

Financial Report to Shareholders

For the three months ended
March 31, 2013 and 2012

(Q1 2013)

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Innovations Inc. ("Westport", the "Company", "we", "us", "our") for the three months ended March 31, 2013 and provides an update to our annual MD&A dated March 6, 2013 for the fiscal year ended December 31, 2012. This information is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2012. Our interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated May 2, 2013.

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, respectively. All financial information is reported in U.S. dollars unless otherwise noted.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the 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.

Internal operating segments 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 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 pickup 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 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"). 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 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 Cummins Westport ISL G engine.

On February 27, 2013, Westport announced that its proven Westport WiNG™ Power System, a compressed natural gas (CNG) bi-fuel system, will be available for order on the Ford F-450 and F-550 Super Duty Chassis Cab trucks starting April 1, 2013.

On February 28, 2013, Westport announced an agreement with leading global clean energy provider ENN Group aimed at the proliferation of natural gas and liquefied natural gas (LNG) transportation solutions and fuel for on-road, off-road, rail and marine applications.

On March 19, 2013, Westport announced that the Ford F-Series Super Duty trucks with the Westport WiNG™ Power System will soon be available to Canadian customers. To serve the Canadian market, Westport is opening an integration centre in Windsor, Ontario with trucks expected to be ready for delivery to customers by late June 2013.

On March 19, 2013, Westport announced a co-marketing agreement with Clean Energy Fuels Corp. to encourage the use of natural gas vehicles and the establishment of the growing fueling infrastructure across North America. The companies will bundle the Westport™ LNG Tank System—optimized for use with the Cummins Westport ISL G or the new Cummins Westport ISX12 G engines—and a long-term fuel contract with Clean Energy into a package for qualified customers.

On March 21, 2013, CWI announced that it had received certification for its Cummins Westport ISX12 G engine from the U.S. Environmental Protection Agency (EPA), meeting both the EPA 2013 regulations and the new greenhouse gas and fuel-efficiency rules that will take effect in 2014. Limited production of the ISX12 G began in April, with full production scheduled to start in August.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the three months ended March 31, 2013 and the three months ended March 31, 2012:

Selected Consolidated Statements of Operations Data			
	Three months ended March 31,		
	2013	2012	
<i>(expressed in millions of United States dollars, except for per share amounts and shares outstanding)</i>			
Total revenue	\$ 30.1	\$ 36.0	
Gross margin	8.1	8.9	
GM %	27%	25%	
Net loss	(31.8)	(22.6)	
Net loss per share – basic and diluted ⁽¹⁾	(0.57)	(0.44)	
Weighted average shares outstanding	55,342,332	50,883,897	
Cash used in operations before changes in non-cash working capital ⁽²⁾	(29.1)	(21.0)	
⁽¹⁾ Fully diluted loss per share is the same as basic loss per share as the effect of conversion of stock options, restricted share units and performance share units would be anti-dilutive.			
⁽²⁾ See non-GAAP financial measures.			

The following table sets forth a summary of our financial position as at March 31, 2013 and December 31, 2012:

Selected Balance Sheet Data			
	March 31, 2013		December 31, 2013
Cash and short-term investments	\$	173.9	\$ 215.9
Total assets		444.5	490.1
Long-term financial liabilities ⁽¹⁾		49.3	52.2
⁽¹⁾ Excluding warranty liability, deferred revenue, deferred income tax liabilities and other long-term liabilities.			

SELECTED FINANCIAL INFORMATION (continued)

The following table sets forth a summary of the financial results of our joint ventures for the three months ended March 31, 2013 and the three months ended March 31, 2012:

Selected CWI Statements of Operations Data			
	Three months ended March 31,		
	2013	2012	
<i>(expressed in millions of United States dollars)</i>			
Total revenue	\$ 44.7	\$ 52.7	
Gross margin	12.3	19.6	
GM %	28%	37%	
Income before income taxes	1.3	15.0	
Income attributable to the Company	0.8	4.8	

Selected WWI Statements of Operations Data			
	Three months ended March 31,		
	2013	2012	
<i>(expressed in millions of United States dollars)</i>			
Total revenue	\$ 105.9	\$ 37.2	
Gross margin	7.0	6.2	
GM %	7%	17%	
Income before income taxes	3.4	2.0	
Income attributable to the Company	1.0	0.6	

OVERVIEW OF THREE MONTHS ENDED MARCH 31, 2013 RESULTS

Total Consolidated Revenues (expressed in millions of U.S. dollars)						
	Three months ended March			Change		
	2013	2012	\$		%	
Applied Technologies	\$ 23.3	\$ 23.3	\$ -		-	
On-Road Systems	5.8	12.7	(6.9)		-54%	
Corporate and Technology Investments	1.0	-	1.0		n/a	
Total consolidated revenues	\$ 30.1	\$ 36.0	\$ (5.9)		-16%	

Operating Results

For the three months ended March 31, 2013, our consolidated revenues were \$30.1 million compared to \$36.0 million in the prior year period, a decrease of \$5.9 million, or 16%. The decrease in revenue was primarily driven by a decrease in On-Road Systems revenue of \$6.9 million mainly due to sale of only 3 Westport 15L systems compared to 151 Westport 15L systems in the prior year period offset by Westport WiNG System sales in the current year period compared to no sales in the comparative period as the product launch occurred in the second quarter of the prior year.

Consolidated net loss attributable to the Company for the three months ended March 31, 2013 was \$31.8 million, or \$0.57 loss per diluted share, compared to a \$22.6 million net loss, or \$0.44 loss per diluted share, for the three months ended March 31, 2012. The \$9.2 million increase in net loss was primarily due to an increase in segment operating loss in Corporate and Technology Investments of \$7.5 million, Off-Road Systems of \$1.0 million, a decrease in segment operating income in Applied Technologies of \$0.9 million, net decrease in our share of equity income of \$4.0 million from CWI, offset by decrease in segment operating loss in On-Road Systems of \$1.2 million. Included in our net loss for the three months ended March 31, 2013 is \$3.0 million net foreign exchange gains attributed mainly to the movement in the Canadian dollar relative to the U.S. dollar, which is unrealized. Excluding this impact, our net loss and net loss per share was \$34.8 million and \$0.63, respectively.

Cash, cash equivalents and Investments

As of March 31, 2013, our cash, cash equivalents and short-term investments balance was \$173.9 million compared to \$215.9 million at December 31, 2012. For the three months ended March 31, 2013, cash used in operations was \$33.4 million with \$29.1 million used for operating purposes and \$4.3 million related to changes in working capital. We purchased \$8.2 million of property and equipment and repaid a portion of our long-term debt within Emer totaling \$1.8 million. We issued shares through the exercise of stock options, which resulted in an additional \$0.1 million in cash and received dividends from our joint ventures of \$1.5 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. The Company's accounting policies are described in Note 2 of our fiscal year ended December 31, 2012 annual consolidated financial statements. We have identified several policies as critical to the measurement of our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as a variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in Note 2 of our fiscal year ended December 31, 2012 annual consolidated financial statements and our 2012 Management and Discussion Analysis. Actual amounts may vary significantly from estimates used.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS***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. In January 2013, the FASB issued ASU No. 2013-01 ("ASU 2013-01"), to clarify the scope of the new offsetting disclosures in ASU 2011-11. The ASU clarifies that the scope includes bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending agreements subject to a master netting arrangement or similar agreements. The new guidance is to be applied retrospectively. These updates were effective for the Company on January 1, 2013. The adoption of the updates does not materially impact the Company's consolidated financial statements.

