\$ (0.31)	\$ (0.31)	\$ (0.38)	\$ (0.27)	\$ (0.30)	\$ (0.44)	\$ (0.11)
Diluted ⁽¹⁾	\$ (0.16)	\$ (0.31)	\$ (0.31)	\$ (0.38)	\$ (0.27)	\$ (0.30)	\$ (0.44)	\$ (0.11)
Company's 100% share of CWI net income	\$ 5,280	\$ 3,160	\$ 4,524	\$ 5,886	\$ 9,394	\$ 10,646	\$ 9,542	\$ 7,282
CWI net income attributable to the Company	\$ 2,640	\$ 1,580	\$ 2,262	\$ 2,943	\$ 4,697	\$ 5,323	\$ 4,771	\$ 3,641

⁽¹⁾ Fully diluted loss per share is not materially different as the effect of stock options, warrants and performance share units would be anti-dilutive.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments have been disclosed in our annual MD&A dated May 8, 2012 and our substantially unchanged.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies have been disclosed in our annual MD&A dated May 8, 2012 and are substantially unchanged.

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 fiscal year ended December 31, 2011 under the heading "Risks" 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 <i>(expressed in thousands of U.S. dollars)</i>				
	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash flow from operations				
Net loss for the period	\$ (2,415)	\$ (15,177)	\$ (20,274)	\$ (27,324)
Items not involving cash:				
Depreciation and amortization	2,766	853	5,285	1,860
Stock-based compensation expense	2,896	2,212	6,458	3,638
Deferred income tax expense (recovery)	(1,782)	101	(2,876)	1,107
Change in deferred lease inducements	(15)	(14)	(26)	(37)
Income from investment accounted for by the equity method	(953)	(445)	(1,715)	(818)
Accretion of long-term debt	320	616	515	1,183
Other	(1)	65	53	65
Cash flows from operations before changes in non-cash operating working capital	<u>\$ 816</u>	<u>\$ (11,789)</u>	<u>\$ (12,580)</u>	<u>\$ (20,326)</u>

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

WESTPORT INNOVATIONS INC.

For the three and six months ended June 30, 2012 and 2011

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets (unaudited)

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

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 213,770	\$ 70,298
Short-term investments	93,457	15,379
Accounts receivable (note 4)	59,128	55,423
Loan receivable (note 17 (a))	21,975	19,409
Inventories (note 5)	46,151	37,057
Prepaid expenses	10,265	6,551
Current portion of deferred income tax assets	7,926	6,447
Other current assets (note 7)	-	2,034
	452,672	212,598
Long-term investments (note 6)	9,966	8,369
Other assets (note 7)	1,336	1,994
Property, plant and equipment (note 8)	45,807	36,243
Intangible assets (note 9)	35,399	36,582
Deferred income tax assets	8,281	5,075
Goodwill (note 10)	54,739	55,814
	\$ 608,200	\$ 356,675
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 56,329	\$ 55,807
Deferred revenue	3,639	3,146
Current portion of deferred income tax liabilities	333	-
Current portion of long-term debt (note 12)	19,554	20,568
Current portion of warranty liability (note 13)	14,055	12,978
	93,910	92,499
Warranty liability (note 13)	17,941	11,253
Long-term debt (note 12)	60,606	65,577
Deferred revenue	12,306	10,327
Deferred income tax liabilities	4,979	3,446
Other long-term liabilities	2,877	3,104
	192,619	186,206
Shareholders' equity:		
Share capital (note 14):		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
54,994,694 (2011 - 48,455,601) common shares	728,733	459,866
Other equity instruments	8,851	6,112
Additional paid in capital	5,185	4,499
Accumulated deficit	(359,842)	(331,158)
Accumulated other comprehensive income	6,365	13,271
	389,292	152,590
Joint venture partners' share of net assets of joint ventures (note 17)	26,289	17,879
	415,581	170,469
	\$ 608,200	\$ 356,675

