

Amended Financial Report to Shareholders

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

(Q4 / Year End FY2012)

NOTICE TO READER

This filing amends the management's discussion and analysis of financial condition and results of operations of Westport Innovations Inc. (the "Company") for the twelve months ended December 31, 2012 ("MD&A") that were originally filed on March 7, 2013 with securities regulatory authorities in Canada and on March 8, 2013 on Form 40-F with the Securities and Exchange Commission ("SEC") in the United States (the "Original Filings"). This amended filing is being filed (i) in response to comments the Company received from the SEC regarding the disclosure in the MD&A in its Original Filings and (ii) to make conforming changes to the MD&A from those in the Original Filings based on comments the Company received from the British Columbia Securities Commission in respect of the Company's preliminary short form base shelf prospectus. In addition, the Company has corrected certain typographical errors in, and made certain other conforming changes to, the information that was in the MD&A in the Original Filings.

Subsequent to the filing of the Original Filings, Management has identified a material weakness in the Company's internal controls over financial reporting as of December 31, 2012. The Company did not employ accounting staff with an appropriate level of technical accounting knowledge, experience and training in the application of recognition, measurement and disclosure requirements of U.S. GAAP and experience with regulatory requirements. This control deficiency specifically resulted in the Company changing its determination of whether a primary beneficiary existed in connection with the application of Accounting Standards Update 2009-17, *Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, ("ASU 2009-17") for the Company's interest in Cummins Westport Inc. ("CWI"). As a result, it was determined that no primary beneficiary existed and material adjustments were made to the consolidated financial statements as at December 31, 2011 and for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to account for the interest under the equity method.

This control deficiency also resulted in reclassifications of foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to ensure consistency to other presentations of CWI equity income in the filing and deferred income taxes from non-current to current for balances as at December 31, 2011.

As a result of the material weakness that has been determined to exist as described in Management's Report on Internal Control over Financial Reporting, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of December 31, 2012. This control deficiency cannot be considered to be remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that the controls are operating effectively. See Management's Report on Internal Controls Over Financial Reporting in the MD&A.

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Innovations Inc. ("Westport", the "Company", "we", "us", "our") is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2012. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated May 31, 2013.

On May 30, 2011, the Board of Directors approved a fiscal year-end change from March 31 to December 31 to align the year ends of all consolidated operating companies to the calendar year. As a result of changing our year end, the previous reporting period is a "stub" period of only nine months (April 1, 2011 to December 31, 2011). Due to the difference in period lengths, the consolidated statements of operations and statements of cash flows are not directly comparable.

In our previously filed annual and interim financial statements in fiscal 2012 and 2011, the Company had identified Cummins Westport Inc. ("CWI") as a variable interest entity ("VIE") and Westport's interest as being that of the primary beneficiary upon adoption of Accounting Standards Update 2009-17, *Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises with Variable Interest Entities*, ("ASU 2009-17") effective April 1, 2010. As a result, the Company consolidated CWI on a line by line basis in its consolidated financial statements reflecting its financial position, results of operations and cash flows.

Based on the Company's ongoing review and adoption of the applicable accounting guidance in ASU 2009-17 and related interpretations, the Company concluded that CWI should be accounted for under the equity method because CWI continues to be a VIE but there is no primary beneficiary. Cummins and Westport each own 50% of the common shares of CWI and have equal representation on the Board of Directors. No one shareholder has the unilateral power to govern CWI. The Board of Directors has power over the operating decisions and to direct other activities of CWI that most significantly impact CWI's economic performance as set forth in the governing documents. As decision-making at the Board of Directors' level requires unanimous approval, this power is shared. Accordingly neither party is the primary beneficiary.

Commencing with the annual report for the year ended December 31, 2012, the Company is recording the results of CWI using the equity method and has restated its consolidated financial statements for the nine month period ended December 31, 2011 and the year ended March 31, 2011 on a similar basis. This restatement did not affect

the reported amounts of net loss attributable to the Company, loss per share or shareholders' equity but has impacted certain amounts disclosed. The Company's interest in the net assets of CWI is now presented net on a single line in other long-term investments on the balance sheet, and the Company's share of net earnings of CWI is reflected in income from investments accounted for by the equity method in the statements of operations. The assets, liabilities, revenues and expenses of CWI previously included on the balance sheet and statement of operations on a line by line basis are summarized in note 7(b) of our audited consolidated financial statements, for the fiscal year ended December 31, 2012. There was no cumulative effect from adoption of ASU 2009-17 at April 1, 2010.

The Company originally filed its consolidated financial statements for the year ended December 31, 2012 reflecting the restatement described above on or about March 7, 2013. Subsequent to the date of filing the 2012 annual consolidated financial statements, the Company has identified additional disclosures to assist in understanding the impact of the change in accounting for CWI. See notes 7(b) and 26 of our audited consolidated financial statements for the fiscal year ended December 31, 2012 for the additional disclosures and the effect of the corrections on each financial statement line item for previously issued financial statements.

In addition, the Company identified amounts reclassified from foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 (\$2,040) and the year ended March 31, 2011 (\$1,042) to be consistent with the revised presentation of CWI and revised the pro forma revenue amounts for these periods in notes 4(a) and (b). The Company also identified disclosure reclassifications in deferred income taxes from non-current to current (\$5,639) for balances as at December 31, 2011 (note 20(b)) and segmented information related to long-lived assets information (note 24) allocated by geographic areas as at December 31, 2012 and December 31, 2011. Finally, certain typographical errors have been corrected to ensure consistency of presentation.

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

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the orders or demand for our products, our investments, cash and capital requirements, the intentions of partners and potential customers, the performance of our products, our future market opportunities, availability of funding and funding requirements, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, availability of funding and funding requirements, timing of when we will adopt or meet certain accounting and regulatory standards and the alignment of our business segments. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward looking statements. These risks include risks related to revenue growth, operating results, industry and products, general economy, conditions of the capital and debt markets, government or accounting policies and regulations, technology innovations, as well as other factors discussed below and elsewhere in this report, including the risk factors contained in the Company's most recent Annual Information Form filed on SEDAR at www.sedar.com. The forward-looking statements contained in this MD&A are based upon a number of material factors and assumptions which include, without limitation, market acceptance of our products, product development delays in contractual commitments, the ability to attract and retain business partners, competition from other technologies, price differential between natural gas and liquefied petroleum gas, unforeseen claims, exposure to factors beyond our control as well as the additional factors referenced in our annual information form. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements except as required by applicable legislation.

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

BUSINESS OVERVIEW

We are a leading provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Our technology and products enable light- (less than 5.9 litre), medium- (5.9 to 8.9 litre), heavy-duty- (11 to 16 litre) and high-horsepower- (greater than 16 litre) petroleum-based fuel engines to use primarily natural gas, giving users a cleaner, and generally less expensive, alternative fuel based on a more abundant natural resource. Through our partnerships and direct sales efforts, to date, we have sold over 73,000 natural gas and propane engines and fuel systems to customers in more than 19 countries. We currently have strategic relationships with three of the world's top four engine producers and supply or have strategic relationships with six of the world's top ten truck producers, as well as eight of the world's top ten automotive manufacturers.

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

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

BUSINESS UNIT REALIGNMENT

During the fourth quarter of 2012, Westport created new internal reporting alignments to accommodate the variety in product, system and service solutions provided by Westport. In addition, Westport is expecting to deliver new and existing products across multiple platforms under the single "Westport" brand going forward. We have removed label restrictions described as "Light-Duty", "Heavy-Duty" or "High-Horsepower" to allow us to enter new markets with new and existing products and services under the one brand: "Westport".

Internal operating segments following the realignment include: Applied Technologies, On-Road Systems, New Markets and Off-Road Systems and Corporate and Technology Investments. In addition, Westport has a diverse set of OEM development relationships and joint ventures.

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

Applied Technologies

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

On-Road Systems

The On-Road Systems business unit ("On-Road Systems") engineers, designs, assembles and sells complete engine and vehicle systems for automotive, light commercial, trucking and industrial applications. Westport's existing On-Road Systems OEM customers and partners include Ford, GM, PACCAR Inc. ("PACCAR") (Kenworth and Peterbilt, a PACCAR company), Volvo Car Corporation ("Volvo Car"), AktieBolag Volvo ("AB Volvo"), and Clark Material Handling ("Clark"). Current products include the Westport WiNG™ Power System ("Westport WiNG System") for the Ford F-250/F-350 and F-450/F-550 bi-fuel (CNG and gasoline) Super Duty pick-up truck,

Westport™ 15L product using Westport high pressure direct injection ("Westport™ HPDI") technology and offered in Peterbilt and Kenworth heavy-duty trucks, Volvo Car bi-fuel systems (CNG and gasoline) for the V70 Bi-Fuel wagon, and Westport™ 2.4L industrial engines sold to Clark and Cummins Western Canada for forklift and oilfield applications, respectively.

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

New Markets and Off-Road Systems

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

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

Corporate and Technology Investments

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

Westport Joint Ventures**Cummins Westport Inc.**

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

Weichai Westport Inc.

Weichai Westport Inc. ("WWI"), a joint venture between Westport (35% interest), Weichai Holding Group Co. Ltd., ("Weichai Holding") (40% interest) and Hong Kong Peterson (CNG) Equipment Ltd. ("Hong Kong Peterson") (25% interest) to focus on the Chinese market. WWI develops, manufactures and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach and heavy-duty truck applications in China or exported to other regions globally. WWI's facility in China currently has an annual production capacity of 40,000 engines.

GENERAL DEVELOPMENTS

On February 20, 2012, we announced that we had entered into an amended and restated joint venture agreement ("JVA") with Cummins for the CWI joint venture. The JVA was amended to provide for, among other things, clarification concerning the scope of products within CWI. In addition, the parties have revised certain economic terms of the JVA.

On February 27, 2012, we announced the closing of an offering of common shares of Westport ("Common Shares"), including the exercise of the underwriters' over-allotment option in full. With the exercise of the option, we issued a total of 6,325,000 Common Shares under the offering for gross proceeds of \$273.6 million.

On March 6, 2012, we acquired certain assets of Advanced Engine Components Limited ("AEC") of Perth, Western Australia, for US\$1.1 million (AUD \$1.1 million) paid in cash and assumed liabilities. On completion of the transaction, we acquired AEC's Australian business assets including its intellectual property, key contracts, inventory and fixed assets. We also assumed AEC's Australian leased facility and kept approximately 10 of AEC's employees.

On May 18, 2012, we announced that Volvo unveiled its plan to launch a 13 liter heavy-duty natural gas engine featuring Westport HPDI technology. The product is scheduled for launch for the North American market in 2014.

On June 5, 2012, we announced a signed agreement with Caterpillar to co-develop natural gas technology for off-road equipment, including mining trucks and locomotives. Caterpillar will fund the development program, and when the products reach commercialization, we expect to participate in the supply of key components.

On October 4, 2012, CWI announced it has begun development on the ISB6.7 G, a mid-range 6.7 liter natural gas engine. The ISB6.7 G is expected to be in production by 2015 and will be designed to meet Environmental Protection Agency (EPA) and California Air Resources Board (CARB) regulations in force at the time of launch.

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

On February 5, 2013, CWI announced it is supplying engines for two of the largest natural gas transit fleet orders in North America, LA Metro and San Diego Metropolitan Transit System for over 900 natural gas buses powered by CWI's 8.9L ISL G engine.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the twelve months ended December 31, 2012, nine months ended December 31, 2011 and the twelve months ended March 31, 2011:

Selected Consolidated Statements of Operations Data			
	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
<i>(expressed in millions of United States dollars, except for per share amounts, shares outstanding and units shipped)</i>			
Units shipped ⁽¹⁾	1,956	613	27
Total revenue	\$ 155.6	\$ 87.7	\$ 36.8
Gross margin	53.1	20.6	12.8
GM %	34%	23%	35%
Net loss	(98.8)	(45.8)	(42.1)
Net loss per share – basic and diluted ⁽²⁾	(1.83)	(0.96)	(1.00)
Weighted average shares outstanding	54,072,513	47,933,348	42,305,889
Cash used in operations before changes in non-cash working capital ^{(3) (4)}	(89.1)	(48.5)	(39.8)
⁽¹⁾ Units shipped include Westport ISL systems, bi-fuel systems for the V70 wagon and Westport WNG System for the F-250/F-350 bi-fuel Super Duty pickup trucks. ⁽²⁾ Fully diluted loss per share is the same as basic loss per share as the effect of conversion of stock options, warrants and performance share units would be anti-dilutive. ⁽³⁾ See non-GAAP financial measures. ⁽⁴⁾ December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in note 2(a).			

Selected Balance Sheet Data			
	December 31, 2012	December 31, 2011	
Cash and short-term investments	\$ 215.9	\$ 67.6	
Total assets ⁽¹⁾	490.1	325.8	
Long-term financial liabilities ⁽²⁾	52.2	65.6	
⁽¹⁾ December 31, 2011 balance restated due to effects of restatements identified in note 2(a). ⁽²⁾ Excluding warranty liability, deferred revenue, deferred income tax liabilities and other long-term liabilities.			

Selected CWI Statements of Operations Data

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
<i>(expressed in millions of United States dollars, except for units shipped)</i>			
Units shipped	6,804	4,692	3,629
Total revenue	\$ 198.0	\$ 138.8	\$ 111.3
Gross margin	61.4	60.0	44.3
GM %	31%	43%	40%
Segment Operating Income	35.4	42.8	25.4
Income attributable to the Company ⁽¹⁾	13.2	13.0	8.0
⁽¹⁾ December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in note 2(a).			