Comprehensive Income

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (*Topic 220*): *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 purpose is to improve the reporting of reclassifications out of accumulated other comprehensive income. Entities are required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This new guidance is to be applied prospectively. This update was effective for the Company on January 1, 2013. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

Foreign Currency Matters

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (*Topic 830*): *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"). ASU 2013-05 is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. ASU 2013-05 requires that for transactions with a foreign entity, a parent should not reclassify into earnings an allocated portion of the CTA when its foreign entity sells a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within the foreign entity, unless the sale represents a complete or substantially complete liquidation of the foreign entity. For sales or other transactions that result in the loss of control over the foreign entity, the loss of controlling financial interest in a foreign entity would be accounted for as a sale. This would result in the entire CTA being reclassified into earnings. Furthermore, when a parent obtains a controlling financial interest in a financial entity that was previously an equity method investment, CTA should be reclassified to earnings. Where there is a partial sale of an equity method investment, the CTA should be reclassified on a pro rata share of CTA being reclassified into earnings. This new guidance is to be applied prospectively and is effective for annual reporting periods beginning on or after December 15, 2013 and interim periods within those annual periods. We do not expect ASU 2013-05 to have any impact on the Company's consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three month period ended March 31, 2013, there were no changes to our internal control over financial reporting that could materially impact the consolidated financial statements.

FINANCIAL OVERVIEW

RESULTS FROM OPERATIONS

Total Revenue

The following table summarizes total revenue by segment for the three months ended March 31, 2013 compared to three months ended March 31, 2012:

Total Revenues (expressed in millions of U.S. dollars)					
	Three months ended March		Change		
	2013	2012	\$	%	
Applied Technologies	\$ 23.3	\$ 23.3	\$ -	-	
On-Road Systems	5.8	12.7	(6.9)	-54%	
New Markets and Off-Road Systems	-	-	-	-	
Corporate and Technology Investments	1.0	-	1.0	n/a	
CWI	44.7	52.7	(8.0)	-15%	
WWI	105.9	37.2	68.7	185%	
Total segment revenues	\$ 180.7	\$ 125.9	\$ 54.8	44%	
Less: Equity investees' revenues	\$ 150.6	\$ 89.9	60.7	68%	
Total consolidated revenues	\$ 30.1	\$ 36.0	\$ (5.9)	-16%	

Applied Technologies revenue for the three months ended March 31, 2013 was \$23.3 million, comparable to the same period last year.

On-Road Systems revenue for the three months ended March 31, 2013 decreased \$6.9 million, or 54% from \$12.7 million to \$5.8 million. The decrease related to shipments of 3 Westport 15L systems compared to 151 Westport 15L systems for the three months ended March 31, 2012, which resulted in a decrease in revenue of \$8.5 million from \$8.7 million in the prior year period to \$0.2 million in the current year and decrease of \$1.6 million in revenue generated from the bi-fuel systems for the V70 wagon to \$0.9 million in the current year from \$2.5 million in the prior year period. These decreases in revenue were offset by an increase in revenue of \$2.0 million from the Westport WiNG System for the F-250/F-350 bi-fuel Super Duty pickup truck in the United States

and an increase of \$0.2 million due to increased shipments of 2.4 litre industrial systems to forklift and oilfield customers. On-Road parts revenue for the three months ended March 31, 2013 increased \$0.6 million to \$1.3 million compared to \$0.7 million for the three months end March 31, 2012.

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

Corporate and Technology Investments revenue for the three months ended March 31, 2013 was \$1.0 million compared to no revenue recognized during the prior year period. Included in the current year we recognized \$1.0 million under our development agreements due to the services provided during the period. 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 three months ended March 31, 2013 decreased \$8.0 million, or 15% from \$52.7 million to \$44.7 million. CWI product revenue for the three months ended March 31, 2013 decreased \$8.9 million, or 26 %, to \$34.7 million on sales of 1,313 units compared to \$43.6 million and 1,943 units for the three months ended March 31, 2012, which was primarily attributed to lower sales volume of engines in Asia and Latin America due to a large transit bus shipment in the prior year period. CWI parts revenue for the three months ended March 31, 2013 was \$10.0 million compared with \$9.1 million for the three months end March 31, 2012. The number of engines in the field, their age and their reliability impact parts revenue each period.

WWI revenue for the three months ended March 31, 2013 increased \$68.7 million, or 185% from \$37.2 million to \$105.9 million. WWI shipped 8,529 units for the three months ended March 31, 2013 compared with 2,728 units for the three months ended March 31, 2012.

Gross Margin

The following table presents gross margin by segment for the three months ended March 31, 2013 compared to three months ended March 31, 2012:

Gross Margin (expressed in millions of U.S. dollars)								
	Three months ended March 31, % of Revenue 2013			Three months ended March 31, % of Revenue 2012			Change \$ %	
Applied Technologies	\$	6.7	29%	\$	6.6	28%	\$ 0.1	2%
On-Road Systems		0.4	7%		2.3	18%	(1.9)	-83%
New Markets and Off-Road Systems		-	-		-	-	-	-
Corporate and Technology Investments		1.0	100%		-	-	1.0	n/a
CWI		12.3	28%		19.6	37%	(7.3)	-37%
WWI		7.0	7%		6.2	17%	0.8	13%
Total segment gross margin	\$	27.4	15%	\$	34.7	28%	\$ (7.3)	-21%
Less: Equity investees' gross margin	\$	19.3	13%	\$	25.8	29%	(6.5)	-25%
Total consolidated gross margin	\$	8.1	27%	\$	8.9	25%	\$ (0.8)	-9%

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 \$0.1 million to \$6.7 million, or 29% of revenue, for the three months ended March 31, 2013 compared to \$6.6 million, or 28% of revenue for the three months ended March 31, 2012. The increase in gross margin percentage is due to product mix.

On-Road Systems gross margin decreased \$1.9 million to \$0.4 million, or 7% of revenue from \$2.3 million, or 18% of revenue for the three months ended March 31, 2012. The decrease in gross margin percentage was due to lower absorption of fixed overhead costs as a result of low unit deliveries and product mix during the period.

Corporate and Technology Investments gross margin increased \$1.0 million from \$nil to \$1.0 million. The gross margin percentage was 100% as Corporate and Technology Investments gross margin relates entirely to service revenue under our development agreements.

CWI gross margin decreased \$7.3 million to \$12.3 million, or 28% of revenue from \$19.6 million or 37% of revenue. CWI product margin and product gross margin percentage for the three months ended March 31, 2013 were \$7.8 million and 23%, respectively, compared to \$16.1 million and 37%, respectively, for the three months ended March 31, 2012. This decrease in gross margin percentage was due primarily to warranty adjustments of \$2.6 million and net extended coverage claims of \$1.2 million in the three months ended March 31, 2013 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 impact, CWI's gross margin percentage would have been 36%. CWI parts gross margin percentage was 44% for the three months ended March 31, 2013 compared to 39% for the three months ended March 31, 2012. This increase was primarily due to the mix of parts sold and reduced parts selling and operating expense.