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Operations (unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Product revenue	\$ 81,770	\$ 37,162	\$ 160,582	\$ 63,602
Parts revenue	10,245	7,704	20,042	15,326
Service and other revenue (note 18)	14,080	-	14,080	4,076
	106,095	44,866	194,704	83,004
Cost of revenue and expenses:				
Cost of product and parts revenue	65,583	29,663	125,697	50,162
Research and development (notes 15 and 16)	20,543	11,350	36,708	21,304
General and administrative (note 15)	9,073	6,492	20,966	12,483
Sales and marketing (note 15)	10,353	7,267	19,037	14,131
Foreign exchange (gain) loss	(4,878)	54	(4,493)	3,329
Depreciation and amortization	2,766	853	5,285	1,860
Bank charges, interest and other	265	427	623	620
	103,705	56,106	203,823	103,889
Income (loss) before undernoted	2,390	(11,240)	(9,119)	(20,885)
Income from investments accounted for by the equity method (note 6)	953	445	1,715	818
Interest on long-term debt and amortization of discount	(1,366)	(964)	(2,648)	(1,870)
Interest and other income	708	315	1,077	653
Income (loss) before income taxes	2,685	(11,444)	(8,975)	(21,284)
Income tax recovery (expense):				
Current	(6,882)	(3,632)	(14,175)	(4,933)
Deferred	1,782	(101)	2,876	(1,107)
	(5,100)	(3,733)	(11,299)	(6,040)
Net loss for the periods	\$ (2,415)	\$ (15,177)	\$ (20,274)	\$ (27,324)
Net income (loss) attributed to:				
Joint venture partners (note 17)	\$ 3,642	\$ 2,936	\$ 8,410	\$ 5,166
The Company	(6,057)	(18,113)	(28,684)	(32,490)
Loss per share attributable to the Company:				
Basic and diluted	\$ (0.11)	\$ (0.38)	\$ (0.54)	\$ (0.69)
Weighted average common shares outstanding:				
Basic and diluted	54,941,622	47,141,868	52,912,760	47,011,133

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Comprehensive Loss (unaudited)
(Expressed in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Loss for the periods	\$ (2,415)	\$ (15,177)	\$ (20,274)	\$ (27,324)
Other comprehensive income:				
Cumulative translation adjustment	(10,441)	1,117	(6,906)	6,022
	(10,441)	1,117	(6,906)	6,022
Comprehensive loss	\$ (12,856)	\$ (14,060)	\$ (27,180)	\$ (21,302)
Comprehensive income (loss) attributable to:				
Joint venture partners	\$ 3,642	\$ 2,936	\$ 8,410	\$ 5,166
The Company	(16,498)	(16,996)	(35,590)	(26,468)

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)

Nine months ended December 31, 2011 and for the six months ended June 30, 2012 (unaudited)

	Common shares outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Joint venture partners' share of net assets of joint ventures	Total shareholders' equity
Balance, March 31, 2011	46,972,304	\$ 430,608	\$ 4,205	\$ 5,141	\$ (284,509)	\$ 25,641	\$ 14,921	\$ 196,007
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 year	-	-	-	-	(45,794)	-	12,958	(32,836)
Dividends paid by joint venture	-	-	-	-	-	-	(10,000)	(10,000)
Other comprehensive loss	-	-	-	-	-	(12,370)	-	(12,370)
Balance, December 31, 2011	48,455,601	\$ 459,866	\$ 6,112	\$ 4,499	\$ (331,158)	\$ 13,271	\$ 17,879	\$ 170,469
Issue of common shares on exercise of stock options	81,327	1,366	-	(479)	-	-	-	887
Issue of common shares on exercise of performance share units	132,766	2,071	(2,071)	-	-	-	-	-
Issue of common shares on public offering	6,325,000	273,556	-	-	-	-	-	273,556
Share issue costs	-	(8,126)	-	-	-	-	-	(8,126)
Stock-based compensation	-	-	4,810	1,165	-	-	-	5,975
Net loss for the period	-	-	-	-	(28,684)	-	8,410	(20,274)
Other comprehensive loss	-	-	-	-	-	(6,906)	-	(6,906)
Balance, June 30, 2012	54,994,694	\$ 728,733	\$ 8,851	\$ 5,185	\$ (359,842)	\$ 6,365	\$ 26,289	\$ 415,581