Selected WWI Statements of Operations Data

	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011
<i>(expressed in millions of United States dollars, except for units shipped)</i>			
Units shipped	22,025	6,680	1,771
Total revenue	\$ 272.1	\$ 84.9	\$ 53.1
Gross margin	37.8	14.6	10.0
GM %	14%	17%	19%
Segment Operating Income	9.8	4.9	3.4
Income attributable to the Company	2.9	1.4	1.0

OVERVIEW OF YEAR ENDED DECEMBER 31, 2012 RESULTS

Operating Results

Total Consolidated Revenues (expressed in millions of U.S. dollars)						
	Twelve months ended December 31, 2012		Nine months ended December 31, 2011		Change	
					\$	%
Applied Technologies	\$	91.7	\$	55.0	\$ 36.6	67%
On-Road Systems		40.7		22.5	18.3	81%
Corporate and Technology Investments		23.2		10.2	13.1	128%
Total consolidated revenues	\$	155.6	\$	87.7	\$ 67.9	77%

For the year ended December 31, 2012, consolidated revenue increased \$67.9 million, or 77%, to \$155.6 million from \$87.7 million for the nine months ended December 31, 2011. This increase in revenue was driven by an increase in Applied Technologies revenue due to full year contributions from Emer, an increase in On-Road Systems revenues due to higher 15L unit sales and the launch of the F-250/F-350 bi-fuel pick-up truck in June 2012 and Corporate revenue driven primarily by the transfer of the proprietary know-how related to the HPDI technology.

Consolidated net loss attributable to the Company for the twelve months ended December 31, 2012 was \$98.8 million, or \$1.83 loss per diluted share, compared to a \$45.8 million net loss, or \$0.96 loss per diluted share, for the nine months ended December 31, 2011. The \$53.0 million increase in net loss was driven by an increase in net losses in Corporate and On-Road Systems as product development costs increased by a greater percentage relative to operating margin from our products.

Capital Management

On February 27, 2012, we announced the closing of an offering of common shares of Westport ("Common Shares"), including the exercise of the underwriters' over-allotment option in full. With the exercise of the option, we issued a total of 6,325,000 Common Shares under the offering for gross proceeds of \$273.6 million.

Cash, cash equivalents and Investments

As of December 31, 2012, our cash, cash equivalents and short-term investments balance was \$215.9 million compared to \$67.6 million at December 31, 2011. For the twelve months ended December 31, 2012, cash used in operations was \$85.7 million with \$89.1 million used for operating purposes and \$3.4 million provided from

working capital. We also paid cash of \$1.1 million for our acquisition of certain assets of AEC, purchased \$30.4 million of property and equipment, purchased \$1.0 million in intangible assets, repaid a portion of our long-term debt totaling \$6.7 million, and we received a dividend of \$22.6 million from CWI. We received a repayment on our note receivable of \$2.5 million, loan repayments net of advances of \$19.4 million to a joint venture partner, drew down our lines of credit for \$1.1 million, issued shares through a public share offering resulting in cash inflow of \$265.4 million (net of share issuance costs) and issued shares through the exercise of stock options, which resulted in an additional \$1.0 million in cash. Foreign exchange on Canadian dollar and Euro denominated cash, cash equivalents and short-term investments and unrealized foreign exchange impacts on certain foreign currency denominated balances resulted in an unfavorable \$0.1 million impact on our cash, cash equivalents and short-term investments balance.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. The Company's accounting policies are described in Note 2 of our calendar year 2012 annual consolidated financial statements. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock-based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in Note 2 of our calendar year 2012 annual consolidated financial statements. Actual amounts may vary significantly from estimates used.

Variable Interest Entities

A VIE is any type of legal structure not controlled by voting equity, but rather by contractual and/or other financial arrangements. Interests in VIEs are consolidated by the company that is the primary beneficiary. The Company's interest in CWI is a VIE but it is determined that there is no primary beneficiary.

Warranty Liability

Estimated warranty costs are recognized at the time we sell our products and included in cost of revenue. We use historical failure rates and costs to repair product defects during the warranty period, together with information on known products to estimate the warranty liability. The ultimate amount payable and the timing will depend on actual failure rates and the actual cost to repair. We review our warranty provision quarterly and record

adjustments to our assumptions based on the latest information available at that time. Since a number of our products are new in the market, historical data may not necessarily reflect actual costs to be incurred, and this exposes the Company to potentially significant fluctuations in liabilities. New product launches require a greater use of judgment in developing estimates until claims experience becomes available. Product specific experience is typically available four or five quarters after product launch, with a clear experience trend not evident until eight to twelve quarters after launch. We generally record warranty expense for new products upon shipment using a factor based upon historical experience from previous engine generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. Adjustments to the warranty provision are recorded in cost of revenue.

Revenue Recognition

Our primary source of revenue is from the sale of kits, Westport LNG systems and parts, and Westport CNG and LPG fuel systems for OEMs in the light-duty automotive and industrial markets. Product and parts revenue is recognized when the products are shipped and title passes to the customer. Revenue also includes fees earned from performing research and development activities for third parties, as well as technology license fees from third parties. Revenue from research and development activities is recognized as the services are performed. Revenue from technology license fees is recognized over the duration of the licensing agreement. Amounts received in advance of the revenue recognition criteria being met are recorded as deferred revenue.

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

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

Inventories

Inventories consist of fuel systems, component parts, work-in-progress and finished goods associated with our Westport systems. We carry inventory at the lower of weighted average cost and net realizable value. In establishing whether or not a provision is required for inventory obsolescence, we estimate the likelihood that inventory carrying values will be affected by changes in market demand for our products and by changes in technology, which could make inventory on hand obsolete. We perform regular reviews to assess the impact of changes in technology, sales trends and other changes on the carrying value of inventory. When we determine that such changes have occurred and would have a negative impact on the carrying value of inventory on hand, adequate provisions are recorded. Unforeseen changes in these factors could result in the recognition of additional inventory provisions.

Property, Plant and Equipment and Intangible Assets

We consider whether or not there has been an impairment in our long-lived assets, such as equipment, furniture and leasehold improvements and intangible assets, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such assets are not recoverable, we are required to write down the assets to fair value. When quoted market values are not available, we use the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value to determine whether or not a write down is required.

Stock-Based Compensation

We account for stock-based compensation related to stock options, performance share units and restricted share units granted to employees and directors using the fair value method. The resulting compensation expense for stock options is calculated using the Black-Scholes valuation method net of estimated forfeitures and is recognized in results from operations over the period in which the related employee services are rendered. We account for performance shares by calculating the fair value using a Monte-Carlo simulation and restricted share units by calculating the fair value based on the market price of the Company's common shares on the date of

grant. The compensation expense is recorded in the period it is earned, which generally is the period over which the units vest.

Goodwill

We do not amortize goodwill but instead test it annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at November 30. We use a two-step test to identify the potential impairment and to measure the amount of impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired; otherwise, goodwill is impaired and the loss is measured by performing step two. Under step two, the impairment loss is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill. We determine fair value using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as our future expectations.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS**Fair Value Measurements**

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

Comprehensive Income

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

Intangibles – Goodwill and other

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

Balance Sheet

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**Evaluation of Disclosure Controls and Procedures**

Our disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis such that appropriate decisions can be made regarding public disclosures. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of management, including the CEO and CFO, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of December 31, 2012.

Based on that evaluation in the Company's Annual Report for the year ended December 31, 2012, as originally filed with the Securities and Exchange Commission (the "SEC") on or about March 7, 2013 (the "Original Filing"), our CEO and CFO concluded that our disclosure controls and procedures were effective. Subsequent to this evaluation and conclusion, on May 31, 2013, we reported that we had identified a material weakness in internal control over financial reporting. As a result of the material weakness that has been determined to exist as described in Management's Report on Internal Control over Financial Reporting, our CEO and CFO have concluded that our disclosure control and procedures were not effective at a reasonable assurance level as of December 31, 2012.

Management's Report on Internal Control Over Financial Reporting

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

reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

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

Prior to the filing of our Original Filing, our management, including our CEO and CFO, assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework. Based on this assessment, our management believed our internal control over financial reporting was effective based on those criteria. Subsequently, we re-assessed the effectiveness of our internal control over financial reporting using the COSO criteria, and based on our evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2012.

Management has identified the following material weakness in the Company's internal control over financial reporting as of December 31, 2012. The Company did not employ accounting staff with an appropriate level of technical accounting knowledge, experience and training in the application of recognition, measurement and disclosure requirements of U.S. GAAP and experience with regulatory requirements. This control deficiency specifically resulted in the Company changing its determination of the primary beneficiary in connection with the application of ASU 2009-17 which was complex and involved significant judgments. As a result, no primary beneficiary was determined and material adjustments were made to the consolidated financial statements as at December 31, 2011 and for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to account for a VIE under the equity method.

This control deficiency also resulted in reclassifications of foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to ensure consistency to other presentations of CWI equity income in the filing, deferred income taxes from non-current to current for balances as at December 31, 2011 and within the segmented information

note related to long-lived assets information allocated by geographic areas as at December 31, 2012 and December 31, 2011. We have also adjusted the disclosure of consolidated pro forma revenue in the financial statement notes to remove CWI revenue for the nine month period ended December 31, 2011 and the year ended March 31, 2011. This control deficiency results in a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

KPMG LLP, our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2012 and issued an adverse opinion.

Remediation Plan

The material weakness described above was identified after the end of the period covered by the Original Filing. We have developed and are implementing remediation plans to address our material weakness. With respect to the material weakness described above, we have implemented certain remedial procedures to identify the necessary technical expertise in reviewing and interpreting complex accounting issues involving significant judgment and proper disclosures in our consolidated financial statements in accordance with U.S. GAAP. We are in the process of developing enhanced control procedures designed to ensure accounting personnel have adequate knowledge in assessing complex accounting issues involving significant judgment and disclosures in our consolidated financial statements through training and technical accounting courses and seminars, and we are in the process of recruiting a qualified senior level technical accounting professional. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

Except as otherwise discussed above, there were no changes in our internal control over financial reporting for the year ended December 31, 2012 that have materially affected or are reasonably likely to materially affect such controls, including any corrective actions with respect to significant deficiencies and material weaknesses.

FINANCIAL OVERVIEW

RESULTS FROM OPERATIONS

Total Revenue

The following table summarizes total revenue by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Total Revenues (expressed in millions of U.S. dollars)					
	Twelve months ended December 31, 2012		Nine months ended December 31, 2011		Change
					\$ %
Applied Technologies	\$	91.7	\$	55.0	\$ 36.6 67%
On-Road Systems		40.7		22.5	18.3 81%
New Markets and Off-Road Systems		-		-	- 0%
Corporate and Technology Investments		23.2		10.2	13.1 128%
CWI		198.0		138.8	59.2 43%
WWI		272.1		84.9	187.2 220%
Total segment revenues	\$	625.7	\$	311.5	\$ 314.2 101%
Less: Equity investees' revenues	\$	470.1	\$	223.8	246.3 110%
Total consolidated revenues	\$	155.6	\$	87.7	\$ 67.9 77%

Applied Technologies revenue for the twelve months ended December 31, 2012 increased \$36.6 million, or 67%, to \$91.7 million from \$55.0 million for the nine months ended December 31, 2011. The increase in revenue was driven by six additional months of contributions from Emer as we began consolidating Emer on July 1, 2011 and contributions from AFV since we began consolidating AFV in the fourth quarter of the prior year period.

On-Road Systems revenue for the twelve months ended December 31, 2012 increased \$18.3 million, or 81% from \$22.5 million to \$40.7 million. The increase related to shipments of 393 15L systems compared to 272 15L systems for the nine months ended December 31, 2011, which resulted in an increase in revenue of \$5.4 million from \$15.9 million in the prior year period to \$21.3 million in the current year. There was also an increase of \$1.5 million due to increased shipments of 2.4 litre industrial systems to forklift and oilfield customers and \$5.4 million from the launch of the F-250/F-350 bi-fuel super duty pick-up truck in the United States. Revenue generated from the Volvo V-70 bi-fuel CNG Wagon increased \$4.9 million from \$2.6 million in the prior year period to \$7.5 million in the current year. On-Road parts revenue for the twelve months ended December 31, 2012 increased \$1.1 million to \$3.5 million compared with \$2.4 million for the nine months end December 31, 2011.

New Markets and Off-Road Systems is a new business unit and has not generated revenue in the current year.

Corporate and Technology Investments revenue for the twelve months ended December 31, 2012 increased \$13.1 million, or 128% from \$10.2 million to \$23.2 million. Included in the current year was one-time license revenue of \$8.0 million for the transfer of the proprietary know-how related to the HPDI technology and other fee payments of \$1.4 million. We recognized \$13.5 million (2011 - \$10.2 million) under our development agreements due to the timing of delivering certain milestones during the periods. All costs associated with our development agreements were recorded as research and development expenses in the period incurred in the consolidated statement of operations.

CWI revenue for the twelve months ended December 31, 2012 increased \$59.2 million, or 43% from \$138.8 million to \$198.0 million. CWI product revenue for the twelve months ended December 31, 2012 increased \$47.2 million, or 41%, to \$161.7 million on sales of 6,804 units compared to \$114.5 million and 4,692 units for the nine months ended December 31, 2011, which was primarily attributed to higher sales volume of ISL G engines in the Americas and sales of engines in Asia and Latin America. CWI parts revenue for the twelve months ended December 31, 2012 was \$36.3 million compared with \$24.3 million for the nine months end December 31, 2011. The number of engines in the field, their age and their reliability impact parts revenue each period.

WWI revenue for the twelve months ended December 31, 2012 increased \$187.2 million, or 220% from \$84.9 million to \$272.1 million. WWI shipped 22,025 units in 2012 compared with 6,680 units for the nine months ended December 31, 2011.

The following table summarizes total revenue by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Total Revenues (expressed in millions of U.S. dollars)						
	Nine months ended		Twelve months ended		Change	
	December 31,		March 31,			
	2011		2011		\$	%
Applied Technologies	\$	55.0	\$	22.1	\$ 32.9	150%
On-Road Systems		22.5		6.6	15.9	240%
New Markets and Off-Road Systems		-		-	-	0%
Corporate and Technology Investments		10.2		8.1	2.1	25%
CWI		138.8		111.3	27.5	25%
WWI		84.9		53.1	31.8	60%
Total segment revenues	\$	311.5	\$	201.2	\$ 110.3	55%
Less: Equity investees' revenues	\$	223.7	\$	164.4	59.3	36%
Total consolidated revenues	\$	87.7	\$	36.8	\$ 50.9	138%

Applied Technologies revenue for the nine months ended December 31, 2011 increased \$32.9 million, or 150%, to \$55.0 million from \$22.1 million for the twelve months ended March 31, 2011. The increase in revenue was driven by six months of contributions from Emer or \$31.8 million as we began consolidating Emer on July 1, 2011. OMVL revenue increased from \$22.1 million from the date of acquisition of July 3, 2010 to March 31, 2011 to \$23.3 million for the nine month period ended December 31, 2011.