WWI gross margin increased \$0.9 million to \$7.1 million, or 7% of revenue from \$6.2 million or 17% of revenue. The decrease in gross margin percentage related primarily to product mix and remains discounted as WWI penetrates new markets and builds market share.

Research and Development Expenses

The following table presents details of R&D expense by segment for the three months ended March 31, 2013 compared to three months ended March 31, 2012:

Research and Development (expressed in millions of U.S. dollars)					
	Three months ended March 31,		Change		
	2013	2012	\$	%	
Applied Technologies	\$ 1.4	\$ 0.9	\$ 0.5	56%	
On-Road Systems	3.8	7.7	(3.9)	-51%	
New Markets and Off-Road Systems	0.4	0.5	(0.1)	-20%	
Corporate and Technology Investments	14.8	5.1	9.7	190%	
Total research and development	\$ 20.4	\$ 14.2	\$ 6.2	44%	

Research and development expenses, net of program funding, for the three months ended March 31, 2013 increased \$6.2 million to \$20.4 million compared to \$14.2 million for the three months ended March 31, 2012.

Applied Technologies research and development expenses increased \$0.5 million primarily related to new product development programs, salaries and benefits and costs related to our Australian facility.

On-Road Systems research and development expenses decreased \$3.9 million primarily related to the prior year launch of the Westport WiNG Power System on the F-250/F-350 bi-fuel Super Duty pickup trucks.

Corporate and Technology Investments research and development expenses increased \$9.7 million from \$5.1 million to \$14.8 million driven by increases in investment under our new and existing development programs.

General and Administrative Expenses

The following table presents details of G&A expense by segment for the three months ended March 31, 2013 compared to three months ended March 31, 2012:

General and Administrative (expressed in millions of U.S. dollars)					
	Three months ended March 31,		Change		
	2013	2012	\$	%	
Applied Technologies	\$ 2.5	\$ 2.1	\$ 0.4	19%	
On-Road Systems	2.3	1.7	0.6	35%	
New Markets and Off-Road Systems	0.9	-	0.9	n/a	
Corporate and Technology Investments	6.0	7.7	(1.7)	-22%	
Total general and administrative	\$ 11.7	\$ 11.5	\$ 0.2	2%	

General and administrative expenses for the three months ended March 31, 2013, increased \$0.2 million to \$11.7 million compared to \$11.5 million for the three months ended March 31, 2012.

Applied Technologies general and administrative expenses increased \$0.4 million primarily due to increase in costs related to the acquisition of facilities and assets of AEC in Australia.

On-Road Systems general and administrative expenses increased \$0.6 million due to increased headcount, higher facilities and office expenses related to our Detroit and Kentucky facilities.

Off-Road Systems had an increase from \$0 to \$0.9 million as there was limited activity other than sales and marketing activity in the prior year period.

Corporate and Technology Investments general and administrative expenses decreased \$1.7 million primarily related to a reduction in professional service fees incurred in the prior year period.

Sales and Marketing Expenses

The following table presents details of S&M expense by segment for the three months ended March 31, 2013 compared to three months ended March 31, 2012:

Sales and Marketing (expressed in millions of U.S. dollars)					
	Three months ended March 31,		Change		
	2013	2012	\$	%	
Applied Technologies	\$ 1.0	\$ 0.8	\$ 0.2	25%	
On-Road Systems	3.3	3.1	0.2	6%	
New Markets and Off-Road Systems	1.5	1.2	0.3	25%	
Corporate and Technology Investments	1.6	1.2	0.4	33%	
Total sales and marketing	\$ 7.4	\$ 6.3	\$ 1.1	17%	

Sales and marketing expenses for the three months ended March 31, 2013, increased \$1.1 million to \$7.4 million compared to \$6.3 million for the three months ended March 31, 2012.

Applied Technologies sales and marketing expenses increased \$0.2 million due to the increased sales and marketing activities including conferences.

On-Road Systems sales and marketing expenses increased \$0.2 million as a result of the sales and marketing associated with the F-250/F-350 bi-fuel Super Duty pickup trucks and increased headcount.

Off-Road Systems sales and marketing expenses increased \$0.3 million as a result of market development initiatives for Off-Road applications and OEM activities in China and increase in headcount.

Corporate and Technology Investments sales and marketing expenses increased \$0.4 million primarily due to increase in headcount related to market development initiatives.

Unconsolidated Joint Venture Operating Expenses

The following table presents details of the operating expense of our joint ventures for the three months ended March 31, 2013 compared to three months ended March 31, 2012:

Unconsolidated Joint Venture Operating Expenses					
<i>(expressed in millions of U.S. dollars)</i>					
	Three months ended March 31,			Change	
	2013	2012	\$	\$	%
CWI	\$ 10.8	\$ 4.7	\$ 6.1		130%
WWI	3.7	4.2	(0.5)		-12%
Total JV operating expenses	\$ 14.5	\$ 8.9	5.6		63%

CWI operating expenses were \$10.8 million for the three months ended March 31, 2013 compared with \$4.7 million for the three months ended March 31, 2012. The \$6.1 million increase was primarily due to higher material and salary related costs associated with new product development and current product improvement, an increase in policy expense and decrease in government funding.

WWI operating expenses were \$3.7 million for the three months ended March 31, 2013 compared with \$4.2 million for the three months ended March 31, 2012. The decrease relates primarily to lower product development costs and facilities and support costs associated with rapid growth in the prior year period.

Foreign exchange gains and losses reflected net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our 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 Euro denominated monetary assets and liabilities where the functional currency of the subsidiary is not the Euro including the Euro denominated long-term liability payable to Societa Italiana Tecnomeccaica La Precisa S.p.A and SIT International B.V., ("the Sellers") of OMVL. For the three months ended March 31, 2013, we recognized a net foreign exchange gain of \$3.0 million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange loss of \$0.4 million for the three months ended March 31, 2012. A majority of the foreign exchange gain for the three months ended March 31, 2013 is unrealized.

Depreciation and amortization for the three months ended March 31, 2013 was \$3.6 million compared to \$2.5 million for the three months ended March 31, 2012. The increase primarily related to depreciation of the property and equipment purchases and the intangible assets acquired in the prior year.