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Cash Flows (unaudited)
(Expressed in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash flows from operating activities:				
Loss for the period	\$ (2,415)	\$ (15,177)	\$ (20,274)	\$ (27,324)
Items not involving cash:				
Depreciation and amortization	2,766	853	5,285	1,860
Stock-based compensation expense	2,896	2,212	6,458	3,638
Deferred income tax (recovery) expense	(1,782)	101	(2,876)	1,107
Change in deferred lease inducements	(15)	(14)	(26)	(37)
Income from investments accounted for by the equity method	(953)	(445)	(1,715)	(818)
Accretion of long-term debt	320	616	515	1,183
Other	(1)	65	53	65
Changes in non-cash operating working capital:				
Accounts receivable	(10,569)	(2,342)	(4,510)	(2,658)
Inventories	(4,940)	(1,733)	(9,291)	(2,720)
Prepaid expenses	204	(2,103)	(3,770)	(2,253)
Accounts payable and accrued liabilities	(6,011)	1,733	(2,411)	7,409
Deferred revenue	1,377	203	3,027	141
Warranty liability	5,002	73	7,738	(2,067)
	(14,121)	(15,958)	(21,797)	(22,474)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(4,895)	(1,774)	(13,550)	(2,753)
Purchase of intangible assets	(30)	-	(989)	-
(Purchase) sale of short-term investments, net	(7,130)	8,433	(79,044)	17,794
Advances of loan receivable	-	(1,605)	(2,554)	(4,781)
Repayment of loan receivable	-	-	2,494	-
Business acquisition (note 3)	(52)	-	(1,125)	-
	(12,107)	5,054	(94,768)	10,260
Cash flows from financing activities:				
Increase in operating lines of credit	-	-	4,245	-
Repayment of operating lines of credit	(2,885)	-	(2,885)	-
Repayment of long-term debt	(2,111)	(32)	(6,404)	(52)
Repayment of short-term debt	-	(221)	-	(221)
Shares issued for cash	113	788	274,443	1,169
Share issuance costs	(123)	-	(8,126)	-
	(5,006)	535	261,273	896
Effect of foreign exchange on cash and cash equivalents	(521)	801	(1,236)	6,061
(Decrease) Increase in cash and cash equivalents	(31,755)	(9,568)	143,472	(5,257)
Cash and cash equivalents, beginning of period	245,525	148,462	70,298	144,151
Cash and cash equivalents, end of period	\$ 213,770	\$ 138,894	\$ 213,770	\$ 138,894

WESTPORT INNOVATIONS INC.

Consolidated Statements of Cash Flows (unaudited), Continued
(Expressed in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Supplementary information:				
Interest paid	\$ 440	\$ 1,141	\$ 2,079	\$ 1,254
Taxes paid	13,110	4,910	14,160	5,593
Non-cash transactions:				
Purchase of equipment, furniture and leasehold improvements by assumption of capital lease obligation	-	34	-	34
Shares issued on exercise of performance share units	1,085	1,774	2,071	2,362
Cancellation of performance share units	-	1,258	-	2,153

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

1. Basis of presentation:

The unaudited consolidated balance sheet as at June 30, 2012, the unaudited consolidated statements of operations, comprehensive loss and cash flows for the three and six months ended June 30, 2012 and 2011, and the unaudited consolidated statement of shareholders' equity for the six months ended June 30, 2012 have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

These unaudited interim consolidated financial statements do not include all note disclosures required on an annual basis, and therefore, should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended December 31, 2011 filed with the appropriate securities regulatory authorities. Effective April 1, 2011, the Company changed its year-end to December 31, and the 2011 annual consolidated financial statements were for the nine-month period then ended.

These interim consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the settlement of liabilities in the normal course of operations.

In the opinion of management, all adjustments, which include reclassifications and normal recurring adjustments necessary to present fairly the consolidated financial position, consolidated results of operations and consolidated cash flows as at June 30, 2012 and for all periods presented, have been recorded. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results for the Company's full year.

The Company's reporting currency is the United States dollar. The functional currency of the Company's operations is the Canadian dollar except for CWI, which uses the U.S. dollar as its functional currency, OMVL S.p.A. ("OMVL") OMVL and Emer S.p.A. ("Emer"), which use the Euro as their functional currency, and Alternative Fuel Vehicle Sweden AB ("AFV"), which uses the Swedish Krona as its functional currency. The Company translates its consolidated Canadian dollar, Euro and Swedish Krona functional currency financial statements 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.