On-Road Systems revenue for the nine months ended December 31, 2011 increased \$15.9 million, or 240% from \$6.6 million to \$22.5 million. The increase related to shipments of 272 15L systems or \$16.1 million in revenue compared to \$2.2 million and 27 15L systems for the twelve months ended March 31, 2011. Revenue generated from the Volvo V-70 bi-fuel CNG Wagon was \$2.6 million for the nine months ended December 31, 2011 compared to Nil in the prior year period as we acquired AFV in October 2011. Sales of 2.4L industrial forklift engines generated \$1.6 million in revenue during the nine months ended December 31, 2011 compared with \$1.7 million for the twelve months ended March 31, 2011. On-Road Systems parts revenue for the nine months ended December 31, 2011 was \$2.4 million compared with \$2.7 million for the twelve months end March 31, 2011.

Corporate and Technology Investments revenue for the nine months ended December 31, 2011 increased \$2.1 million, or 25% from \$8.1 million to \$10.2 million. The increase was due to the timing of milestone payments under our development agreements.

CWI revenue for the nine months ended December 31, 2011 increased \$27.5 million, or 25%, to \$138.8 million on sales of 4,692 units compared to \$111.3 million and 3,629 units for the twelve months ended March 31, 2011, which was primarily attributed to higher sales volume of ISL G engines in the Americas.

WWI revenue for the nine months ended December 31, 2011 increased \$31.8 million, or 60% from \$53.1 million to \$84.9 million. WWI shipped 6,680 units in the nine month period ended December 31, 2011 compared with 4,822 units for the twelve month period ended March 31, 2011.

Gross Margin

The following table presents gross margin by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Gross Margin (expressed in millions of U.S. dollars)								
	Twelve months ended December 31, % of Revenue 2012			Nine months ended December 31, % of Revenue 2011			Change	
							\$	%
Applied Technologies	\$	25.3	28%	\$	11.1	20%	\$ 14.1	127%
On-Road Systems		4.6	11%		(0.7)	-3%	5.3	747%
New Markets and Off-Road Systems		-	0%		-	0%	-	0%
Corporate and Technology Investments		23.2	100%		10.2	100%	13.1	128%
CWI		61.4	31%		60.0	43%	1.4	2%
WWI		37.8	14%		14.6	18%	23.2	160%
Total segment gross margin	\$	152.4	24%	\$	95.2	31%	\$ 57.2	60%
Less: Equity investees' gross margin	\$	99.3	21%	\$	74.6	33%	24.7	33%
Total consolidated gross margin	\$	53.1	34%	\$	20.6	23%	\$ 32.5	158%

Gross margin is calculated as revenue less cost of product and parts revenue (excluding any depreciation and amortization). The Company's gross margin may not be comparable to those of other entities because some entities include depreciation and amortization related to products sold in cost of sales.

Applied Technologies gross margin increased \$14.1 million to \$25.3 million, or 28% of revenue, for the year ended December 31, 2012 compared to \$11.1 million, or 20% of revenue for the nine months ended December 31, 2011. The increase in gross margin percentage is due to contributions from Emer representing a higher proportion of the revenue, and we consolidated Emer for twelve months in 2012 versus 6 months in the comparative period. Emer has a higher gross margin percentage relative to OMVL due to customer mix and economies of scale.

On-Road Systems gross margin increased \$5.3 million to \$4.6 million, or 11% of revenue from negative \$0.7 million, or negative 3% of revenue for the nine months ended December 31, 2011. The increase in gross margin percentage was due primarily to business mix with the launch of the WiNG System as well as launch customer pricing on the 15L product, and materials variance on certain shipments during the nine month period ended December 31, 2011.

Corporate and Technology Investments gross margin increased \$13.1 million from \$10.2 million to \$23.2 million. The gross margin percentage was 100% in both periods as Corporate gross margin relates entirely to license revenue and milestone payments under our development agreements.

CWI gross margin increased \$1.4 million to \$61.4 million, or 31% of revenue from \$60.0 million or 43% of revenue. CWI product margin and product gross margin percentage for the twelve months ended December 31, 2012 were \$46.5 million and 28.8%, respectively, compared to \$51.0 million and 44.5%, respectively, for the nine months ended December 31, 2011. This decrease in gross margin percentage was due primarily to warranty adjustments of \$9.5 million, extended coverage adjustments of \$2.5 million, and net extended coverage claims of \$4.3 million in the 2012 period recorded in accordance to CWI's warranty evaluation process, during which engine component failure rates and repair costs are compared to expected costs. Excluding these warranty related adjustments, CWI's gross margin percentage would have been 38.8%. CWI parts gross margin percentage was 41.3% for the twelve months ended December 31, 2012 compared to 37.1% for the nine months ended December 31, 2011.

WWI gross margin increased \$23.2 million to \$37.8 million, or 14% of revenue from \$14.6 million or 18% of revenue. The decrease in gross margin percentage related primarily to business mix with a high proportion of engine sales at a lower range of engine displacement.

The following table presents gross margin by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Gross Margin (expressed in millions of U.S. dollars)								
	Nine months ended			Twelve months ended			Change	
	December 31, % of Revenue			March 31, % of Revenue			\$ %	
			2011			2011		
Applied Technologies	\$	11.1	20%	\$	5.3	24%	\$ 5.9	112%
On-Road Systems		(0.7)	-3%		(0.6)	-9%	(0.1)	20%
New Markets and Off-Road Systems		-	0%		-	0%	-	0%
Corporate and Technology Investments		10.2	100%		8.1	100%	2.1	25%
CWI		60.0	43%		44.3	40%	15.7	35%
WWI		14.6	18%		10.0	19%	4.6	46%
Total segment gross margin	\$	95.2	31%	\$	67.1	33%	\$ 28.1	42%
Less: Equity investees' gross margin	\$	74.6	33%	\$	54.3	33%	20.3	37%
Total consolidated gross margin	\$	20.6	23%	\$	12.8	35%	\$ 7.8	61%

Applied Technologies gross margin increased \$5.9 million to \$11.1 million, or 20% of revenue, for the nine month period ended December 31, 2011 compared to \$5.3 million, or 24% of revenue for the twelve months ended March 31, 2011. The decrease in gross margin percentage is due primarily to additional cost of sales adjustments arising from inventory fair value adjustments in the quarter immediately subsequent to the acquisition of Emer.

On-Road Systems gross margin decreased \$0.1 million to negative \$0.7 million, or negative 3% of revenue for the nine months ended December 31, 2011 from negative \$0.6 million, or negative 9% of revenue for the twelve months ended March 31, 2011. The negative gross margin percentages relate to launch customer pricing on the 15L product, and materials variance on certain shipments during the nine month period ended December 31, 2011 while in the twelve month period ended March 31, 2011, the negative gross margin percentage was driven by campaign accruals relating to the 15L product.

CWI gross margin increased \$15.7 million to \$60.0 million, or 43% of revenue from \$44.3 million or 40% of revenue. CWI product gross margin and product gross margin percentage for the nine months ended December 31, 2011 were \$51.0 million and 44.5%, respectively, compared to \$33.7 million and 39.9%, respectively, for the twelve months ended March 31, 2011. This increase in gross margin percentage was due primarily to a reduction in warranty accrual rates compared to the prior year period driven by improved product reliability and product mix. CWI parts gross margin percentage remained consistent at 37.1% for the nine months ended December 31, 2011 compared to 39.6% for the twelve months ended March 31, 2011.

WWI gross margin increased \$4.6 million to \$14.6 million, or 18% of revenue from \$10.0 million or 19% of revenue. The decrease in gross margin percentage related primarily to business mix as gross margin varies depending on size and horsepower rating of engines sold.

Research and Development Expenses

The following table presents details of R&D expense by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Research and Development (expressed in millions of U.S. dollars)						
	Twelve months ended December 31, 2012		Nine months ended December 31, 2011		Change	
					\$	%
Applied Technologies	\$	3.1	\$	2.5	\$ 0.6	24%
On-Road Systems		25.3		16.8	8.5	51%
New Markets and Off-Road Systems		2.8		1.3	1.6	124%
Corporate and Technology Investments		42.0		16.0	25.9	162%
Total research and development	\$	73.2	\$	36.6	\$ 36.6	100%

Research and development expenses, net of program funding, for the twelve months ended December 31, 2012, increased \$36.6 million to \$73.2 million compared to \$36.6 million for the nine months ended December 31, 2011. Applied Technologies research and development expenses increased \$0.6^(*) million primarily due to the consolidation of Emer for twelve months compared with six months in the comparative period. On-Road Systems research and development expenses increased \$8.5 million primarily in relation to efforts to expand product offerings to OEMs to include the launch of the F-250/F-350 bi-fuel super duty pick-up truck and from the recording expenses relating to our operation in Sweden relating to Volvo V-70 bi-fuel cars for twelve months compared with two months in the comparative period. Corporate research and development expenses increased \$26.0^(*) million from \$16.0^(*) million to \$42.0 million driven by increases in investment under our development agreements and new programs.

^(*) amounts have been revised from previously reported to agree with tabular information above.

The following table presents details of R&D expense by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Research and Development <i>(expressed in millions of U.S. dollars)</i>						
	Nine months ended		Twelve months ended		Change	
	December 31,		March 31,			
	2011		2011		\$	%
Applied Technologies	\$	2.5	\$	1.0	\$ 1.4	142%
On-Road Systems		16.8		12.5	4.4	35%
New Markets and Off-Road Systems		1.3		0.3	1.0	354%
Corporate and Technology Investments		16.0		10.9	5.2	48%
Total research and development	\$	36.6	\$	24.6	\$ 12.0	49%

Research and development expenses, net of program funding, for the nine months ended December 31, 2011, increased \$12.0 million, and 49%, to \$36.6 million compared to \$24.6 million for the twelve months ended March 31, 2011. The increase related to primarily to product development costs incurred in the On-Road Systems related to the launch of the F-250/F-350 bi-fuel super duty pick-up truck of \$7.7 million offset by lower ongoing product support costs related to the 15L product due to the nine month period ended December 31, 2011 being compared against the twelve month period ended March 31, 2011. The increase in Corporate research and development expenses of \$5.2 million related to higher costs incurred under our development agreements with an increased level of activity.

General and Administrative Expenses

The following table presents details of G&A expense by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

General and Administrative <i>(expressed in millions of U.S. dollars)</i>						
	Twelve months ended December 31, 2012		Nine months ended December 31, 2011		Change	
					\$	%
Applied Technologies	\$	7.9	\$	5.5	\$ 2.4	45%
On-Road Systems		9.8		3.8	5.9	156%
New Markets and Off-Road Systems		1.0		-	1.0	n/a
Corporate and Technology Investments		26.1		13.4	12.7	94%
Total general and administrative	\$	44.8	\$	22.7	\$ 22.1	97%

General and administrative expenses increased \$22.1 million for the year ended December 31, 2012 from \$22.7 million for the nine month period ended December 31, 2011 to \$44.8 million for the year ended December 31, 2012. Applied Technologies general and administrative expenses increased \$2.4^(*) million due to the acquisition of Emer in July 2011. On-Road Systems general and administrative expenses increased \$5.9 million due to the additional three months in the current period versus the comparative period, an increase in compensation due to headcount ramp up to support the business and higher facilities and office expenses related to the launch of our Detroit and Kentucky facilities supporting the F-250/F-350 development and advanced engineering development of our light duty vehicles, and the costs related to running our Sweden operations for a full year versus two months in the comparative period. Off-Road Systems had an increase from \$0 to \$1.0 million as there was limited activity other than sales and marketing activity in the comparative period. Corporate general and administrative expenses increased \$12.7^(*) million primarily due to an increase in salaries and benefits of \$7.7 million related to higher headcount to support new programs and global market development efforts, higher professional services and facilities costs of \$3.7 million and by the additional three months in comparing the current twelve month period to the prior nine month period.

^(*) amounts have been revised from previously reported to agree with tabular information above.

The following table presents details of G&A expense by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

General and Administrative <i>(expressed in millions of U.S. dollars)</i>						
	Nine months ended		Twelve months ended		Change	
	December 31,		March 31,			
	2011		2011		\$	%
Applied Technologies	\$	5.5	\$	2.2	\$ 3.3	152%
On-Road Systems		3.8		1.3	2.5	196%
New Markets and Off-Road Systems		-		-	-	n/a
Corporate and Technology Investments		13.4		11.5	1.9	16%
Total general and administrative	\$	22.7	\$	15.0	\$ 7.7	51%

General and administrative expenses increased \$7.7 million, and 51%, to \$22.7 million for the nine month period ended December 31, 2011 from \$15.0 million for the twelve month period ended March 31, 2011. Applied Technologies general and administrative expenses increased \$3.3^(*) million due to the July 1, 2011 acquisition of Emer. On-Road Systems general and administrative expenses increased \$2.5 million due to expenses associated with our operations in Sweden and higher costs related to support of the 15L program. Corporate general and administrative costs increased by \$1.9 million primarily due to an increase in salaries and benefits related to higher headcount to support new programs and global market development efforts.

^(*) amounts have been revised from previously reported to agree with tabular information above.