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

Income from investment accounted for by the equity method (expressed in millions of U.S. dollars)			
	Three months ended March 31,		
	2013	2012	
CWI - 50% interest	\$ 0.8	\$ 4.8	
WWI - 35% interest	1.0	0.6	
Other	(0.1)	0.1	
Income from investment accounted for by the equity method	\$ 1.7	\$ 5.5	

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)			
	Three months ended March 31,		
	2013	2012	
Canadian debentures	\$ 0.8	\$ 0.8	
Senior financing facilities	0.3	0.3	
Amortization of discount and non cash interest expense	0.2	0.2	
Total Interest on long-term debt	\$ 1.3	\$ 1.3	

Income tax expense for the three months ended March 31, 2013 was \$0.3 million compared to an income tax expense of \$0.8 million for the three months ended March 31, 2012. The decrease primarily relates to permanent differences reducing taxable income in Emer and OMVL in the current year period.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at March 31, 2013, our cash, cash equivalents and short-term investment position was \$173.9 million, a decrease of \$42.0 million from \$215.9 million at December 31, 2012. 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 three months ended March 31, 2013, our cash used in operations was \$33.4 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was \$29.1 million. Changes in non-cash working capital resulted in a use of \$4.3 million. The \$4.3 million change in working capital was impacted, by decreases in accounts payable and accrued liabilities of \$0.9 million, warranty liability of \$0.6 million, deferred revenue of \$0.3 million, increase in inventory of \$4.4 million and prepaid expenses of \$0.5 million partially offset by a decrease in accounts receivable of \$2.4 million. Cash used in investing activities included purchase of fixed assets of \$8.2 million offset by cash received from sale of short-term investments of \$18.7 million and \$1.5 million in dividends received from joint ventures. Cash provided by financing activities included \$0.1 million in shares issued for stock option exercises offset by repayment of a portion of the long-term debt within Emer of \$1.8 million.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI dividends (typically declared and paid at the end of the fiscal year) 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 March 31, 2013 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:

(expressed in millions of U.S. dollars)	Estimated use of proceeds at time of public offering	Estimate of proceeds used during the		
		Three months ended	Twelve months ended	Inception to date
		March 31, 2013	December 31, 2012	
	\$	\$	\$	\$
Off-Road Applications (formerly HHP Applications)	50.0 – 100.0	2.3	6.5	8.8
Capital Expenditures	30.0 – 50.0	3.1	14.2	17.3
Geographic Expansion (formerly HD business units)	20.0 – 40.0	9.2	37.0	46.2
Geographic Expansion (formerly LD business units)	20.0 – 40.0	8.7	29.5	38.2
General Corporate Purposes	36.3 – 146.3	16.3	28.1	44.4
	266.3	39.6	115.3	154.9

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 AIF.

SHARES OUTSTANDING

For the three months ended March 31, 2013 and 2012 the weighted average number of shares used in calculating the loss per share was 55,342,332 and 50,883,897, respectively. During the three months ended March 31, 2013, we granted 565,290 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:

	March 31, 2013		May 2, 2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Shares outstanding	55,400,276		55,620,628	
Share Options				
- Outstanding	974,103	28.08	945,126	28.78
- Exercisable	406,980	20.17	378,003	21.32
Share Units				
- Outstanding	1,532,141	N/A	1,416,572	N/A
- Exercisable	283,327	N/A	270,804	N/A

(weighted average exercise prices are presented in Canadian dollars)

SELECTED QUARTERLY FINANCIAL DATA (unaudited)

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

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

Selected Consolidated Quarterly Operations Data (unaudited)									
Three months ended	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	
<i>(expressed in millions of United States dollars except for per share amounts)</i>									
Product revenue	\$ 12.1	\$ 31.0	\$ 32.1	\$ 35.3	\$ 34.3	\$ 28.3	\$ 31.0	\$ 27.3	
Parts revenue	0.8	0.5	1.0	0.7	0.7	1.0	1.1	1.3	
Service and other revenue	-	0.4	9.8	-	14.1	1.4	7.8	1.4	
Total revenue	12.9	31.9	42.9	36.0	49.1	30.7	39.9	30.1	
Cost of product and parts revenue	11.7	26.8	28.5	27.1	26.0	22.9	26.5	22.0	
Gross margin	1.2	5.1	14.4	8.9	23.1	7.8	13.3	8.1	
Gross margin percentage	9%	16%	34%	25%	47%	25%	33%	27%	
Net loss for the period	\$ (18.1)	\$ (13.2)	\$ (14.5)	\$ (22.6)	\$ (6.1)	\$ (32.5)	\$ (37.6)	\$ (31.8)	
Loss per share									
Basic and Diluted ⁽¹⁾	\$ (0.38)	\$ (0.27)	\$ (0.30)	\$ (0.44)	\$ (0.11)	\$ (0.59)	\$ (0.68)	\$ (0.57)	
Income from unconsolidated joint ventures:									
CWI net income attributable to the Company	2.9	4.7	5.3	4.8	3.6	3.6	1.2	0.8	
WWI net income attributable to the Company	0.4	0.4	0.5	0.6	1.1	0.7	0.5	1.0	

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments have been disclosed in our annual MD&A dated March 6, 2013 and are substantially unchanged.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies have been disclosed in our annual MD&A dated March 6, 2013 and are substantially unchanged.

BUSINESS RISKS AND UNCERTAINTIES

An investment in our business involves risk and readers should carefully consider the risks described in our AIF and other filings on www.sedar.com and www.sec.gov. Our ability to generate revenue and profit from our technologies is dependent on a number of factors, and the risks discussed in our AIF, if they were to occur, could have a material impact on our business, financial condition, liquidity, results of operation or prospects. While we have attempted to identify the primary known risks that are material to our business, the risks and uncertainties discussed in our AIF may not be the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently believe are immaterial may also adversely affect our business, financial condition, liquidity, results of operation or prospects. A full discussion of the risks impacting our business is contained in the AIF for the fiscal year ended December 31, 2012 under the heading "Risks 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>		Three months ended March 31,	
		2013	2012
Cash flow from operations			
Net loss for the period	\$	(31.8)	\$ (22.6)
Items not involving cash:			
Depreciation and amortization		3.6	2.5
Stock-based compensation expense		3.4	3.6
Unrealized foreign exchange loss (gain)		(3.0)	0.4
Deferred income tax expense		-	0.4
Income from investment accounted for by the equity method		(1.7)	(5.5)
Accretion of long-term debt		0.5	0.2
Other		(0.1)	-
Cash flows from operations before changes in non-cash operating working capital	\$	(29.1)	\$ (21.0)

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

WESTPORT INNOVATIONS INC.

For the three months ended March 31, 2013 and 2012

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets (Unaudited)

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

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 165,689	\$ 188,958
Short-term investments	8,221	26,902
Accounts receivable (note 3)	38,336	44,189
Inventories (note 4)	48,193	44,946
Prepaid expenses	6,975	6,641
Current portion of deferred income tax assets	4,044	7,183
	271,458	318,819
Long-term investments (note 5)	20,456	19,118
Other assets	1,784	1,852
Property, plant and equipment (note 7)	61,846	58,194
Intangible assets (note 8)	33,485	35,215
Goodwill	55,448	56,879
	\$ 444,477	\$ 490,077
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 46,387	\$ 48,509
Deferred revenue	1,271	1,254
Current portion of deferred income tax liabilities	40	65
Current portion of long-term debt (note 10)	28,054	28,566
Current portion of warranty liability (note 11)	4,237	2,072
	79,989	80,466
Warranty liability (note 11)	1,386	4,308
Long-term debt (note 10)	49,278	52,156
Deferred revenue	4,830	5,215
Deferred income tax liabilities	6,009	9,245
Other long-term liabilities	2,563	2,606
	144,055	153,996
Shareholders' equity:		
Share capital:		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
55,400,276 (2012 - 55,294,091) common shares	735,402	733,385
Other equity instruments	9,994	9,228
Additional paid in capital	6,909	6,384
Accumulated deficit	(461,731)	(429,932)
Accumulated other comprehensive income	9,848	17,016
	300,422	336,081
	\$ 444,477	\$ 490,077

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Operations and Comprehensive Loss (unaudited)
(Expressed in thousands of United States dollars, except share and per share amounts)