The period exchange rate of the Canadian dollar as at June 30, 2012 was \$0.98 (December 31, 2011 - \$1.02), and the average exchange rates for the three and six months ended June 30, 2012 were \$0.99 (2011 - \$1.03) and \$0.99 (2011 - \$1.02), respectively. The period end exchange rate of the Euro was 1.27 (December 31, 2011 - 1.30), and the average exchange rates for the Euro for the three and six months ended June 30, 2012 were 1.28 (2011 - 1.44) and 1.30 (2011 - 1.41), respectively. The period end exchange rate of the Swedish Krona was 0.14 (December 31, 2011 - 0.15) and the average exchange rates for the Swedish Krona for the three and six months ended June 30, 2012 were 0.14 and 0.15, respectively.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

2. Accounting changes:

- (a) Accounting policies adopted during the period:

Fair value measurements

In May 2011, the FASB issued 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 wording 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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

2. Accounting changes (continued):

- (a) Accounting policies adopted during the period (continued):

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.

- (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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

3. Business combination:

On March 20, 2012, the Company acquired, through its wholly owned subsidiary, Westport Innovations (Australia) Pty Ltd., certain assets of Advanced Engine Components Ltd ("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 assets acquired consisted of intangible assets, inventories and capital assets. The fair value of the consideration for the acquisition was \$1,125 (AUD\$1,082) and was allocated as follows: \$832 to intangible assets, \$529 to inventories, \$133 to capital assets, \$23 to prepaid expense, and liabilities assumed of \$392. The Company paid cash totaling \$1,125 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 three months ended March 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.

4. Accounts receivable:

	June 30, 2012	December 31, 2011
Customer trade receivable	\$ 47,638	\$ 43,268
Government funding receivable	1,637	1,412
Due from joint venture partner and other receivables	10,670	11,528
Allowance for doubtful accounts	(817)	(785)
	\$ 59,128	\$ 55,423

5. Inventories:

	June 30, 2012	December 31, 2011
Purchased parts	\$ 25,296	\$ 20,020
Assembled parts	5,921	4,198
Work-in-process	8,405	6,994
Finished goods	6,953	6,360
Obsolescence provision	(424)	(515)
	\$ 46,151	\$ 37,057

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

6. Long-term investments:

	June 30, 2012	December 31, 2011
Weichai Westport Inc.	\$ 9,375	\$ 7,732
Minda-Emer Technologies Ltd.	591	637
	\$ 9,966	\$ 8,369

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 three and six months ended June 30, 2012, the Company recognized income of \$1,065 (2011 - \$445) and \$1,666 (2011 - \$818), respectively, as income from investment accounted for by the equity method.

On July 1, 2011, the Company acquired a 50% interest in Minda-Emer Technologies Ltd ("Minda-Emer") through its acquisition of Emer. On the date of acquisition, the interest in Minda-Emer was ascribed a value of \$643. As the Company does not control Minda-Emer, it accounts for this investment using the equity method. During the three and six months ended June 30, 2012, the Company recognized loss of \$112 (2011 - \$nil) and income of \$49 (2011 - \$nil), respectively.

7. Other assets:

	June 30, 2012	December 31, 2011
Note receivable (a)	\$ -	\$ 2,446
Deferred financing charges (b)	1,092	1,323
Other	244	259
	1,336	4,028
Current portion	-	(2,034)
	\$ 1,336	\$ 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. The Agreement was subsequently amended on September 30, 2011.

Under the Agreement, the Company loaned \$2,200 and received 1,427,179 warrants representing 20% of the then 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.