Sales and Marketing Expenses

The following table presents details of S&M expense by segment for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Sales and Marketing <i>(expressed in millions of U.S. dollars)</i>						
	Twelve months ended December 31, 2012		Nine months ended December 31, 2011		Change	
					\$	%
Applied Technologies	\$	3.5	\$	1.8	\$ 1.7	95%
On-Road Systems		12.8		7.8	5.0	65%
New Markets and Off-Road Systems		8.5		1.4	7.0	489%
Corporate and Technology Investments		5.4		4.3	1.0	24%
Total sales and marketing	\$	30.1	\$	15.3	\$ 14.8	97%

Sales and marketing expenses increased \$14.8 million, and 97%, from \$15.3 million for the nine month period ended December 31, 2011 to \$30.1 million for the year ended December 31, 2012. Applied Technologies sales and marketing expenses increased \$1.7 million due to the acquisition of Emer, which resulting in twelve months of expenses in 2012 compared with six months of expenses in the comparative period, as the acquisition occurred on July 1, 2011. On-Road Systems sales and marketing expenses increased as a result of the launch of the F-Series super duty products and sales and marketing costs related to the Volvo V-70 bi-fuel wagon. Field support expenses and sales and marketing costs related to the 15L also increased by \$2.9 million compared with the prior period due to higher volumes, more units in the field and the comparison of a twelve month period to a nine month period. Off-Road Systems sales and marketing expenses increased \$7.0 million as a result of market development initiatives for Off-Road applications and increased sales and marketing effort and OEM activities in China. Corporate sales and marketing expenses increased primarily due to the comparison of a twelve month current period against a nine month prior period.

The following table presents details of S&M expense by segment for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Sales and Marketing						
<i>(expressed in millions of U.S. dollars)</i>						
	Nine months ended		Twelve months ended		Change	
	December 31,		March 31,			
	2011		2011		\$	%
Applied Technologies	\$	1.8	\$	0.8	\$	114%
On-Road Systems		7.8		7.8	0.0	0%
New Markets and Off-Road Systems		1.4		1.1	0.3	26%
Corporate and Technology Investments		4.3		4.3	0.0	1%
Total sales and marketing	\$	15.3	\$	14.0	\$	9%

Sales and marketing expenses increased \$1.3 million, and 9%, to \$15.3 million for the nine month period ended December 31, 2011 from \$14.0 million for the twelve month period ended March 31, 2011. Applied Technologies sales and marketing expenses increased \$1.0 million despite the current period being nine months in duration while the comparative period was twelve months, due to the acquisition of Emer in July 2011. On-Road Systems sales and marketing expenses were \$7.8 million in both the current nine month period and the comparative twelve month period as the impact of the shorter period was offset by higher compensation and travel related expenditures with the ramp up of the 15L program and increased field support with more vehicles in service. Off-Road Systems sales and marketing expenses increased \$0.3 million due to increasing sales and marketing activities in China. Corporate sales and marketing costs increased due to increases in corporate development activities.

Unconsolidated Joint Venture Operating Expenses

The following table presents details of the operating expense of our joint ventures for the twelve months ended December 31, 2012 compared to nine months ended December 31, 2011:

Unconsolidated Joint Venture Operating Expenses						
<i>(expressed in millions of U.S. dollars)</i>						
	Twelve months ended December 31, 2012	Nine months ended December 31, 2011		Change		
			\$		%	
CWI	\$ 26.1	\$ 17.2	\$	8.9	52%	
WWI	28.1	9.7		18.4	189%	
Total JV Operating Expenses	\$ 54.2	\$ 26.9		27.3	102%	

CWI operating expenses were \$26.1 million for the twelve months ended December 31, 2012 compared with \$17.2 million for the nine months ended December 31, 2011. The \$8.9 million increase was primarily due to the additional three months in comparing the current twelve month period to the prior nine month period, higher material and salary related costs associated with product development of \$4.9 million, and an increase in policy expense, market development support and travel expenditures.

WWI operating expenses were \$28.1 million for the twelve months ended December 31, 2012 compared with \$9.7 million for the nine months ended December 31, 2011. The increase relates primarily to higher product development costs and increased salary, facilities and support costs associated with rapid growth.

The following table presents details of the operating expense of our joint ventures for the nine months ended December 31, 2011 compared to the twelve months ended March 31, 2011:

Unconsolidated Joint Venture Operating Expenses						
<i>(expressed in millions of U.S. dollars)</i>						
	Nine months ended		Twelve months ended		Change	
	December 31,		March 31,			
	2011		2011		\$	%
CWI	\$	17.2	\$	18.9	\$ (1.7)	-9%
WWI		9.7		6.6	3.1	46%
Total JV Operating Expenses	\$	26.9	\$	25.5	1.4	5%

CWI operating expenses were \$17.2 million for the nine months ended December 31, 2011 compared with \$18.9 million for the twelve months ended March 31, 2011. The \$1.7 million decrease was primarily due to the additional three months in comparing the prior twelve month period to the current nine month period.

WWI operating expenses were \$9.7 million for the nine months ended December 31, 2011 compared with \$6.6 million for the twelve months ended March 31, 2011. The increase relates primarily to higher product development costs and increased salary, facilities and support costs associated with rapid growth.

Foreign exchange gains and losses reflected net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly composed of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. In addition, the Company has foreign exchange exposure on its non-OMVL and Emer Euro denominated monetary assets and liabilities including the Euro denominated long-term liability payable to the Sellers of OMVL. For the twelve months ended December 31, 2012, we recognized a net foreign exchange loss of \$1.2 million with the movement in the Canadian dollar relative to the U.S. dollar. A majority of the foreign exchange loss for the twelve months ended December 31, 2012 is unrealized.

For the nine months ended December 31, 2011, we recognized a net foreign exchange gain of \$2.1⁽¹⁾ million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange loss of \$3.3⁽¹⁾ million for the twelve months ended March 31, 2011. A majority of the foreign exchange gain for the nine months ended December 31, 2011 was unrealized.

Depreciation and amortization for the twelve months ended December 31, 2012 was \$11.4 million compared to \$6.2 million for the nine months ended December 31, 2011 and \$3.4 million for the twelve months ended March 31, 2011. The increases primarily related to depreciation of property and equipment and intangible assets acquired in the purchase of Emer and AFV.

Income from investment accounted for by the equity method primarily relates to our 50% interest in CWI and our 35% interest in WWI.

Income from investment accounted for by the equity method			
<i>(expressed in millions of U.S. dollars)</i>			
	Twelve months ended December 31, 2012	Nine months ended December 31, 2011 ⁽¹⁾	Twelve months ended March 31, 2011 ⁽¹⁾
CWI - 50% interest	\$ 13.2	\$ 13.0	\$ 8.0
WWI - 35% interest	2.9	1.4	1.0
Other	0.1	0.1	(0.4)
Income from investment accounted for by the equity method	<u>\$ 16.2</u>	<u>\$ 14.5</u>	<u>\$ 8.6</u>

⁽¹⁾ December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in note 2(a).

Interest on long-term debt and amortization of discount expense primarily relates to our CDN\$ debentures, amortization of deferred financing charges and interest on our senior financing facilities.

Interest on long-term debt and amortization of discount (expressed in millions of U.S. dollars)				
	Twelve months ended December 31, 2012	Nine months ended December 31, 2011	Twelve months ended March 31, 2011	
CDN debentures - 9% per annum	\$ 3.3	\$ 1.9	\$ 3.0	
Amortization of deferred financing charges	0.4	-	-	
Interest expense on senior financing facilities	1.3	0.8	-	
Accretion expense relating to the long-term payable	0.3	0.3	0.3	
Other	0.1	-	-	
Total Interest on long-term debt	\$ 5.4	\$ 3.0	\$ 3.3	

Interest on long-term debt for the twelve months ended December 31, 2012 of \$5.4 million is higher compared to the nine months ended December 31, 2011 due to the additional 3 months interest expense and amortization of deferred financing costs on the CDN \$36.0 million debentures issued on September 30, 2011.

Interest on long-term debt for nine months ended December 31, 2011 of \$3.0 million is lower compared to the twelve months ended March 31, 2011 due to the difference of 3 months interest expense offset by the related interest expense on Emer senior financing facilities assumed as part of the acquisition of Emer (note 4(a)).

Income tax expense for the twelve months ended December 31, 2012 was \$1.7 million compared to an income tax recovery of \$1.2 million for the nine months ended December 31, 2011 and an income tax expense of \$0.4 million for the twelve months ended March 31, 2011.

Applied Technologies recorded an income tax expense of \$0.8 million for the twelve months ended December 31, 2012 compared to an income tax recovery of \$1.8 million for the nine months ended December 31, 2011 and an income tax expense of \$0.1 million for the twelve months ended March 31, 2011. Differences were primarily due to higher taxable income in Emer and OMVL in the current year period compared to losses realized by Emer and OMVL in the prior year periods.

Corporate recorded an income tax expense of \$1.4 million for the twelve months ended December 31, 2012 compared to an income tax expense of \$0.5 million for the nine months ended December 31, 2011 and an income tax expense of \$0.3 million for the twelve months ended March 31, 2011, which relates to the withholding taxes on dividends paid by CWI. The dividends paid by CWI during the current year period were greater than then dividends paid in the prior year periods.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at December 31, 2012, our cash, cash equivalents and short-term investment position was \$215.9 million, an increase of \$148.3 million from \$67.6 million at December 31, 2011. Cash and cash equivalents consist of guaranteed investment certificates, term deposits and bankers acceptances with maturities of 90 days or less when acquired. Short-term investments consist of investment grade bankers' acceptances, term deposits and commercial paper. We invest primarily in short-term paper issued by Schedule 1 Canadian banks, R1 high rated corporations and governments.

For the twelve months ended December 31, 2012, our cash used in operations was \$85.7 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was \$89.1 million. Changes in non-cash working capital resulted in an increase of \$3.4 million. The \$3.4 million change in working capital was impacted, by increases in warranty liability of \$2.0 million, deferred revenue of \$3.1 million, inventory of \$7.9 million and accounts payable and accrued liabilities of \$0.7 million and offset by decrease in prepaid expenses of \$0.2 million and accounts receivable of \$6.7 million. Cash used in investing activities included purchase of fixed assets of \$30.4 million, acquisition of assets of AEC of \$1.1 million, purchase of intangible assets of \$1.0 million, and net purchase of short-term investments of \$22.5 million, loan repayments net of advances of \$19.4 million, offset by \$22.6 million in dividends received from CWI and \$2.5 million repayment on our note receivable. Cash provided by financing activities included \$265.4 million, net of share issuance costs, raised in a public share offering, \$1.0 million in shares issued for stock option exercises and \$1.1 million drawn from our operating lines of credit.

Foreign exchange resulted in a negative adjustment to cash and cash equivalents of \$0.1 million as a portion of our cash balances are maintained in Canadian dollars and Euro.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI dividends and borrowings under our credit facility to fund our committed milestones and obligations for our current programs. We will also continue to seek third party and government funding on commercially acceptable terms to offset

costs of our investments; however, there are no guarantees that we will be successful in obtaining third party funding on acceptable terms or at all.

On February 27, 2012, the Company issued a total of 6,325,000 Common Shares at a price of \$43.25 per share for gross proceeds of \$273.6 million. The net proceeds of \$265.4 million (net of share issuance costs of \$8.1 million) will be used by us to further our business objectives of developing technology and relationships in new and adjacent market opportunities with OEMs focused on industrial and automotive, and On-Road and Off-Road applications and capital expenditures including new test facilities.

Our cash position at December 31, 2012 includes cash generated from several other sources, including product revenue, parts revenue and service and other revenue. Therefore, our cash position is net of expenditures related to the use of proceeds disclosed in the public offering. To date, we have made gross expenditures related to the use of proceeds disclosed in the public offering as follows:

(in millions of United States dollars)	Estimated use of proceeds at time of public offering	Estimate of proceeds used during the Year ended December 31, 2012
	\$	\$
Off-Road Applications (formerly HHP Applications)	50.0 – 100.0	6.5
Capital Expenditures	30.0 – 50.0	14.2
Geographic Expansion (formerly HD business units)	20.0 – 40.0	37.0
Geographic Expansion (formerly LD business units)	20.0 – 40.0	29.5
General corporate purposes	36.3 – 146.3	28.1
	266.3	115.3

Westport's capital requirements will vary depending on a number of factors, including the timing and size of orders for our LNG systems, our ability to successfully launch products on time, our supply chain and manufacturing requirements, our success in executing our business plan, relationships with current and potential strategic partners, commercial sales and margins, product reliability, progress on research and development activities, capital expenditures and working capital requirements. We also continue to review investment and acquisition opportunities on a regular basis for technologies, businesses and markets that would complement our own products or assist us in our commercialization plans. Significant new orders, expanded engine programs, acquisitions or investments could require additional funding. If such additional funding is not available to us, if expected orders do not materialize or are delayed, or if we have significant overspending in our programs, we may be required to delay, reduce or eliminate certain research and development activities, reduce or cancel inventory orders, and possibly forego new program, acquisition or investment opportunities. Any of those

circumstances could potentially result in a delay of the commercialization of our products in development and could have an adverse effect on our business, results of operations, liquidity and financial condition.

This "Capital Requirements, Resources and Liquidity" section contains certain forward looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Readers are encouraged to read the "Forward Looking Statements" and "Basis of Presentation" sections of this MD&A, which discusses forward-looking statements and the "Business Risks and Uncertainties" section of this MD&A and of our Annual Information Form.