	Three months ended March 31,	
	2013	2012
		(Restated – note 1)
Product revenue	\$ 27,325	\$ 35,262
Parts revenue	1,293	690
Service and other revenue	1,435	-
	30,053	35,952
Cost of revenue and expenses:		
Cost of product and parts revenue	21,958	27,100
Research and development	20,437	14,246
General and administrative	11,687	11,540
Sales and marketing	7,399	6,253
Foreign exchange (gain) loss	(3,016)	375
Depreciation and amortization	3,596	2,485
Bank charges, interest and other	140	313
	62,201	62,312
Loss before undernoted	(32,148)	(26,360)
Income from investments accounted for by the equity method (note 5)	1,687	5,530
Interest on long-term debt and amortization of discount	(1,252)	(1,282)
Interest and other income	199	236
Loss before income taxes	(31,514)	(21,876)
Income tax expense	285	751
Net loss for the period	\$ (31,799)	\$ (22,627)
Other comprehensive (loss) income		
Cumulative translation adjustment	(7,168)	3,535
Comprehensive loss	\$ (38,967)	\$ (19,092)
Loss per share:		
Basic and diluted	\$ (0.57)	\$ (0.44)
Weighted average common shares outstanding:		
Basic and diluted	55,342,332	50,883,897

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)

Three months ended March 31, 2013 and March 31, 2012 (unaudited)

	Common shares outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, December 31, 2011	48,455,601	\$ 459,866	\$ 6,112	\$ 4,499	\$ (331,158)	\$ 13,271	\$ 152,590
Issue of common shares on exercise of stock options	70,466	1,194	-	(420)	-	-	774
Issue of common shares on exercise of performance share units	45,989	986	(986)	-	-	-	-
Issue of common shares on public offering	6,325,000	273,556	-	-	-	-	273,556
Share issue costs	-	(8,003)	-	-	-	-	(8,003)
Stock-based compensation	-	-	2,717	572	-	-	3,289
Net loss for the period	-	-	-	-	(22,627)	-	(22,627)
Other comprehensive income	-	-	-	-	-	3,535	3,535
Balance, March 31, 2012 (Restated – note 1)	54,897,056	\$ 727,599	\$ 7,843	\$ 4,651	\$ (353,785)	\$ 16,806	\$ 403,114
Balance, December 31, 2012	55,294,091	\$ 733,385	\$ 9,228	\$ 6,384	\$ (429,932)	\$ 17,016	\$ 336,081
Issue of common shares on exercise of stock options	15,011	133	-	(49)	-	-	84
Issue of common shares on exercise of performance share units	91,174	1,884	(1,884)	-	-	-	-
Stock-based compensation	-	-	2,650	574	-	-	3,224
Net loss for the period	-	-	-	-	(31,799)	-	(31,799)
Other comprehensive loss	-	-	-	-	-	(7,168)	(7,168)
Balance, March 31, 2013	55,400,276	\$ 735,402	\$ 9,994	\$ 6,909	\$ (461,731)	\$ 9,848	\$ 300,422

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

	Three months ended March 31,	
	2013	2012
		(Restated – note 1)
Cash flows from operating activities:		
Loss for the period	\$ (31,799)	\$ (22,627)
Items not involving cash:		
Depreciation and amortization	3,596	2,485
Stock-based compensation expense	3,381	3,562
Unrealized foreign exchange (gain) loss	(3,016)	375
Deferred income tax (recovery) expense	(32)	371
Income from investments accounted for by the equity method	(1,687)	(5,530)
Accretion of long-term debt	460	195
Other	(13)	43
Changes in non-cash operating working capital:		
Accounts receivable	2,395	3,684
Inventories	(4,387)	(4,351)
Prepaid expenses	(485)	(4,000)
Accounts payable and accrued liabilities	(936)	(132)
Deferred revenue	(269)	1,478
Warranty liability	(631)	1,488
	(33,423)	(22,959)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(8,246)	(8,655)
Purchase of intangible assets	-	(959)
Sale (purchase) of short-term investments, net	18,681	(67,892)
Repayment of loan receivable	-	2,494
Increase in loan payable	-	2,450
Acquisitions, net of acquired cash	-	(1,073)
Dividends received from joint venture	1,456	-
	11,891	(73,635)
Cash flows from financing activities:		
Increase in operating lines of credit	-	4,245
Repayment of long-term debt	(1,807)	(4,293)
Proceeds from stock options exercised	84	774
Shares issued for cash	-	273,556
Share issuance costs	-	(8,003)
	(1,723)	266,279
Effect of foreign exchange on cash and cash equivalents	(14)	(1,027)
Increase (decrease) in cash and cash equivalents	(23,269)	168,658
Cash and cash equivalents, beginning of period	188,958	63,285
Cash and cash equivalents, end of period	\$ 165,689	\$ 231,943
Supplementary information:		
Interest paid	\$ 1,568	\$ 1,639
Taxes paid, net of refunds	112	-
Non-cash transactions:		
Shares issued on exercise of performance share units	1,884	986

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

1. Basis of presentation:

The unaudited consolidated balance sheet as at March 31, 2013, the unaudited consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the three months ended March 31, 2013 and 2012 have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

These unaudited interim consolidated financial statements do not include all note disclosures required on an annual basis, and therefore, should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended December 31, 2012 filed with the appropriate securities regulatory authorities.

In the opinion of management, all adjustments, which include reclassifications and normal recurring adjustments necessary to present fairly the consolidated financial position, consolidated results of operations and consolidated cash flows as at March 31, 2013 and for all periods presented, have been recorded. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results for the Company's full year.

We have reclassified certain prior year amounts to conform to the current year's presentation. See note 13 – Segment Information for further details and note 16 - Restatement of previously issued financial statements. Refer to note 2 (a) of the annual audited consolidated financial statements for additional information.

In previously filed interim financial statements, the Company had consolidated Cummins Westport Inc. ("CWI"). The Company concluded that CWI should be accounted for under the equity method because CWI continues to be a variable interest entity ("VIE") but there is no primary beneficiary and has restated its consolidated financial statements for the three month period ended March 31, 2012 on a similar basis.

The Company's reporting currency for its consolidated financial statement presentation is the United States dollar. The functional currencies of the Company's operations and subsidiaries include the following: United States, Canadian and Australian dollar, Euro, RMB and Swedish Krona. The Company translates assets and liabilities of these operations using the period end exchange rates, shareholders' equity balances using the weighted average of historical exchange rates and revenues and expenses using the monthly average rate for the period with the resulting exchange differences recognized in other comprehensive income. For the periods presented, the Company used the following exchange rates:

	Period end exchange rate as at: March 31, 2013	December 31, 2012	Average for the three months ended: March 31, 2013	March 31, 2012
Canadian dollar	0.98	1.01	0.99	1.00
Australian dollar	1.04	1.04	1.04	1.06
Euro	1.28	1.32	1.32	1.31
RMB	0.16	0.16	0.16	0.16
Swedish Krona	0.15	0.15	0.16	0.15

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

2. Accounting changes:

- (a) Accounting policies adopted during the period:

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.

In January 2013, the FASB issued ASU No. 2013-01 ("ASU 2013-01"), to clarify the scope of the new offsetting disclosures in ASU 2011-11. The ASU clarifies that the scope includes bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending agreements subject to a master netting arrangement or similar agreements.