On February 29, 2012, the total loan principal plus 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 12(a)) have been deferred and are being amortized into income over the term of the debentures using the effective interest rate method.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

8. Property, plant and equipment:

June 30, 2012	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 552	\$ 146	\$ 406
Computer equipment and software	10,066	7,483	2,583
Furniture and fixtures	2,063	1,654	409
Machinery and equipment	64,691	30,067	34,624
Leasehold improvements	17,031	9,246	7,785
	\$ 94,403	\$ 48,596	\$ 45,807

December 31, 2011	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 668	\$ 124	\$ 544
Computer equipment and software	8,914	7,257	1,657
Furniture and fixtures	2,072	1,602	470
Machinery and equipment	55,025	27,322	27,703
Leasehold improvements	14,930	9,061	5,869
	\$ 81,609	\$ 45,366	\$ 36,243

9. Intangible assets:

June 30, 2012	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 19,357	\$ 1,178	\$ 18,179
Technology	6,209	941	5,268
Customer contracts	13,477	1,549	11,928
Non-compete agreement	37	13	24
	\$ 39,080	\$ 3,681	\$ 35,399

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

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

10. Goodwill:

A continuity of goodwill is as follows:

	June 30, 2012	December 31, 2011
Balance, beginning of period	\$ 55,814	\$ 8,202
Acquisition of Emer	-	50,774
Acquisition of AFV	-	2,701
Impact of foreign exchange	(1,075)	(5,863)
Balance, end of period	\$ 54,739	\$ 55,814

11. Accounts payable and accrued liabilities:

	June 30, 2012	December 31, 2011
Trade accounts payable	\$ 46,721	\$ 40,758
Accrued payroll	5,203	9,534
Accrued interest	1,186	1,233
Income taxes payable	2,223	2,705
Other	996	1,577
	\$ 56,329	\$ 55,807

12. Long-term debt:

	June 30, 2012	December 31, 2011
Subordinated debenture notes (a)	\$ 35,360	\$ 35,398
Long-term payable (b)	9,269	9,330
Senior financing (c)	19,240	24,871
Senior revolving financing (c)	12,348	11,360
Other bank financing (d)	1,950	2,557
Capital lease obligations	1,993	2,629
	80,160	86,145
Current portion	(19,554)	(20,568)
	\$ 60,606	\$ 65,577

- (a) On September 23, 2011, the Company raised \$35,363 (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 15th and September 15th of each year during the term, commencing on March 15, 2012.

The debentures are redeemable at the option of the Company but cannot be redeemed on or prior to September 22, 2012. The debentures may be redeemed at a price equal to \$1,150 per \$1,000 principal amount of the debentures after September 22, 2012 and 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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

12. Long-term debt (continued):

(a) Continued:

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 7) 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 \$9,619 (€7,600) is payable on the third anniversary of the closing date. The difference between the carrying value of this liability and the principal amount is accreted to the principal amount using an 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 \$10,387 (CDN\$10,564).

- (c) The senior financing agreement bears interest at the 6-month Euribor plus 2.5% (3.4% as at June 30, 2012) and its carrying value is recorded at amortized cost using the effective interest rate method. The principal repayment schedule of the senior financing principal balance is as follows for the years ended December 31:

2012	\$ 1,338
2013	3,569
2014	3,925
2015	4,282
2016	4,461
2017	2,230
	<u>\$ 19,805</u>

The senior revolving financing facility bears interest at the 6-month Euribor plus 2.5% (3.4% as at June 30, 2012) and will be repaid through two principal payments of \$6,328 (€5,000) and \$5,062 (€4,000) on March 31, 2016 and September 30, 2017, respectively.

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 June 30, 2012, the Company is in compliance with all covenants under the financing arrangements.

- (d) Other bank financing consists of various unsecured bank financing arrangements that carry rates of interest ranging from 4% to 9.63% and are payable on maturity dates ranging from July 31, 2012 to June 30, 2016.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

12. Long-term debt (continued):

- (e) 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 June 30, 2012, no amounts were outstanding as a demand installment loan (2011 - \$nil).