SHARES OUTSTANDING

For the twelve months ended December 31, 2012, nine months ended December 31, 2011 and twelve months ended March 31, 2011, the weighted average number of shares used in calculating the loss per share was 54,072,513, 47,933,348 and 42,305,889, respectively. During the twelve months ended December 31, 2012, we granted 770,727 stock options and 185,705 share units relating to our long-term incentive programs. The shares, share options and performance share units outstanding and exercisable as at the following dates are shown below:

	December 31, 2012		May 31, 2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Shares outstanding	55,294,091		55,658,459	
Share Options				
- Outstanding	996,047	27.78	909,027	29.68
- Exercisable	226,487	8.06	341,904	22.93
Share Units				
- Outstanding	1,095,094	N/A	1,413,715	N/A
- Exercisable	262,615	N/A	267,947	N/A

(weighted average exercise prices are presented in Canadian dollars)

SUMMARY OF QUARTERLY RESULTS AND DISCUSSION OF THE QUARTER ENDED DECEMBER 31, 2012

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

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

Selected Consolidated Quarterly Operations Data (unaudited)								
Three months ended	3/31/2011⁽¹⁾	6/30/2011⁽¹⁾	9/30/2011⁽¹⁾	12/31/2011⁽¹⁾	3/31/2012⁽¹⁾	6/30/2012⁽¹⁾	9/30/2012⁽¹⁾	12/31/2012
Units shipped	2	17	85	511	493	232	607	624
<i>(expressed in millions of United States dollars except for per share amounts)</i>								
Product revenue	\$ 8.0	\$ 12.1	\$ 31.0	\$ 32.0	\$ 35.3	\$ 34.3	\$ 28.3	\$ 31.0
Parts revenue	1.0	0.8	0.5	1.0	0.7	0.7	1.0	1.2
Service and other revenue	4.1	-	0.4	9.8	-	14.1	1.4	7.8
Total revenue	13.1	12.9	31.9	42.9	36.0	49.1	30.7	39.9
Cost of product and parts revenue	6.9	11.7	26.8	28.5	27.1	26.0	22.9	26.5
Gross margin	6.1	1.2	5.1	14.4	8.9	23.1	7.8	13.3
Gross margin percentage	47%	9%	16%	33%	25%	47%	25%	33%
Net loss for the period	\$ (14.4)	\$ (18.1)	\$ (13.2)	\$ (14.5)	\$ (22.6)	\$ (6.1)	\$ (32.5)	\$ (37.6)
Loss per share								
Basic	\$ (0.31)	\$ (0.38)	\$ (0.27)	\$ (0.30)	\$ (0.44)	\$ (0.11)	\$ (0.59)	\$ (0.68)
Diluted ⁽²⁾	\$ (0.31)	\$ (0.38)	\$ (0.27)	\$ (0.30)	\$ (0.44)	\$ (0.11)	\$ (0.59)	\$ (0.68)
Income from unconsolidated joint ventures:								
CWI net income attributable to the Company	2.3	2.9	4.7	5.3	4.8	3.6	3.6	1.2
WWI net income attributable to the Company	0.4	0.4	0.4	0.5	0.6	1.1	0.7	0.5

⁽¹⁾ Figures have been restated from those previously presented to reflect the retrospective accounting for its interest in its VIE's on an equity basis.

⁽²⁾ Fully diluted loss per share is not materially different as the effect of stock options, warrants and restricted and performance share units would be anti-dilutive.

THREE MONTHS ENDED DECEMBER 31, 2012 AND 2011

Our consolidated revenue for the three months ended December 31, 2012 was \$39.9 million, a decrease of \$3.0 million, or 7.0%, from \$42.9 million for the three months ended December 31, 2011. Corporate revenues for the quarter ended December 31, 2012 decreased due to a reduction in service revenue of \$2.1 million recorded in the current quarter under our development agreements. On-Road Systems product revenue decreased as 15L unit sales decreased 61 units to 109 units for the quarter ended December 31, 2012 compared to 170 units in the prior year period offset by an increase in revenue from the launch of F-250/F-350 bi-fuel super duty pick-up.

Our consolidated net loss for the three months ended December 31, 2012 was \$37.6 million, or a loss of \$0.68 per diluted share, compared to a net loss of \$14.5 million, or a loss of \$0.30 per diluted share, for the three months ended December 31, 2011. The \$23.1 million increase in net loss relates primarily to lower On-Road

Systems revenue due to a decrease in units sold, lower Corporate service revenue and overall increase in operating expenses in On-Road Systems and Corporate primarily due to increase in investment in new product programs, global market development efforts and new business development.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	48.5	48.5	48.5	-	-	-
Unsecured subordinated debentures ⁽¹⁾	36.2	40.9	2.3	38.6	-	-
Long-term payable ⁽²⁾	9.8	10.0	10.0	-	-	-
Senior financing ⁽³⁾	18.8	19.2	3.7	8.6	7.0	-
Senior revolving financing ⁽⁴⁾	13.2	13.2	13.2	-	-	-
Other bank financing	1.2	1.2	0.4	0.3	0.3	0.2
Other long-term debt	1.5	1.5	0.8	0.7	0.0	-
Operating lease commitments	-	19.4	4.8	8.0	5.5	1.1
Royalty payments ⁽⁵⁾	-	22.9	1.4	21.5	-	-
	\$ 129.2	\$ 176.9	\$ 85.1	\$ 77.7	\$ 12.8	\$ 1.3

(1) Includes interest at 9%.

(2) Includes interest at 3.72%.

(3) Includes interest at 2.0%, the rate in effect at December 31, 2012.

(4) Includes interest at 2.3%, the rate in effect at December 31, 2012.

(5) From fiscal 2011 to 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of \$1357 (CDN\$1350) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds CDN\$13,500 in any aforementioned fiscal year, up to a maximum of \$28,333 (CDN\$28,189). The Company has assumed the minimum required payments.

Contractual Commitments

Capital lease obligations related primarily to office equipment and machinery, have initial terms of three to five years and have interest rates ranging from 3.07% to 7.32%. Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment.

Short-term Debt

The senior financing agreement of \$18.8 million bears interest at the 6-month Euribor plus 1.7% with quarterly principal and interest payments. The senior revolving facility of \$13.2 million bears interest at the 6-month Euribor plus 2.20% and will be repaid on September 30, 2017.

On July 2, 2010, we acquired OMVL and portion of the purchase price amounting to \$10.0 million (€7.6 million) is payable on the third anniversary of the closing date. This amount is non-interest bearing and was discounted at market rates of interest on the acquisition date. The amount is guaranteed to the sellers of OMVL by Banca

Intesa S.p.A with a cross guarantee from the Bank of Montreal with a letter of credit for \$10.6 million (CDN\$10.6 million).

Subordinated Debenture Notes

On September 23, 2011, we raised CDN \$36.0 million through the issuance of debentures. The debentures are unsecured and subordinated to senior indebtedness, mature on September 22, 2014 and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term, which commenced on March 15, 2012. We paid to Macquarie Private Wealth Inc. a cash commission equal to 3.85% of the gross proceeds of the offering.

Royalty Payments

Royalty payments include annual royalties payable to ITO as outlined in "Government Funding" below.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS**Government Funding**

We are continually exploring strategic opportunities to work with governments to provide them with alternative fuel solutions. As a result of our government partnerships, we recognized \$0.8 million in government funding during the twelve months ended December 31, 2012 compared with \$0.4 million for the nine months ended December 31, 2011 and \$1.0 million for the twelve months ended March 31, 2011.

Under certain repayment terms, we are obligated to repay royalties as follows:

AGREEMENT	DESCRIPTION	ROYALTIES	TERM
INDUSTRIAL TECHNOLOGIES OFFICE (FORMERLY TECHNOLOGY PARTNERSHIPS CANADA)	Fund 30% of the eligible costs of, among other research projects, the adaptation of Westport's technology to diesel engines, up to \$18.9 million CDN.	Annual royalties equal to the greater of \$1.35 million CDN or 0.33% of annual gross revenues from all sources, provided that gross revenues exceed \$13.5 million CDN.	Fiscal 2010 to fiscal 2015, inclusive; royalty period may be extended until the earlier of March 31, 2018 or until cumulative royalties total \$28.2 million CDN.
DEPARTMENT OF NATURAL RESOURCES CANADA	Funded \$1.0 million CDN for demonstration of a low emissions natural gas power generator in Grande Prairie, Alberta.	1% of revenues from future sales of natural gas engines for power generators.	Earlier of 10 years from project completion date (August 30, 2004), or when cumulative royalties total \$1.0 million CDN.

For the year ended December 31, 2012, royalties of \$1.4 million (CDN \$1.4 million) relating to ITO were paid and an additional \$1.4 million (CDN \$1.4 million) was accrued during the year. Cumulative royalties paid relating to ITO as at December 31, 2012 total \$5.4 million CDN.

BUSINESS RISKS AND UNCERTAINTIES

An investment in our business involves risk and readers should carefully consider the risks described in our Annual Information Form and other filings on www.sedar.com and www.sec.gov. Our ability to generate revenue and profit from our technologies is dependent on a number of factors, and the risks discussed in our Annual Information Form, if they were to occur, could have a material impact on our business, financial condition, liquidity, results of operation or prospects. While we have attempted to identify the primary known risks that are material to our business, the risks and uncertainties discussed in our Annual Information Form may not be the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently believe are immaterial may also adversely affect our business, financial condition, liquidity, results of operation or prospects. A full discussion of the risks impacting our business is contained in the Annual Information Form for the year ended December 31, 2012 under the heading "Risk Factors" and is available on SEDAR at www.sedar.com.

NON-GAAP MEASURES

We use certain non-GAAP measures to assist in assessing our financial performance and liquidity. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures and reconciliations to financial statement line items for the periods indicated are as follows:

Cash flows from operations before changes in non-cash working capital			
<i>(expressed in millions of U.S. dollars)</i>			
	Twelve Months ended December 31 2012	Nine Months ended December 31 2011	Twelve Months ended March 31 2011
Cash flow from operations			
Net loss for the year	\$ (98.8)	\$ (45.8)	\$ (42.1)
Items not involving cash:			
Depreciation and amortization	11.4	6.2	3.4
Stock-based compensation expense	12.5	6.2	4.9
Deferred income tax (recovery) expense	(0.4)	(2.2)	0.5
Income from investment accounted for by the equity method ⁽¹⁾	(16.2)	(14.5)	(8.6)
Accretion of long-term debt	2.1	1.0	2.0
Other	0.3	0.6	0.1
Cash flows from operations before changes in non-cash operating working capital	<u>\$ (89.1)</u>	<u>\$ (48.5)</u>	<u>\$ (39.8)</u>

⁽¹⁾ December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in note 2(a).

NOTICE TO READER

This filing amends the audited consolidated financial statements of Westport Innovations Inc. (the "Company") for the year ended December 31, 2012, nine months ended December 31, 2011 and year ended March 31, 2011 ("Audited Financial Statements") that were originally filed on March 7, 2013 with securities regulatory authorities in Canada and on March 8, 2013 on Form 40-F with the Securities and Exchange Commission ("SEC") in the United States (the "Original Filings"). This amended filing is being filed (i) in response to comments the Company received from the SEC regarding the disclosure in the Audited Financial Statements in its Original Filings and (ii) to make conforming changes to the Audited Financial Statements from those in the Original Filings based on comments the Company received from the British Columbia Securities Commission in respect of the Company's preliminary short form base shelf prospectus. In addition, the Company has corrected certain typographical errors in, and made certain other conforming changes to, the information that was in the Audited Financial Statements in the Original Filings. This amended filing and the additional disclosures does not impact reported amounts of revenues, net loss attributable to the Company, loss per share or net cash flows for the year ended December 31, 2012, the nine month period ended December 31, 2011 and the year ended March 31, 2011.

Subsequent to the filing of the Original Filings, Management has identified a material weakness in the Company's internal controls over financial reporting as of December 31, 2012. The Company did not employ accounting staff with an appropriate level of technical accounting knowledge, experience and training in the application of recognition, measurement and disclosure requirements of U.S. GAAP and experience with regulatory requirements. This control deficiency specifically resulted in the Company changing its determination of whether a primary beneficiary existed in connection with the application of Accounting Standards Update 2009-17, *Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, ("ASU 2009-17") for the Company's interest in Cummins Westport Inc. ("CWI"). As a result, it was determined that no primary beneficiary existed and material adjustments were made to the consolidated financial statements as at December 31, 2011 and for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to account for the interest under the equity method.

This control deficiency also resulted in reclassifications of foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to ensure consistency to other presentations of CWI equity income in the filing, deferred income taxes from non-current to current for balances as at December 31, 2011 and within the segmented information note related to long-lived assets information allocated by geographic areas as at December 31, 2012 and December 31, 2011. We have also adjusted the disclosure of consolidated pro forma revenue in the financial statement notes to remove CWI revenue for the nine month period ended December 31, 2011 and the year ended March 31, 2011.

As a result of the material weakness that has been determined to exist as described in Management's Report on Internal Control over Financial Reporting, our CEO and CFO have concluded that our disclosure controls and procedures were not effective as of December 31, 2012. This control deficiency cannot be considered to be remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that the controls are operating effectively. See Management's Report on Internal Controls Over Financial Reporting in the Company's management's discussion and analysis of financial condition and results of operations for the twelve months ended December 31, 2012.

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

WESTPORT INNOVATIONS INC.

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



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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Westport Innovations Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Westport Innovations Inc.'s internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 6, 2013, except as to the effects of the material weakness described in Management's Report on Internal Control over Financial Reporting which is as of May 31, 2013, expressed an adverse opinion on the effectiveness of Westport Innovations Inc.'s internal control over financial reporting.

Restatement of Consolidated Financial Statements

Without modifying our opinion, we draw attention to note 2(a) to the consolidated financial statements which indicates the consolidated financial statements as at and for the year ended December 31, 2012, as at and for the nine-month period ended December 31, 2011 and for the year ended March 31, 2011 have been restated and more extensively describes the reasons for the restatements.