The new guidance is to be applied retrospectively. These updates were effective for the Company on January 1, 2013. The adoption of the updates does not materially impact the Company's consolidated financial statements.

Comprehensive Income

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 purpose is to improve the reporting of reclassifications out of accumulated other comprehensive income. Entities are required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts.

This new guidance is to be applied prospectively. This update was effective for the Company on January 1, 2013. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

2. Accounting changes (continued):

(b) New accounting pronouncements (continued):

Foreign Currency Matters

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (*Topic 830*): *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"). ASU 2013-05 was issued to resolve the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, Foreign Currency Matters—Translation of Financial Statements, applies to the release of the cumulative translation adjustment ("CTA") into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity.

ASU 2013-05 requires that for transactions with a foreign entity, a parent should not reclassify into earnings an allocated portion of the CTA when its foreign entity sells a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within the foreign entity, unless the sale represents a complete or substantially complete liquidation of the foreign entity. For sales or other transactions that result in the loss of control over the foreign entity, the loss of controlling financial interest in a foreign entity would be accounted for as a sale. This would result in the entire CTA being reclassified into earnings. Furthermore, when a parent obtains a controlling financial interest in a financial entity that was previously an equity method investment, CTA should be reclassified to earnings. Where there is a partial sale of an equity method investment, the CTA should be reclassified on a pro rata share of CTA being reclassified into earnings.

This new guidance is to be applied prospectively and is effective for annual reporting periods beginning on or after December 15, 2013 and interim periods within those annual periods. We do not expect ASU 2013-05 to have any impact on the Company's consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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3. Accounts receivable:

	March 31, 2013	December 31, 2012
Customer trade receivable	\$ 35,470	\$ 39,754
Government funding receivable	522	541
Due from joint venture	671	2,127
Other receivables	1,854	1,916
Income tax receivable	131	172
Allowance for doubtful accounts	(312)	(321)
	<u>\$ 38,336</u>	<u>\$ 44,189</u>

4. Inventories:

	March 31, 2013	December 31, 2012
Purchased parts	\$ 27,382	\$ 25,454
Assembled parts	5,676	4,870
Work-in-process	8,176	7,516
Finished goods	7,092	7,385
Obsolescence provision	(133)	(279)
	<u>\$ 48,193</u>	<u>\$ 44,946</u>

5. Long-term investments:

	March 31, 2013	December 31, 2012
Weichai Westport Inc. (a)	\$ 11,917	\$ 11,275
Cummins Westport Inc. (b)	7,917	7,126
Other equity accounted for investees	622	717
	<u>\$ 20,456</u>	<u>\$ 19,118</u>

(a) Weichai Westport Inc.:

The Company has a 35% equity interest in Weichai Westport Inc. ("WWI"), a joint venture with Weichai Power Co. Ltd. and Hong Kong Peterson (CNG) Equipment Ltd. For the three months ended March 31, 2013, the Company recognized income of \$1,006 (2012 - \$601), 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:

	March 31, 2013	December 31, 2012
Current assets:		
Cash and short-term investments	\$ 4,657	\$ 1,145
Accounts receivable	49,406	21,512
Inventory	64,684	55,109
Other current assets	10	1,053
Long-term assets		
Property, plant and equipment	4,872	4,930
Deferred income tax assets	3,255	3,248
Total assets	<u>\$ 126,884</u>	<u>\$ 86,997</u>

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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5. Long-term investments (continued):

(a) Weichai Westport Inc. (continued):

	March 31, 2013		December 31, 2012	
Current liabilities:				
Accounts payable and accrued liabilities	\$	98,011	\$	61,180
Total liabilities	\$	98,011	\$	61,180
	Three months ended March 31, 2013		2012	
Product revenue	\$	105,852	\$	37,207
Cost of revenue and expenses:				
Cost of product revenue		98,814		30,998
Operating expenses		3,660		4,189
		102,474		35,187
Income before income taxes		3,378		2,020
Income tax expense:		507		304
Income for the period	\$	2,871	\$	1,716

(b) Cummins Westport Inc.:

The Company has determined that CWI is a VIE. Cummins and Westport each own 50% of the common shares of CWI. For the three months ended March 31, 2013, the Company recognized its share of CWI's income of \$791 (three months ended March 31, 2012 - \$4,770), 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:

	March 31, 2013		December 31, 2012	
Current assets:				
Cash and short-term investments	\$	47,911	\$	44,371
Accounts receivable		5,406		6,995
Current portion of deferred income tax assets		8,061		7,304
Other current assets		208		225
Long-term assets:				
Property, plant and equipment		832		873
Deferred income tax assets		10,745		9,786
Total assets	\$	73,163	\$	69,554

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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5. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

	March 31, 2013	December 31, 2012
Current liabilities:		
Current portion of warranty liability	\$ 13,937	\$ 13,317
Current portion of deferred revenue	4,076	3,862
Accounts payable and accrued liabilities	8,572	9,401
	26,585	\$ 26,580
Long-term liabilities:		
Warranty liability	17,746	17,501
Deferred revenue	11,504	9,968
Other long-term liabilities	1,552	1,312
	30,802	\$ 28,781
Total liabilities	\$ 57,387	\$ 55,361
	Three months ended March 31,	
	2013	2012
Product revenue	\$ 34,677	\$ 43,550
Parts revenue	10,040	9,107
	44,717	52,657
Cost of revenue and expenses:		
Cost of product and parts revenue	32,447	33,014
Research and development	6,037	1,919
General and administrative	292	353
Sales and marketing	4,513	2,431
Foreign exchange loss	6	4
Bank charges, interest and other	129	79
	43,424	37,800
Income before undernoted	1,293	14,857
Interest and investment income	13	131
Income before income taxes	1,306	14,988
Income tax (recovery) expense:	(275)	5,448
Income for the period	\$ 1,581	\$ 9,540

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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6. Variable interest entities:

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.

Prior to February 20, 2012, the Company and Cummins shared equally in the profits and losses of CWI. Under the new Joint Venture Agreement, 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.

The carrying amount and maximum exposure to loss relating to VIEs in which the Company holds a significant variable interest but is not the primary beneficiary and which have not been consolidated were as follows:

	As at March 31, 2013		As at December 31, 2012	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	\$7,917	\$7,917	\$7,126	\$7,126
Accounts receivable	671	671	2,127	2,127

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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7. Property, plant and equipment:

March 31, 2013	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 559	\$ 72	\$ 487
Computer equipment and software	11,066	8,438	2,628
Furniture and fixtures	3,997	2,171	1,826
Machinery and equipment	84,477	35,052	49,425
Leasehold improvements	17,281	9,801	7,480
	\$ 117,380	\$ 55,534	\$ 61,846

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

8. Intangible assets:

March 31, 2013	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 19,667	\$ 1,957	\$ 17,710
Technology	6,807	2,038	4,769
Customer contracts	14,089	3,107	10,982
Non-compete agreement	42	18	24
	\$ 40,605	\$ 7,120	\$ 33,485

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

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Notes to Consolidated Financial Statements (unaudited)

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9. Accounts payable and accrued liabilities:

	March 31, 2013	December 31, 2012
Trade accounts payable	\$ 42,424	\$ 37,956
Accrued payroll	3,200	8,539
Accrued interest	140	961
Income taxes payable	491	876
Other payables	132	177
	<u>\$ 46,387</u>	<u>\$ 48,509</u>

10. Long-term debt:

	March 31, 2013	December 31, 2012
Subordinated debenture notes	\$ 35,433	\$ 36,185
Long-term payable	9,648	9,836
Senior financing	16,525	18,812
Senior revolving financing	12,819	13,185
Other bank financing	1,149	1,171
Capital lease obligations	1,758	1,533
	<u>77,332</u>	<u>80,722</u>
Current portion	(28,054)	(28,566)
	<u>\$ 49,278</u>	<u>\$ 52,156</u>

11. Warranty liability:

A continuity of the warranty liability is as follows:

	Three months ended March 31,	
	2013	2012
Balance, beginning of period	\$ 6,380	\$ 4,401
Warranty claims	(1,395)	(282)
Warranty accruals	152	1,752
Impact of foreign exchange	486	(115)
Balance, end of period	<u>5,623</u>	<u>5,756</u>
Current portion	(4,237)	(1,667)
Long-term portion	<u>\$ 1,386</u>	<u>\$ 4,089</u>

WESTPORT INNOVATIONS INC.

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12. Stock options and other stock-based plans:

(a) Stock options:

Stock options are available for issuance under the Westport Omnibus Plan and were previously granted under the Company's Stock Option Plan. A summary of the Company's stock option activity for the three months ended March 31, 2013 and 2012 are presented as follows:

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Number of shares	Weighted average exercise price (CDN \$)	Number of shares	Weighted average exercise price (CDN \$)
Outstanding, beginning of period	996,047	\$ 27.78	328,027	\$ 8.96
Granted	-	-	759,477	33.83
Exercised	(15,011)	5.68	(70,466)	11.01
Cancelled/expired	(6,933)	33.83	(163)	6.13
Outstanding, end of period	974,103	\$ 28.08	1,016,875	\$27.39
Options exercisable, end of period	406,980	\$ 20.17	249,065	\$ 8.13

During the three months ended March 31, 2013, the Company recognized \$646 (2012 - \$642) in stock-based compensation related to stock options.

No options were granted during the three months ended March 31, 2013. The fair value of the options granted during the three months ended March 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 - 47.74%, risk free interest rate - 0.38%, expected life of options - 3 years. The weighted average grant date fair value was \$10.98 for options granted for the three months ended March 31, 2012.

As at March 31, 2013, \$4,789 of compensation cost related to stock option awards has yet to be recognized in the results from operations and will be recognized over a weighted average period of 1.77 years.

WESTPORT INNOVATIONS INC.

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

(b) Share units:

The value assigned to issued restricted share units ("RSUs") and performance share units ("PSUs") (together, the "Units") and the amounts accrued are recorded as other equity instruments. As Units are exercised or vest and the underlying shares are issued from treasury of the Company, the value is reclassified to share capital.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan (together, the "Plans") as of March 31, 2013 and 2012 are as follows:

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)
Outstanding, beginning of period	1,095,094	\$ 20.68	1,250,917	\$ 18.04
Granted	565,290	\$ 30.33	178,479	\$ 36.25
Exercised	(91,174)	\$ 21.18	(45,989)	\$ 21.30
Cancelled/expired	(37,069)	\$ 24.19	-	-
Outstanding, end of period	1,532,141	\$ 24.07	1,383,407	\$ 20.28
Units outstanding and exercisable, end of period	283,327	\$ 9.67	309,841	\$ 8.06

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)
Unvested, beginning of period	832,479	\$ 24.41	973,986	\$ 20.90
Granted	565,290	\$ 30.33	178,479	\$ 36.25
Vested	(111,886)	\$ 21.69	(78,899)	\$ 16.03
Cancelled	(37,069)	\$ 24.19	-	-
Unvested, end of period	1,248,814	\$ 27.34	1,073,566	\$ 23.81

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

(b) Share units (continued):

During the three months ended March 31, 2013, the Company recognized \$2,735 (2012 - \$2,920) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

As at March 31, 2013, \$25,064 of compensation cost related to Units has yet to be recognized in the results from operations and will be recognized over a weighted average period of 1.70 years.

Of the Units granted during the three months ended March 31, 2013, 290,571 Units were subject to market and service conditions. The fair value of these PSUs was determined using a Monte-Carlo simulation using the following weighted average assumptions: expected dividend yield - nil% (2012 - nil%); expected stock price volatility - 56.47% (2012 - 55.95%) ; and risk free interest rate - 1.15% (2012 - 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. For the PSUs granted after January 1, 2013 ("2013 LTI"), payout factors are determined based on revenue growth with a potential payout cap based on relative Total Shareholder Return ("TSR") of Westport as compared to the TSRs of the peer companies. The payout percentages based on revenue growth range from 0% to 200%. For the 2013 LTI Units, 100% of these PSUs vest after three years from the date of the grant.

For the PSUs granted during the twelve months ended December 31, 2012 ("2012 LTI"), payout factors are determined based upon the absolute stock price at the end of two years, equal to the closing price on the last trading day of December 31, 2013.

For the PSUs granted prior to January 1, 2012 ("LTI Plan"), 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.

For the 2012 LTI and the LTI Plan, one-half of these PSUs 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.

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

(c) Share units (continued):

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

The aggregate intrinsic value of the Company's stock option awards and share units at March 31, 2013 is as follows:

	March 31, 2013 CDN\$
Stock options:	
Outstanding	\$ 4,725
Exercisable	4,722
Exercised	366
Share units:	
Outstanding	\$ 45,995
Exercisable	8,505
Exercised	2,703

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

	Three months ended March 31,	
	2013	2012
Research and development	\$ 411	\$ 520
General and administrative	2,524	2,200
Sales and marketing	446	842
	\$ 3,381	\$ 3,562

(d) Loss per share

All of the stock options and share units have been excluded from the calculation of diluted loss per share as they are anti-dilutive.

WESTPORT INNOVATIONS INC.

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13. Segmented information:

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 Westport™ high pressure direct injection ("HPDI") technology, and fuel systems for the off-road, large-engine applications such as mine trucks, locomotives, workboats, and petroleum exploration equipment;
- Corporate and Technology Investments, which includes corporate costs such as research and development, general and administrative, marketing, interest and other charges, foreign exchange and depreciation that cannot be attributed to a particular segment and are incurred by all segments;
- CWI which serves the medium- to heavy-duty engine markets. The fuel for CWI engines is typically carried on vehicles as compressed natural gas or liquefied natural gas; 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 the Company's annual consolidated financial statements for the year ended December 31, 2012. The Chief Operating Decision Maker evaluates segment performance based on the net operating income (loss), which is before income taxes and does not include depreciation and amortization, foreign exchange gains and losses, bank charges, interest and other expenses, interest and other income, and gain on sale of long-term investments.

The Company did not record any intersegment sales or transfers for the three months ended March 31, 2013 and 2012.