13. Warranty liability:

A continuity of the warranty liability is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Balance, beginning of period	\$ 26,834	\$ 18,035	\$ 24,231	\$ 20,233
Warranty claims	(4,862)	(3,085)	(8,959)	(6,627)
Warranty accruals	7,770	3,640	13,735	5,646
Change in warranty estimates	2,148	(369)	2,998	(997)
Impact of foreign exchange	106	(94)	(9)	(128)
Balance, end of period	\$ 31,996	\$ 18,127	\$ 31,996	\$ 18,127
Current portion	(14,055)	(11,620)	(14,055)	(11,620)
Long-term portion	17,941	6,507	17,941	6,507

14. Share capital:

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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

15. Stock options and other stock-based plans:

(a) Stock options:

Stock options are available for issuance under the Westport Omnibus Plan and were previously granted under the Company's Stock Option Plan. A summary of the Company's stock option activity for the six months ended June 30, 2012 and 2011 are presented as follows:

	Six months ended June 30, 2012		Six months ended June 30, 2011	
	Number of shares	Weighted average exercise price (CDN \$)	Number of shares	Weighted average exercise price (CDN \$)
Outstanding, beginning of period	328,027	\$ 8.96	606,183	\$ 8.35
Granted	770,727	33.77	-	-
Exercised	(81,327)	10.99	(137,610)	7.58
Cancelled/expired	(163)	6.13	(8,142)	4.84
Outstanding, end of period	1,017,264	\$ 27.60	460,431	\$ 8.64
Options exercisable, end of period	238,204	\$ 8.00	361,762	\$ 7.72

During the three and six months ended June 30, 2012, the Company recognized \$666 (2011 - \$135) and \$1,308 (2011 - \$270), respectively, in stock-based compensation related to stock options.

The fair value of the options granted during the six months ended June 30, 2012 was determined using the Black-Scholes option pricing formula simulation with the following weighted average assumptions: expected dividend yield - nil% (2011 - nil%), expected stock price volatility - 47.79% (2011 - nil%), risk free interest rate - 0.38% (2011 - nil%); expected life of options - 3 years (2011 - nil years). The weighted average grant date fair value was \$10.97 (2011 - \$nil) for options granted for the six months ended June 30, 2012.

As at June 30, 2012, \$6,945 of compensation cost related to stock option awards has yet to be recognized in the results from operations and will be recognized over a weighted average period of 2.50 years.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

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

(b) Share units:

The value assigned to issued restricted share units ("RSUs") and performance share units ("PSUs") (together, the "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.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan (together, the "Plans") as of June 30, 2012 and 2011 are as follows:

	Six months ended June 30, 2012		Six months ended June 30, 2011	
	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	1,462,250	\$ 11.91
Granted	185,705	\$ 35.99	260,542	\$ 36.08
Exercised	(86,038)	\$ 8.56	(255,292)	\$ 7.49
Vested	(46,728)	\$ 29.06	-	-
Cancelled/expired	-	-	(77,623)	\$ 8.64
Outstanding, end of period	1,303,856	\$ 20.83	1,389,877	\$ 17.44
Units outstanding and exercisable, end of period	251,362	\$ 8.42	302,911	\$ 7.02

Included in the above table are Units granted under the former Amended and Restated Unit Plan where the Units are considered outstanding after vesting until exercised by the recipient. A continuity of these Units that vested during the six months ended June 30, 2012 and 2011 are summarized below:

	Six months ended June 30, 2012		Six months ended June 30, 2011	
	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)
Unvested, beginning of period	438,917	\$ 9.32	959,851	\$ 7.89
Vested	(60,469)	\$ 10.71	(393,065)	\$ 5.54
Cancelled/expired	-	-	(75,301)	\$ 8.10
Unvested, end of period	378,448	\$ 9.10	491,485	\$ 9.73

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

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

(b) Share units (continued):

During the three and six months ended June 30, 2012, the Company recognized \$2,230 (2011 - \$2,077) and \$5,150 (2011 - \$3,368), respectively, of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

As at June 30, 2012, \$15,605 of compensation cost related to Units has yet to be recognized in the results from operations and will be recognized over a weighted average period of 1.39 years.

Of the Units granted during the six months ended June 30, 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% (2011 - nil%); expected stock price volatility - 55.95% (2011 - 59.98%) ; and risk free interest rate - 0.93% (2011 - 1.52%). 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 (2011 - \$36.92) for Units granted for the six months ended June 30, 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.

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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

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

(c) Share units (continued):

The fair value of all other Units was determined based on the market price of the underlying shares on the date of grant. Compensation expense, net of estimated forfeitures, is recognized in results from operations over the vesting period.