KPMG LLP (signed)

Chartered Accountants

March 6, 2013, except for the restatements identified in note 2(a) which are as of May 31, 2013
Vancouver, Canada



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

In our report dated March 6, 2013, we expressed an unqualified opinion that the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). As described in the following paragraph, a material weakness was subsequently identified. As a result, management has revised its assessment, as presented in the accompanying Management's Report on Internal Control Over Financial Reporting, to conclude that the Company's internal control over financial reporting was not effective as of December 31, 2012. Accordingly, our present opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: The Company did not employ accounting staff with an appropriate level of technical accounting knowledge, experience and training in the application of recognition, measurement and disclosure requirements of U.S. GAAP and experience with regulatory requirements. We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2012 consolidated financial statements, and this report does not affect our report dated March 6, 2013, except for the restatements identified in note 2(a) which are as of May 31, 2013, which expressed an unmodified (unqualified) opinion on those consolidated financial statements

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria the Company has not maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

KPMG LLP (signed)

Chartered Accountants

March 6, 2013, except as to the effects of the material weakness described in Management's Report on Internal Control over Financial Reporting, which is as of May 31, 2013
Vancouver, Canada

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets

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

December 31, 2012, with comparative information for 2011

	2012	2011
		(Restated – note 2(a))
Assets		
Current assets:		
Cash and cash equivalents	\$ 188,958	\$ 63,285
Short-term investments	26,902	4,274
Accounts receivable (note 5)	44,189	50,922
Inventories (note 6)	44,946	37,026
Prepaid expenses	6,641	6,462
Current portion of deferred income tax assets (note 20(b))	7,183	5,654
Other current assets (note 8)	-	2,034
	318,819	169,657
Long-term investments (note 7)	19,118	26,307
Other assets (note 8)	1,852	1,994
Property, plant and equipment (note 9)	58,194	35,408
Intangible assets (note 10)	35,215	36,582
Goodwill (note 11)	56,879	55,814
	\$ 490,077	\$ 325,762
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	\$ 48,509	\$ 49,251
Deferred revenue	1,254	478
Current portion of deferred income tax liabilities (note 20(b))	65	-
Loan payable (note 21)	-	19,409
Current portion of long-term debt (note 13)	28,566	20,568
Current portion of warranty liability (note 14)	2,072	1,187
	80,466	90,893
Warranty liability (note 14)	4,308	3,214
Long-term debt (note 13)	52,156	65,577
Deferred revenue	5,215	2,876
Deferred income tax liabilities (note 20(b))	9,245	8,152
Other long-term liabilities (note 15)	2,606	2,460
	153,996	173,172
Shareholders' equity:		
Share capital (note 17):		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
55,294,091 (2011 - 48,455,601) common shares	733,385	459,866
Other equity instruments	9,228	6,112
Additional paid in capital	6,384	4,499
Accumulated deficit	(429,932)	(331,158)
Accumulated other comprehensive income	17,016	13,271
	336,081	152,590
Commitments and contingencies (notes 16 and 23)		
	\$ 490,077	\$ 325,762

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Douglas R. King"

Director

"John A. Beaulieu"

Director

WESTPORT INNOVATIONS INC.

Consolidated Statements of Operations

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

	Year ended December 31, 2012	Nine months ended December 31, 2011 (Restated – note 2(a))	Year ended March 31, 2011 (Restated – note 2(a))
Product revenue	\$ 128,914	\$ 75,164	\$ 25,863
Parts revenue	3,468	2,351	2,784
Service and other revenue (note 22)	23,244	10,181	8,128
	155,626	87,696	36,775
Cost of revenue and expenses:			
Cost of product and parts revenue	102,486	67,093	23,993
Research and development (notes 18(d) and 19)	73,198	36,574	24,620
General and administrative (note 18(d))	44,811	22,738	15,030
Sales and marketing (note 18(d))	30,112	15,302	13,985
Foreign exchange loss (gain)	1,185	(2,053)	3,289
Depreciation and amortization	11,395	6,200	3,375
Bank charges, interest and other	737	917	446
	263,924	146,771	84,738
Loss before undernoted	(108,298)	(59,075)	(47,963)
Income from investment accounted for by the equity method (note 7)	16,190	14,458	8,627
Interest on long-term debt and amortization of discount	(5,354)	(2,998)	(3,323)
Interest and other income	426	661	938
Loss before income taxes	(97,036)	(46,954)	(41,721)
Income tax recovery (expense) (note 20):			
Current	(2,147)	(1,028)	68
Deferred	409	2,188	(489)
	(1,738)	1,160	(421)
Net loss for the period	\$ (98,774)	\$ (45,794)	\$ (42,142)
Loss per share:			
Basic and diluted	\$ (1.83)	\$ (0.96)	\$ (1.00)
Weighted average common shares outstanding:			
Basic and diluted	54,072,513	47,933,348	42,305,889

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

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

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

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

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

	Year ended December 31, 2012	Nine months ended December 31, 2011 (Restated – note 2(a))	Year ended March 31, 2011 (Restated – note 2(a))
Cash flows from operating activities:			
Loss for the period	\$ (98,774)	\$ (45,794)	\$ (42,142)
Items not involving cash:			
Depreciation and amortization	11,395	6,200	3,375
Stock-based compensation expense	12,468	6,179	4,923
Deferred income tax expense (recovery)	(409)	(2,188)	489
Change in deferred lease inducements	(52)	(47)	(58)
Income from investment accounted for by the equity method	(16,190)	(14,458)	(8,627)
Accretion of long-term debt	2,094	1,016	1,992
Other	392	654	165
Changes in non-cash operating working capital:			
Accounts receivable	6,733	(14,598)	3,919
Inventories	(7,920)	(2,051)	(1,927)
Prepaid expenses	179	(4,649)	(457)
Accounts payable and accrued liabilities	(742)	(857)	127
Deferred revenue	3,115	1,561	162
Warranty liability	1,979	2,751	(384)
	(85,732)	(66,281)	(38,443)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(30,363)	(13,123)	(3,171)
Purchase of intangible assets	(989)	(123)	-
(Purchase) sale of short-term investments, net	(22,520)	26,621	3,376
Repayment of loan receivable	2,494	-	-
Increase in loan payable	2,450	29,080	18,961
Repayment of loan payable	(21,840)	(23,840)	(21,207)
Acquisitions, net of acquired cash (note 4)	(1,125)	(9,084)	(13,016)
Investment in equity interest (note 7)	-	(955)	(4,316)
Dividends received from joint venture	22,600	10,000	6,000
	(49,293)	18,576	(13,373)
Cash flows from financing activities:			
Repayment of demand installment loan	-	-	(3,206)
Increase in operating lines of credit	4,245	-	-
Repayment on operating lines of credit	(3,118)	(3,240)	-
Repayment of short-term debt	-	(221)	-
Repayment of long-term debt	(6,725)	(53,057)	(117)
Issuance of subordinated debenture notes	-	34,345	-
Finance costs incurred	-	(1,392)	-
Proceeds from stock options exercised	969	1,816	3,298
Shares issued for cash	273,556	-	131,265
Share issuance costs	(8,126)	-	(6,069)
	260,801	(21,749)	125,171
Effect of foreign exchange on cash and cash equivalents	(103)	1,206	4,158
Increase (decrease) in cash and cash equivalents	125,673	(68,248)	77,513
Cash and cash equivalents, beginning of period	63,285	131,533	54,020
Cash and cash equivalents, end of period	\$ 188,958	\$ 63,285	\$ 131,533

WESTPORT INNOVATIONS INC.

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

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

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements

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

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

1. Company organization and operations:

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

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

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

2. Significant accounting policies:

(a) Basis of presentation:

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

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

In previously filed annual and interim financial statements in fiscal 2012 and 2011, the Company had identified Cummins Westport Inc. ("CWI") as a variable interest entity and the Company's interest as being that of the primary beneficiary upon adoption of Accounting Standards Update 2009-17, *Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, ("ASU 2009-17") effective April 1, 2010. As a result, the Company consolidated CWI on a line by line basis in its consolidated financial statements reflecting its financial position, results of operations and cash flows.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements

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

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

2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

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

The Company originally filed its consolidated financial statements for the year ended December 31, 2012 reflecting the restatement described above on or about March 7, 2013. Subsequent to the date of filing the 2012 annual consolidated financial statements, the Company has identified additional disclosures to assist in understanding the impact of the change in accounting for CWI. See notes 7(b) and 26 for the additional disclosures and the effect of the corrections on each financial statement line item for previously issued financial statements.

In addition, the Company identified amounts reclassified from foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 (\$2,040) and the year ended March 31, 2011 (\$1,042) to be consistent with the revised presentation of CWI and revised the pro forma revenue amounts for these periods in notes 4(a) and (b). The Company also identified reclassifications in deferred income taxes from non-current to current (\$5,639) for balances as at December 31, 2011 (note 20(b)) and segmented information related to long-lived assets information (note 24) allocated by geographic areas as at December 31, 2012 and December 31, 2011. Finally, certain typographical errors have been corrected to ensure consistency of presentation.

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

(b) Foreign currency translation:

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

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements

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

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

2. Significant accounting policies (continued):

(b) Foreign currency translation (continued):

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

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

(c) Cash and cash equivalents:

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

(d) Short-term investments:

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

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements

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

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

2. Significant accounting policies (continued):

(e) Accounts and loans receivable:

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

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

(f) Inventories:

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

(g) Property, plant and equipment:

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

Assets	Basis	Rate
Buildings	Straight-line	10 years
Computer equipment and software	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Machinery and equipment	Straight-line	8 – 10 years
Leasehold improvements	Straight-line	Lease term

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2. Significant accounting policies (continued):

(h) Long-term investments:

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

(i) Financial liabilities:

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

(j) Research and development costs:

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

(k) Government assistance:

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

(l) Intangible assets:

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

(m) Impairment of long-lived assets:

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

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2. Significant accounting policies (continued):

(n) Goodwill impairment:

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

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

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

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

(o) Warranty liability:

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

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2. Significant accounting policies (continued):

(p) Extended warranty:

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

(q) Revenue recognition:

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

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

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

(r) Income taxes:

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

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

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3. Accounting changes:

(a) Adoption of new accounting standards:

Fair value measurements:

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

Comprehensive income:

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

Intangibles – goodwill and other:

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

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3. Accounting changes (continued):

(b) New accounting pronouncements:

Balance sheet:

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

4. Business combinations:

(a) Acquisition of Emer:

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

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

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4. Business combinations (continued):

(a) Acquisition of Emer (continued):

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

Consideration allocated to:		
Property, plant and equipment	\$	17,644
Other tangible assets, including cash of \$11,073		60,532
Intangible assets subject to amortization over 5 to 20 years		32,954
Goodwill		50,774
Total assets acquired		161,904
Less:		
Long-term debt		(83,272)
Other liabilities		(38,926)
Total net assets acquired	\$	39,706
Consideration:		
Cash	\$	17,607
Common shares		22,099
	\$	39,706

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

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

The consolidated financial statements reflect consolidated revenue and net loss for Emer of \$31,831 and \$1,924, respectively, from July 1, 2011 to December 31, 2011. Had the Company acquired Emer on April 1, 2011, consolidated pro forma revenue and net loss for the nine-month period ended December 31, 2011 would have been \$108,372 (year ended March 31, 2011 - \$108,322) and \$54,927 (year ended March 31, 2011 - \$31,322), respectively, not including the financial results of AFV (note 4(b)).

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

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4. Business combinations (continued):

(b) Acquisition of AFV:

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

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

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

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

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

The foreign exchange rate used to translate net assets acquired, liabilities assumed and purchase consideration from Swedish Krona into U.S. dollars was 6.6712 based on the October 11, 2011 closing rate.

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

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4. Business combinations (continued):

(b) Acquisition of AFV (continued):

The consolidated financial statements reflect consolidated revenue and net loss for AFV of \$2,566 and \$191, respectively, from October 11, 2011 to December 31, 2011. Had the Company acquired AFV on April 1, 2011, consolidated pro forma revenue and net loss for the nine months ended December 31, 2011 would have been \$62,863 (year ended March 31, 2011 - \$36,775) and \$43,064 (year ended March 31, 2011 - \$42,724), respectively, not including the financial results of Emer (note 4(a)).

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

(c) Acquisition of AEC:

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

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

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

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

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

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

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

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5. Accounts receivable:

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

6. Inventories:

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

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

7. Long-term investments:

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

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7. Long-term investments (continued):

(a) Weichai Westport Inc. (continued):

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

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

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

	December 31, 2012	December 31, 2011
Current assets:		
Cash and short-term investments	\$ 1,145	\$ 3,073
Accounts receivable	21,512	10,005
Inventory	55,109	23,903
Other current assets	1,053	751
Long-term assets	8,178	4,179
Total assets	\$ 86,997	\$ 41,911
Current liabilities:		
Accounts payable and accrued liabilities	\$ 49,125	\$ 20,567
Other current liabilities	12,055	4,248
Total liabilities	\$ 61,180	\$ 24,815

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7. Long-term investments (continued):

(a) Weichai Westport Inc. (continued):

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

(b) Cummins Westport Inc.:

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

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

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

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

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7. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

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

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

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

For the year ended December 31, 2012, the Company recognized its share of CWI's income of \$13,232 (nine months ended December 31, 2011 - \$12,958; year ended March 31, 2011 - \$7,999), as income from investment accounted for by the equity method.

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

	December 31, 2012	December 31, 2011 (Restated – note 2(a))
Current assets:		
Cash and short-term investments	\$ 44,371	\$ 17,403
Accounts receivable	6,995	4,717
Loan receivable	-	38,818
Current portion of deferred income tax assets	7,304	5,271
Other current assets	225	89
Long-term assets:		
Property, plant and equipment	896	835
Deferred income tax assets	9,786	5,303
Total assets	\$ 69,577	\$ 72,436

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7. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

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

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
		(Restated – note 2(a))	
Product revenue	\$ 161,741	\$ 114,518	\$ 84,612
Parts revenue	36,274	24,326	26,675
	198,015	138,844	111,287
Cost of revenue and expenses:			
Cost of product and parts revenue	136,575	78,837	66,989
Research and development	12,114	6,720	10,043
General and administrative	1,417	796	1,181
Sales and marketing	12,541	9,659	7,675
Foreign exchange loss (gain)	(18)	17	160
Bank charges, interest and other	472	369	299
	163,101	96,398	86,347
Income before undernoted	34,914	42,446	24,940
Interest and investment income	530	297	284
Income before income taxes	35,444	42,743	25,224
Income tax recovery (expense):			
Current	(16,362)	(18,602)	(8,954)
Deferred	6,517	1,775	(272)
	(9,845)	(16,827)	(9,226)
Income for the period	25,599	25,916	15,998
Income attributable to Joint Venture Partner	(12,367)	(12,958)	(7,999)
Income attributable to the Company	\$ 13,232	\$ 12,958	\$ 7,999

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8. Other assets:

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

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

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

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

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

9. Property, plant and equipment:

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

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9. Property, plant and equipment (continued):

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

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

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

10. Intangible assets:

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

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

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

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

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11. Goodwill:

A continuity of goodwill is as follows:

	December 31, 2012	December 31, 2011
Balance, beginning of period	\$ 55,814	\$ 8,202
Acquisition of Emer (note 4(a))	-	50,774
Acquisition of AFV (note 4(b))	-	2,701
Impact of foreign exchange	1,065	(5,863)
Balance, end of period	\$ 56,879	\$ 55,814

12. Accounts payable and accrued liabilities:

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

13. Long-term debt:

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

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13. Long-term debt (continued):

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

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

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

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

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

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

2013	\$ 3,718
2014	4,090
2015	4,461
2016	4,647
2017	2,324
	<u>\$ 19,240</u>

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

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

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

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13. Long-term debt (continued):

- (d) Other bank financing consists of various unsecured bank financing arrangements that carry rates of interest ranging from 1.01% to 8.00% and are payable on maturity dates ranging from June 23, 2013 to June 23, 2017.
- (e) The Company has capital lease obligations that have initial terms of three to five years at interest rates ranging from 3.07% to 7.32%. The capital lease obligations require the following minimum annual payments during the respective fiscal years:

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

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

14. Warranty liability:

A continuity of the warranty liability is as follows:

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

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15. Other long-term liabilities:

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

- (a) Italian law requires companies to make a mandatory termination payment to employees. It is paid, as a lump sum, when the employment ends for any reason such as retirement, resignation or layoff. The severance indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. There is no vesting period or funding requirement associated with the liability. The liability recorded in the consolidated balance sheet is the amount that the employee would be entitled to if the employee terminates immediately. This liability for severance indemnities relates primarily to the Company's employees in Italy.
- (b) The total purchase price to acquire AFV also includes earn-out payments payable in the Company's shares and tied to revenue and production milestones to be achieved no later than December 31, 2014. This contingent consideration is estimated to have a fair value of \$442 as at December 31, 2012 (December 31, 2011 - \$428).