The aggregate intrinsic value of the Company's stock option awards and share units at June 30, 2012 is as follows:

	June 30, 2012 CDN\$
Stock options:	
Outstanding	\$ 9,964
Exercisable	7,000
Exercised	2,104
Share units:	
Outstanding	\$ 48,751
Exercisable	9,398
Exercised	4,708

Stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan is included in operating expenses as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Research and development	\$ 554	\$ 254	\$ 1,074	\$ 432
General and administrative	1,523	1,259	3,723	2,076
Sales and marketing	819	699	1,661	1,130
	\$ 2,896	\$ 2,212	\$ 6,458	\$ 3,638

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

16. Research and development expenses:

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Research and development expenses	\$ 21,253	\$ 12,775	\$ 38,539	\$ 23,247
Program funding	(710)	(1,425)	(1,831)	(1,943)
Research and development	\$ 20,543	\$ 11,350	\$ 36,708	\$ 21,304

17. Partners' share of net assets of joint ventures:

	June 30, 2012	December 31, 2011
Cummins Westport Inc. (a)	\$ 26,148	\$ 17,728
BTIC Westport Inc.	141	151
	\$ 26,289	\$ 17,879

(a) Cummins Westport Inc.:

The Company entered into a joint venture with Cummins Inc. ("Cummins") on March 7, 2001. On December 16, 2003, the Company and Cummins amended the joint venture agreement ("JVA") to have CWI focus on and develop markets for alternative fuel engines.

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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

17. Partners' share of net assets of joint ventures (continued):

(a) 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.

The Company has determined that CWI is a variable interest entity, and the Company is the primary beneficiary. The consolidated financial statements include 100% of the assets, liabilities, revenue and expenses of CWI as at June 30, 2012 and December 31, 2011 and for the three and six months ended June 30, 2012 and 2011. 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. However, CWI continues to be a variable interest entity with the Company as the primary beneficiary; therefore, the Company continues to consolidate CWI with Cummins' share of CWI's income included in "Joint venture partners' share of income from joint ventures". For the three and six months ended June 30, 2012, net income from CWI attributable to Cummins was \$3,650 (2011 - \$2,943) and \$8,420 (2011 - \$5,205), respectively. A summarized balance sheet is presented below:

	June 30, 2012	December 31, 2011
Current assets	\$ 63,219	\$ 46,888
Long-term assets	8,622	5,481
Total assets	\$ 71,841	\$ 52,369
	June 30, 2012	December 31, 2011
Current liabilities:		
Current portion of warranty liability	\$ 12,278	\$ 11,791
Other current liabilities	6,778	8,546
	19,056	20,337
Long-term liabilities:		
Warranty liability	13,632	8,039
Other long-term liabilities	8,537	8,095
	22,169	16,134
Total liabilities	\$ 41,225	\$ 36,471

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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18. Service and other revenue:

Service and other revenue for the three months ended June 30, 2012 was \$14,080. This revenue consisted of a one-time license revenue of \$7,923 for the transfer of proprietary know-how and service revenue of \$6,157 under our existing development agreements.

During the three months ended June 30, 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 under ASC 605-25, *Revenue Recognition: Multiple-Element Arrangements*, and the Company has determined that the license and the development services are separate units of accounting. During the three months ended June 30, 2012, the Company transferred proprietary know-how related to the HPDI technology to the OEM, and it has no further obligations related to this license. Therefore, the one-time license revenue of \$7,923 was recognized, and on July 26, 2012, payment on the full amount was received. The development services will be recognized at cost plus a reasonable mark-up for overhead costs as the costs are incurred. No such costs were recognized during the three months ended June 30, 2012.

Service revenue of \$6,157 was recognized as the Company achieved and delivered certain milestones during the three months ended June 30, 2012 under certain development agreements with an OEM. All costs associated with our development agreements were recorded as research and development expenses in the period incurred.

19. Segmented information:

The Company's business operates in four reportable operating 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;
- Westport LD, which designs, produces and sells high-performance alternative fuel engines targeting the global CNG and LPG industrial and light-duty automotive markets;
- Westport HD, which offers a 15-litre LNG engine for the heavy-duty trucking market. Westport HD is the Company's proprietary development platform, engaged in the engineering, design and marketing of natural-gas enabling technology for the heavy-duty diesel engine and truck market; and
- Corporate, which includes corporate costs such as research and development including activities for off-road applications, 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.