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

16. Government assistance:

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

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16. Government assistance (continued):

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

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

17. Share capital:

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

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

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

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

During the twelve months ended December 31, 2012, the Company issued 513,490 common shares, net of cancellations, upon exercises of stock options and share units (nine months ended December 31, 2011 - 568,276 common shares; twelve months ended March 31, 2011 - 662,108 common shares). The Company issues new shares to satisfy stock option and share unit exercises.

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18. Stock options and other stock-based plans:

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

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

(a) Stock options:

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

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

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

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

(a) Stock options (continued):

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

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

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

(b) Share units:

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

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

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

(b) Share units (continued):

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

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

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

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

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

(b) Share units (continued):

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

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

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

(c) Aggregate intrinsic values:

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

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

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

(d) Stock-based compensation:

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

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

19. Research and development expenses:

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

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

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20. Income taxes:

- (a) The Company's income tax provision differs from that calculated by applying the combined enacted Canadian federal and provincial statutory income tax rate of 25.0% for the twelve months ended December 31, 2012 (nine months ended December 31, 2011 – 26.5%; year ended March 31, 2011 - 28.0%) as follows:

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

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20. Income taxes (continued):

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

	December 31, 2012	December 31, 2011
Deferred income tax assets:		
Net operating loss carry forwards	\$ 76,496	\$ 51,240
Intangible assets	1,557	873
Property, plant and equipment	5,703	3,109
Financing and share issuance costs	3,248	5,212
Warranty liability	2,013	1,073
Deferred revenue	1,601	861
Inventory	2,300	1,972
Unrealized foreign exchange	595	1,324
Research and development	2,132	2,086
Other	3,917	1,782
Total gross deferred income tax assets	99,562	69,532
Valuation allowance	(89,033)	(61,456)
Total deferred income tax assets	10,529	8,076
Deferred income tax liabilities:		
Intangible assets	8,784	6,696
Property, plant and equipment	3,297	3,878
Other	575	-
Total deferred income tax liabilities	12,656	10,574
Total net deferred income tax liabilities	\$ 2,127	\$ 2,498
Allocated as follows (Restated – note 2(a)):		
Current deferred income tax assets	\$ 7,183	\$ 5,654
Current deferred income tax liabilities	(65)	-
Long-term deferred income tax liabilities	(9,245)	(8,152)
Total net deferred income tax liabilities	\$ (2,127)	\$ (2,498)

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

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20. Income taxes (continued):

(b) (continued):

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

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

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

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

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

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20. Income taxes (continued):

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

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

21. Related party transactions:

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

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

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
Research and development	\$ 223	\$ 148	\$ 314
General and administrative	1,007	338	1,164
Sales and marketing	2,830	2,598	3,501
	\$ 4,060	\$ 3,084	\$ 4,979

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

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

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22. Service and other revenue:

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

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

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

23. Commitments and contingencies:

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

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

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

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

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

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

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24. Segmented information:

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

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

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

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

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

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

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24. Segmented information (continued):

	Year ended December 31, 2012	Nine months ended December 31, 2011	Year ended March 31, 2011
		(Restated – note 2(a))	(Restated – note 2(a))
Revenue:			
Applied Technologies	\$ 91,675	\$ 55,064	\$ 22,053
On-Road Systems	40,706	22,451	6,594
Corporate and Technology Investments	23,245	10,181	8,128
CWI	198,015	138,844	111,287
WWI	272,086	84,917	53,127
Total segment revenues	625,727	311,457	201,189
Less: equity investees' revenues	470,101	223,761	164,414
Total consolidated revenues	\$ 155,626	\$ 87,696	\$ 36,775
Net operating income (loss) excluding depreciation and amortization foreign exchange loss (gain), bank charges and other:			
Applied Technologies	\$ 10,868	\$ 1,051	\$ (5,170)
On-Road Systems	(43,503)	(32,625)	(19,985)
New Markets and Off-Road Systems	(12,324)	(2,670)	-
Corporate and Technology Investments	(50,022)	(19,767)	(15,698)
CWI	35,368	42,832	25,399
WWI	9,765	4,879	3,373
Net segment operating loss	(49,848)	(6,300)	(12,081)
Less: equity investees' operating income	45,133	47,711	28,772
Net consolidated operating loss excluding depreciation and amortization, foreign exchange loss (gain) and bank charges and other:	\$ (94,981)	\$ (54,011)	\$ (40,853)
Depreciation and amortization:			
Applied Technologies	\$ (7,905)	\$ (5,048)	\$ (1,305)
On-Road Systems and Corporate	(3,490)	(1,152)	(2,070)
	(11,395)	(6,200)	(3,375)
Net consolidated operating loss before foreign exchange loss (gain), bank charges and other	(106,376)	(60,211)	(44,228)
Foreign exchange loss (gain), bank charges and other	1,922	(1,136)	3,735
Loss before undernoted	(108,298)	(59,075)	(47,963)
Interest on long debt and other income (expenses), net	(4,928)	(2,337)	(2,385)
Income from investment accounted for by the equity method (note 7)	16,190	14,458	8,627
Loss before income taxes	\$ (97,036)	\$ (46,954)	\$ (41,721)
Total additions to long-lived assets excluding business combinations:	\$ 31,566	\$ 13,392	\$ 3,613

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24. Segmented information (continued):

It is impracticable for the Company to allocate additions to long lived assets to the new reporting segment.

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide it by geographical regions. Product and service and other revenues are attributable to geographical regions based on location of the Company's customers. For the year ended December 31, 2012, 38% (nine months ended December 31, 2011 – 28%; year ended March 31, 2011 – 11%) of the Company's product and service revenues were from sales in the Americas (including the United States), 9% (nine months ended December 31, 2011 – 15%; year ended March 31, 2011 – 12%) from sales in Asia (including China), and 53% (nine months ended December 31, 2011 – 57%; year ended March 31, 2011 – 77%) from sales elsewhere (including Italy). The Company's revenue earned from Canadian customers is not significant and has been included in revenue from sales in the Americas.

Total goodwill of \$51,711 was allocated to Applied Technologies and \$5,168 On-Road Systems reporting segments.

As at December 31, 2012, total long-term investments of \$18,544 (December 31, 2011 – \$25,670) was allocated to the Corporate segment and \$574 (December 31, 2011 – \$637) was allocated to the On-Road Systems. Total assets are allocated as follows:

	December 31, 2012	December 31, 2011 (Restated – note 2(a))
Applied Technologies	\$ 161,206	\$ 169,898
On-Road Systems	85,401	49,347
Corporate and unallocated assets	243,470	106,517
CWI	69,577	72,436
WWI	86,997	41,911
	646,651	440,109
Less: equity investees' total assets	156,574	114,347
Total consolidated assets	\$ 490,077	\$ 325,762

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

Long-lived assets information by geographic area:

	December 31, 2012 (Restated – note 2(a))	December 31, 2011 (Restated – note 2(a))
Italy	\$ 99,099	\$ 105,601
Canada	29,707	16,294
United States	12,463	1,312
Sweden	7,720	5,378
China	6,524	3,087
Australia	601	32
	156,114	131,704
Less: equity investees' long-lived assets	5,826	3,900
Total consolidated long-lived assets	\$ 150,288	\$ 127,804

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25. Financial instruments:

(a) Financial risk management:

The Company has exposure to liquidity risk, credit risk, foreign currency risk and interest rate risk.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company has sustained losses and negative cash flows from operations since inception. At December 31, 2012, the Company has \$215,860 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at December 31, 2012:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	\$ 48,509	\$ 48,509	\$ 48,509	\$ -	\$ -	\$ -
Unsecured subordinated debentures ⁽¹⁾	36,185	40,929	2,302	38,627	-	-
Long-term payable ⁽²⁾	9,836	10,021	10,021	-	-	-
Senior financing ⁽³⁾	18,812	19,240	3,718	8,551	6,971	-
Senior revolving financing ⁽⁴⁾	13,185	13,185	13,185	-	-	-
Other bank financing	1,171	1,176	392	300	342	142
Other long-term debt	1,533	1,533	836	661	36	-
Operating lease commitments	-	19,358	4,785	7,964	5,490	1,119
Royalty payments ⁽⁵⁾	-	22,906	1,357	21,549	-	-
	\$ 129,231	\$ 176,857	\$ 85,105	\$77,652	\$ 12,839	\$ 1,261

⁽¹⁾ Includes interest at 9%.

⁽²⁾ Includes interest at 3.72%.

⁽³⁾ Includes interest at 2.0%, the rate in effect at December 31, 2012.

⁽⁴⁾ Includes interest at 2.3%, the rate in effect at December 31, 2012.

⁽⁵⁾ From fiscal 2011 to 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of \$1,357 (CDN\$1,350) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds CDN\$13,500 in any aforementioned fiscal year, up to a maximum of \$28,333 (CDN\$28,189). The Company has assumed the minimum required payments.

The Company expects to be able to meet its future financial obligations with its current source of funds. However, there are uncertainties related to the timing of the Company's cash inflows and outflows, specifically around the sale of inventories and amounts required for market and product development costs. These uncertainties include the volume of commercial sales related to its natural gas engines and fuel system products and the development of markets for, and customer acceptance of, these products. As a result, the Company may need to seek additional equity or arrange debt financing, which could include additional lines of credit, in order to meet its financial obligations.

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25. Financial instruments (continued):

(c) Credit risk:

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and accounts receivable. The Company manages credit risk associated with cash and cash equivalents and short-term investments by regularly consulting with its current bank and investment advisors and investing primarily in liquid short-term paper issued by Schedule 1 Canadian banks, R1 rated companies and governments. The Company monitors its portfolio, and its policy is to diversify its investments to manage this potential risk.

The Company is also exposed to credit risk with respect to uncertainties as to timing and amount of collectability of accounts receivable and loans receivable. As at December 31, 2012, 83% (December 31, 2011 - 83%) of accounts receivable relates to customer receivables, 1% (December 31, 2011 - 1%) relates to government grants receivable and 16% (December 31, 2010 - 16%) relates to amounts due from joint venture and indirect, income tax and value added taxes receivable. In order to minimize the risk of loss for customer receivables, the Company's extension of credit to customers involves review and approval by senior management as well as progress payments as contracts are executed. Most sales are invoiced with payment terms in the range of 30 days to 90 days. The Company reviews its customer receivable accounts and regularly recognizes an allowance for doubtful receivables as soon as the account is determined not to be fully collectible. Estimates for allowance for doubtful debts are determined by a customer-by-customer evaluation of collectability at each balance sheet reporting date, taking into consideration past due amounts and any available relevant information on the customers' liquidity and financial position.

The carrying amount of cash and cash equivalents, short-term investments and accounts receivable of \$260,049 at December 31, 2012 represents the Company's maximum credit exposure.

(d) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company conducts a significant portion of its business activities in foreign currencies, primarily the United States dollar ("U.S.") and the Euro ("Euro"). Cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and long-term debt that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies.

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25. Financial instruments (continued):

(d) Foreign currency risk (continued):

The Company's functional currency is the Canadian dollar. The U.S. dollar and the Euro carrying amount of financial instruments subject to exposure to foreign currency risk in the consolidated balance sheet at December 31, 2012 is as follows:

		U.S. dollars
Cash and cash equivalents	\$	169,369
Short-term investments		24,442
Accounts receivable		7,864
Accounts payable		3,673
		Euros
Cash and cash equivalents	€	387
Current portion of long-term debt		7,459

If foreign exchange rates on December 31, 2012 had changed by 25 basis points, with all other variables held constant, net loss for the year ended December 31, 2012 would have changed by \$495 and \$18 for US dollar denominated and Euro denominated financial instruments, respectively. The Company's exposure to currencies other than U.S. dollars and Euros is not material.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk on its loan receivable and certain long-term debt with variable rates of interest. The Company limits its exposure to interest rate risk by continually monitoring and adjusting portfolio duration to align to forecasted cash requirements and anticipated changes in interest rates.

If interest rates for the year ended December 31, 2012 had changed by 50 basis points, with all other variables held constant, net loss for the year ended December 31, 2012 would have changed by \$57.

(f) Fair value of financial instruments:

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

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25. Financial instruments (continued):

(f) Fair value of financial instruments (continued):

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

The carrying value reported in the balance sheets for obligations under capital lease, which is based upon discounted cash flows, approximates its fair value.

The carrying value reported in the balance sheet for the unsecured subordinated debenture notes (note 13(a)) approximates its fair value, based on market rates of interest for similar indebtedness. Additionally, the interest rate on the notes approximates the interest rate being demanded in the market for debt with similar terms and conditions.

The carrying value reported in the balance sheet for other long-term payable (note 13(b)) is recorded at amortized cost using the effective interest rate method. It is being accreted to the gross proceeds of €7,600 that is payable to OMVL on July 2, 2013 at the effective interest rate of 3.65%. As at December 31, 2012, the fair value of the long-term debt is higher than its carrying value by \$70 based on a market interest rate of 2.35%.

The carrying value reported in the balance sheet for senior financing agreements (note 13(c)) approximates its fair value as at December 31, 2012, as the interest rate on the debt is floating and therefore approximates the market rate of interest. The Company's credit spread also has not substantially changed from the 2.2% premium currently paid.

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

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

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

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

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

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

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26. Restatement of previously issued financial statements:

The following tables present the impact to the previously issued financial statements as at December 31, 2011 and for the nine months ended December 31, 2011 and the year ended March 31, 2011 and segmented information as at December 31, 2012 and December 31, 2011 of the restatements described in note 2(a):

(a) As previously reported columns below represent amounts as reported in the Company's fiscal 2011 annual consolidated financial statements filed on or about February 29, 2012.

Effect on Consolidated Balance Sheet:	December 31, 2011 As previously reported	Correction	December 31, 2011 Restated – note 2(a)
Assets			
Current assets:			
Cash and cash equivalents	\$ 70,298	\$ (7,013)	\$ 63,285
Short-term investments	15,379	(11,105)	4,274
Accounts receivable	55,423	(4,501)	50,922
Loan receivable	19,409	(19,409)	-
Inventories	37,057	(31)	37,026
Prepaid expenses	6,551	(89)	6,462
Current portion of deferred income tax assets	6,447	(793)	5,654
Other current assets	2,034	-	2,034
	212,598	(42,941)	169,657
Long-term investments	8,369	17,938	26,307
Other assets	1,994	-	1,994
Property, plant and equipment	36,243	(835)	35,408
Intangible assets	36,582	-	36,582
Deferred income tax assets	5,075	(5,075)	-
Goodwill	55,814	-	55,814
	\$ 356,675	\$ (30,913)	\$ 325,762
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 55,807	\$ (6,556)	\$ 49,251
Deferred revenue	3,146	(2,668)	478
Loan payable	-	19,409	19,409
Current portion of long-term debt	20,568	-	20,568
Current portion of warranty liability	12,978	(11,791)	1,187
	92,499	(1,606)	90,893
Warranty liability	11,253	(8,039)	3,214
Long-term debt	65,577	-	65,577
Deferred revenue	10,327	(7,451)	2,876
Deferred income tax liabilities	3,446	4,706	8,152
Other long-term liabilities	3,104	(644)	2,460
	186,206	(13,034)	173,172
Shareholders' equity:			
Share capital	459,866	-	459,866
Other equity instruments	6,112	-	6,112
Additional paid in capital	4,499	-	4,499
Accumulated deficit	(331,158)	-	(331,158)
Accumulated other comprehensive income	13,271	-	13,271
	152,590	-	152,590
Joint venture partners' share of net assets of joint ventures	17,879	(17,879)	-
	170,469	(17,879)	152,590
	\$ 356,675	\$ (30,913)	\$ 325,762

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26. Restatement of previously issued financial statements (continued):

Effect on Consolidated Statements of Operations:	For the Nine months ended December 31, 2011		
	As previously reported	Correction	Restated – note 2(a)
Product revenue	\$ 189,682	\$ (114,518)	\$ 75,164
Parts revenue	26,677	(24,326)	2,351
Service and other revenue	10,181	-	10,181
	226,540	(138,844)	87,696
Cost of revenue and expenses:			
Cost of product and parts revenue	145,930	(78,837)	67,093
Research and development	43,294	(6,720)	36,574
General and administrative	23,534	(796)	22,738
Sales and marketing	24,961	(9,659)	15,302
Foreign exchange loss (gain)	(2,036)	(17)	(2,053)
Depreciation and amortization	6,280	(80)	6,200
Bank charges, interest and other	1,206	(289)	917
	243,169	(96,398)	146,771
Loss before undernoted	(16,629)	(42,446)	(59,075)
Income from investment accounted for by the equity method	1,500	12,958	14,458
Interest on long-term debt and amortization of discount	(2,998)	-	(2,998)
Interest and other income	958	(297)	661
Loss before income taxes	(17,169)	(29,785)	(46,954)
Income tax recovery (expense):			
Current	(19,630)	18,602	(1,028)
Deferred	3,963	(1,775)	2,188
	(15,667)	16,827	1,160
Net loss for the period	\$ (32,836)	\$ (12,958)	\$ (45,794)
Net income (loss) attributed to:			
Joint venture partners	12,958	(12,958)	-
The Company	(45,794)	-	(45,794)
Loss per share:			
Basic and diluted	\$ (0.96)	\$ -	\$ (0.96)
Weighted average common shares outstanding:			
Basic and diluted	47,933,348		47,933,348

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26. Restatement of previously issued financial statements (continued):

Effect on Consolidated Statement Comprehensive Income (Loss):	For the Nine months ended December 31, 2011		
	As previously reported	Correction	Restated – note 2(a)
Loss for the period	\$ (32,836)	\$ (12,958)	\$ (45,794)
Other comprehensive loss:			
Cumulative translation adjustment	(12,370)	-	(12,370)
Comprehensive loss	\$ (45,206)	\$ (12,958)	\$ (58,164)
Comprehensive income (loss) attributable to:			
Joint venture partners	12,958	(12,958)	-
The Company	(58,164)	-	(58,164)

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26. Restatement of previously issued financial statements (continued):

Effect on Consolidated Statements of Operations:		For the Year ended March 31, 2011		
	As previously reported	Correction	Restated – note 2(a)	
Product revenue	\$ 110,475	\$ (84,612)	\$	25,863
Parts revenue	29,459	(26,675)		2,784
Service and other revenue	8,128	-		8,128
	148,062	(111,287)		36,775
Cost of revenue and expenses:				
Cost of product and parts revenue	90,982	(66,989)		23,993
Research and development	34,663	(10,043)		24,620
General and administrative	16,211	(1,181)		15,030
Sales and marketing	21,660	(7,675)		13,985
Foreign exchange loss (gain)	3,877	(588)		3,289
Depreciation and amortization	3,455	(80)		3,375
Bank charges, interest and other	665	(219)		446
	171,513	(86,775)		84,738
Loss before undernoted	(23,451)	(24,512)		(47,963)
Income from investment accounted for by the equity method	842	7,785		8,627
Interest on long-term debt and amortization of discount	(3,323)	-		(3,323)
Interest and other income	1,222	(284)		938
Loss before income taxes	(24,710)	(17,011)		(41,721)
Income tax recovery (expense):				
Current	(8,886)	8,954		68
Deferred	(761)	272		(489)
	(9,647)	9,226		(421)
Net loss for the period	\$ (34,357)	\$ (7,785)	\$	(42,142)
Net income (loss) attributed to:				
Joint venture partners	7,785	(7,785)		-
The Company	(42,142)	-		(42,142)
Loss per share:				
Basic and diluted	\$ (1.00)	\$ -	\$	(1.00)
Weighted average common shares outstanding:				
Basic and diluted	42,305,889			42,305,889

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Notes to Consolidated Financial Statements

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

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26. Restatement of previously issued financial statements (continued):

Effect on Consolidated Statement Comprehensive Income (Loss):	For the Year ended March 31, 2011		
	As previously reported	Correction	Restated – note 2(a)
Loss for the period	\$ (34,357)	\$ (7,785)	\$ (42,142)
Other comprehensive income:			
Cumulative translation adjustment	7,414	-	7,414
Comprehensive loss	\$ (26,943)	\$ (7,785)	\$ (34,728)
Comprehensive income (loss) attributable to:			
Joint venture partners	7,785	(7,785)	-
The Company	(34,728)	-	(34,728)

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Year ended December 31, 2012, nine months ended December 31, 2011
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26. Restatement of previously issued financial statements (continued):

Effect on Consolidated Statement of Cash Flow:	For the Nine months ended December 31, 2011		
	As previously reported	Correction	Restated – note 2(a)
Cash flows from operating activities:			
Loss for the period	\$ (32,836)	\$ (12,958)	\$ (45,794)
Items not involving cash:			
Depreciation and amortization	6,280	(80)	6,200
Stock-based compensation expense	6,179	-	6,179
Deferred income tax expense (recovery)	(3,963)	1,775	(2,188)
Change in deferred lease inducements	(47)	-	(47)
Income from investment accounted for by the equity method	(1,500)	(12,958)	(14,458)
Accretion of long-term debt	1,016	-	1,016
Other	654	-	654
Changes in non-cash operating working capital:			
Accounts receivable	(18,581)	3,983	(14,598)
Inventories	(2,051)	-	(2,051)
Prepaid expenses	(4,639)	(10)	(4,649)
Accounts payable and accrued liabilities	3,255	(4,112)	(857)
Deferred revenue	4,430	(2,869)	1,561
Warranty liability	5,860	(3,109)	2,751
	(35,943)	(30,338)	(66,281)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(13,269)	146	(13,123)
Purchase of intangible assets	(123)	-	(123)
Sale of short-term investments, net	15,516	11,105	26,621
Advances on loan receivable	(29,816)	29,816	-
Increase in loan payable	-	29,080	29,080
Repayment on loan receivable	24,013	(24,013)	-
Repayment of loan payable	-	(23,840)	(23,840)
Acquisitions, net of acquired cash	(9,084)	-	(9,084)
Investment in equity interest	(955)	-	(955)
Dividends received from joint venture	-	10,000	10,000
	(13,718)	32,294	18,576
Cash flows from financing activities:			
Repayment on operating lines of credit	(3,240)	-	(3,240)
Repayment of short-term debt	(221)	-	(221)
Repayment of long-term debt	(53,057)	-	(53,057)
Issuance of subordinated debenture notes	34,345	-	34,345
Finance costs incurred	(1,392)	-	(1,392)
Proceeds from stock options exercised	1,816	-	1,816
Dividends paid to joint venture partner	(10,000)	10,000	-
	(31,749)	10,000	(21,749)
Effect of foreign exchange on cash and cash equivalents	3,246	(2,040)	1,206
Increase (decrease) in cash and cash equivalents	(78,164)	9,916	(68,248)
Cash and cash equivalents, beginning of period	148,462	(16,929)	131,533
Cash and cash equivalents, end of period	\$ 70,298	\$ (7,013)	\$ 63,285

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Notes to Consolidated Financial Statements

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Year ended December 31, 2012, nine months ended December 31, 2011
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26. Restatement of previously issued financial statements (continued):

Effect on Consolidated Statement of Cash Flow:	As previously reported	Correction	For the Year ended March 31, 2011 Restated – note 2(a)
Cash flows from operating activities:			
Loss for the period	\$ (34,357)	\$ (7,785)	\$ (42,142)
Items not involving cash:			
Depreciation and amortization	3,455	(80)	3,375
Stock-based compensation expense	4,923	-	4,923
Deferred income tax expense (recovery)	761	(272)	489
Change in deferred lease inducements	(58)	-	(58)
Income from investment accounted for by the equity method	(842)	(7,785)	(8,627)
Accretion of long-term debt	1,992	-	1,992
Other	(344)	509	165
Changes in non-cash operating working capital:			
Accounts receivable	5,523	(1,604)	3,919
Inventories	(1,927)	-	(1,927)
Prepaid expenses	(488)	31	(457)
Accounts payable and accrued liabilities	(2,831)	2,958	127
Deferred revenue	3,058	(2,896)	162
Warranty liability	(2,844)	2,460	(384)
	(23,979)	(14,464)	(38,443)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(3,613)	442	(3,171)
Sale of short-term investments, net	3,376	-	3,376
Advances on loan receivable	(20,942)	20,942	-
Increase in loan payable	-	18,961	18,961
Repayment on loan receivable	18,185	(18,185)	-
Repayment of loan payable	-	(21,207)	(21,207)
Acquisitions, net of acquired cash	(13,016)	-	(13,016)
Investment in equity interest	(4,316)	-	(4,316)
Dividends received from joint venture	-	6,000	6,000
	(20,326)	6,953	(13,373)
Cash flows from financing activities:			
Repayment of demand installment loan	(3,206)	-	(3,206)
Repayment of long-term debt	(117)	-	(117)
Proceeds from stock options exercised	3,298	-	3,298
Shares issued for cash	131,265	-	131,265
Share issuance costs	(6,069)	-	(6,069)
Dividends paid to joint venture partner	(6,000)	6,000	-
	119,171	6,000	125,171
Effect of foreign exchange on cash and cash equivalents	3,116	1,042	4,158
Increase (decrease) in cash and cash equivalents	77,982	(469)	77,513
Cash and cash equivalents, beginning of period	70,480	(16,460)	54,020
Cash and cash equivalents, end of period	\$ 148,462	\$ (16,929)	\$ 131,533

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26. Restatement of previously issued financial statements (continued):

(b) As previously reported columns below represent amounts as reported in the Company's fiscal 2012 annual consolidated financial statements filed on or about March 7, 2013.

Effect on total assets allocated by segment:	December 31, 2011 As previously reported	Correction	December 31, 2011 Restated – note 2(a)
Applied Technologies	\$ 165,192	\$ 4,706	\$ 169,898

Effect on long-lived assets information by geographic area:	December 31, 2011 As previously reported	Correction	December 31, 2011 Restated – note 2(a)
Italy	\$ 94,889	\$ 10,712	\$ 105,601
Canada	27,006	(10,712)	16,294

Effect on long-lived assets information by geographic area:	December 31, 2012 As previously reported	Correction	December 31, 2012 Restated – note 2(a)
Italy	\$ 90,474	\$ 8,625	\$ 99,099
Canada	40,799	(11,092)	29,707
Sweden	5,253	2,467	7,720