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

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Notes to Consolidated Financial Statements (unaudited)

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19. Segmented information (continued):

The Company 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 three and six months ended June 30, 2012 and 2011.

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Revenue:				
CWI	\$ 57,020	\$ 31,949	\$ 109,678	\$ 57,005
Westport LD	30,663	10,867	57,339	18,324
Westport HD	10,489	2,050	19,764	7,675
Corporate	7,923	-	7,923	-
	<u>\$ 106,095</u>	<u>\$ 44,866</u>	<u>\$ 194,704</u>	<u>\$ 83,004</u>
Net operating income (loss):				
CWI	\$ 11,542	\$ 9,334	\$ 26,484	\$ 16,250
Westport LD	248	(881)	(1,613)	(1,598)
Westport HD	(7,615)	(10,342)	(17,618)	(14,357)
Corporate	(3,632)	(8,017)	(14,957)	(15,371)
	<u>543</u>	<u>(9,906)</u>	<u>(7,704)</u>	<u>(15,076)</u>
Depreciation and amortization:				
CWI	(36)	(26)	(70)	(50)
Westport LD	(2,148)	(463)	(4,213)	(924)
Westport HD	-	-	-	-
Corporate	(582)	(364)	(1,002)	(886)
	<u>(2,766)</u>	<u>(853)</u>	<u>(5,285)</u>	<u>(1,860)</u>
Loss before undernoted	(2,223)	(10,759)	(12,989)	(16,936)
Other income (expenses), net	4,908	(685)	4,014	(4,348)
Income (loss) before income taxes	<u>\$ 2,685</u>	<u>\$ (11,444)</u>	<u>\$ (8,975)</u>	<u>\$ (21,284)</u>
Capital expenditures:				
CWI	\$ 57	\$ -	\$ 57	\$ 58
Westport LD	2,555	447	3,182	659
Westport HD and corporate	2,283	1,327	10,311	2,036
	<u>\$ 4,895</u>	<u>\$ 1,774</u>	<u>\$ 13,550</u>	<u>2,753</u>

For the three and six months ended June 30, 2012, 65% (2011 - 62%) and 58% (2011 - 60%) of the Company's revenue was from sales in the Americas, 10% (2011 - 16%) and 17% (2011 - 17%) from sales in Asia, and 25% (2011 - 22%) and 25% (2011 - 23%) from sales elsewhere.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

19. Segmented information (continued):

As at June 30, 2012, total goodwill of \$54,739 (December 31, 2011 - \$55,814) was allocated to the Westport LD segment. As at June 30, 2012, total long-term investments of \$9,375 (December 31, 2011 - \$7,732) was allocated to the Corporate segment and \$591 (December 31, 2011 - \$637) was allocated to the Westport LD segment. Total assets are allocated as follows:

	June 30, 2012	December 31, 2011
CWI	\$ 71,841	\$ 52,369
Westport LD	180,481	101,324
Westport HD and corporate	355,878	202,982
	\$ 608,200	\$ 356,675

Property, plant and equipment and goodwill information by geographic area:

	June 30, 2012	December 31, 2011
Italy	\$ 68,973	\$ 72,378
Canada	25,032	16,294
Sweden	2,923	2,519
United States	3,368	812
Australia	228	32
China	22	22
	\$ 100,546	\$ 92,057

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20. Fair value of financial instruments:

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

The Company's short-term investments are recorded at fair value. The long-term investment represents our interests in the WWI and Minda-Emer joint ventures, which are accounted for using the equity method.

The carrying value reported in the balance sheet for the unsecured subordinated debenture notes (note 12(a)) approximates its fair value based on the interest rate being demanded in the market for debt with similar terms and conditions.

The carrying value reported in the balance sheet for senior financing agreements (note 12 (c)) approximates its fair value as at June 30, 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 2.5% premium currently paid.

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 other long-term payable (note 12(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 June 30, 2012, the fair value of the long-term debt is higher than its carrying value by \$129 based on a market interest rate of 2.35%.

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 June 30, 2012 and December 31, 2011, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.