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13. Segmented information (continued):

	Three months ended March 31,	
	2013	2012
Revenue:		
Applied Technologies	\$ 23,278	\$ 23,289
On-Road Systems	5,757	12,663
Corporate and Technology Investments	1,018	-
CWI	44,717	52,657
WWI	105,852	37,207
Total segment revenues	180,622	125,816
Less: equity investees' revenues	150,569	89,864
Total consolidated revenues	\$ 30,053	\$ 35,952
Net consolidated operating loss excluding depreciation and amortization, foreign exchange loss (gain), bank charges and other:		
Applied Technologies	\$ 1,854	\$ 2,756
On-Road Systems	(9,103)	(10,294)
New Markets and Off-Road Systems	(2,754)	(1,758)
Corporate and Technology Investments	(21,425)	(13,891)
CWI	1,428	14,940
WWI	3,378	2,020
Total segment operating loss	(26,622)	(6,227)
Less: equity investees' operating income	4,806	16,960
Net consolidated operating loss excluding depreciation and amortization, foreign exchange (gain) loss, bank charges and other:	(31,428)	(23,187)
Depreciation and amortization:		
Applied Technologies	1,936	1,933
On-Road Systems	502	132
New Markets and Off-Road Systems	92	-
Corporate and Technology Investments	1,066	420
	3,596	2,485
Net consolidated operating loss before foreign exchange (gain) loss, bank charges and other	(35,024)	(25,672)
Foreign exchange (gain) loss, bank charges and other	(3,075)	452
Loss before undernoted	(31,949)	(26,124)
Interest on long debt and other income (expenses), net	(1,252)	(1,282)
Income from investment accounted for by the equity method	1,687	5,530
Loss before income taxes	\$ (31,514)	\$ (21,876)
Total additions to long-lived assets excluding business combinations:		
Applied Technologies	\$ 1,306	\$ 334
On-Road Systems	3,546	1,390
New Markets and Off-Road Systems	121	-
Corporate and Technology Investments	3,273	7,890
	\$ 8,246	\$ 9,614

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13. Segmented information (continued):

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide by geographical regions. Product and service and other revenues are attributable to geographical regions based on location of the Company's customers. For the three months ended March 31, 2013, 23% (2012 – 38%) of the Company's product and service revenues were from sales in the Americas (including the United States), 16% (2012 – 9%) from sales in Asia (including China), and 61% (2012 – 53%) 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.

As at March 31, 2013, total goodwill of \$50,628 (December 31, 2012 - \$51,711) was allocated to Applied Technologies and \$4,820 (December 31, 2012 - \$5,168) to On-Road Systems reporting segments.

As at March 31, 2013, total long-term investments of \$19,980 (December 31, 2012 - \$18,544) was allocated to the Corporate and Technology Investments segment and \$476 (December 31, 2012 - \$574) was allocated to the On-Road Systems segment. Total assets are allocated as follows:

	March 31, 2013	December 31, 2012
Applied Technologies	\$ 174,086	\$ 161,206
On-Road Systems	75,794	85,401
New Markets and Off-Road Systems	4,830	6,556
Corporate and Technology Investments and unallocated assets	189,767	236,914
CWI	73,163	69,554
WWI	126,884	86,997
	644,524	646,628
Less: equity investees' total assets	200,047	156,551
Total consolidated assets	\$ 444,477	\$ 490,077

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

Long-lived assets information by geographic area:

	March 31, 2013	December 31, 2012
Italy	\$ 95,634	\$ 99,099
Canada	30,073	29,707
United States	16,190	12,440
Sweden	7,333	7,720
China	6,460	6,524
Australia	793	601
	156,483	156,091
Less: equity investees' long-lived assets	5,704	5,803
	\$ 150,779	\$ 150,288

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14. Related party transactions:

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

As at March 31, 2013, net amounts due from CWI total \$671 (December 31, 2012 - \$2,127). 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 three months ended March 31, 2013 and March 31, 2012 cost reimbursements from CWI consisted of the following:

	Three months ended March 31,	
	2013	2012
Research and development	\$ 59	\$ 68
General and administrative	351	144
Sales and marketing	1,788	1,033
	<u>\$ 2,198</u>	<u>\$ 1,245</u>

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

15. Fair value of financial instruments:

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

The Company's short-term investments are recorded at fair value. The long-term investment represents our interests in the 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 10) 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 10) 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 March 31, 2013, the fair value of the long-term debt is higher than its carrying value by \$59 based on a market interest rate of 2.35%.

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15. Fair value of financial instruments (continued):

The carrying value reported in the balance sheet for senior financing agreements (note 10) approximates its fair value as at March 31, 2013, 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 March 31, 2013 and December 31, 2012, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

WESTPORT INNOVATIONS INC.

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16. Restatement of previously issued financial statements:

In previously filed interim financial statements, the Company had consolidated CWI. 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 and has restated its consolidated financial statements for the three month period ended March 31, 2012 on a similar basis. The following tables represent the impact to the previously issued financial statements for the three months ended March 31, 2012 of the restatement :

Effect on Consolidated Statements of Operations:

	For the three months ended March 31, 2012		
	As previously reported	Correction	(Restated - Note 1)
Product revenue	\$ 78,812	\$ (43,550)	\$ 35,262
Parts revenue	9,797	(9,107)	690
	88,609	(52,657)	35,952
Cost of revenue and expenses:			
Cost of product and parts revenue	60,114	(33,014)	27,100
Research and development	16,165	(1,919)	14,246
General and administrative	11,893	(353)	11,540
Sales and marketing	8,684	(2,431)	6,253
Foreign exchange loss (gain)	385	(10)	375
Depreciation and amortization	2,519	(34)	2,485
Bank charges, interest and other	358	(45)	313
	100,118	(37,806)	62,312
Loss before undernoted	(11,509)	(14,851)	(26,360)
Income from investment accounted for by the equity method	762	4,768	5,530
Interest on long-term debt and amortization of discount	(1,282)	-	(1,282)
Interest and other income	369	(133)	236
Loss before income taxes	(11,660)	(10,216)	(21,876)
Income tax expense (recovery):	6,199	(5,448)	751
Net loss for the period	\$ (17,859)	\$ (4,768)	\$ (22,627)
Net income (loss) attributed to:			
Joint venture partners	4,768	(4,768)	-
The Company	(22,627)	-	(22,627)
Loss per share:			
Basic and diluted	\$ (0.44)	\$ -	\$ (0.44)
Weighted average common shares outstanding:			
Basic and diluted	50,883,897		50,883,897

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

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

Effect on Consolidated Statement Comprehensive (Loss) Income:

	For the three months ended March 31, 2012		
	As previously reported	Correction	(Restated - Note 1)
Loss for the period	\$ (17,859)	\$ (4,768)	\$ (22,627)
Other comprehensive loss:			
Cumulative translation adjustment	3,535	-	3,535
Comprehensive loss	\$ (14,324)	\$ (4,768)	\$ (19,092)
Comprehensive income (loss) attributable to:			
Joint venture partners	4,768	(4,768)	-
The Company	(19,092)	-	(19,092)

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

Effect on Consolidated Statement of Cash Flow:

	For the three months ended March 31, 2012		
	As previously reported	Correction	(Restated - Note 1)
Cash flows from operating activities:			
Loss for the period	\$ (17,859)	\$ (4,768)	\$ (22,627)
Items not involving cash:			
Depreciation and amortization	2,519	(34)	2,485
Stock-based compensation expense	3,562	-	3,562
Unrealized foreign exchange loss	-	375	375
Deferred income tax (recovery) expense	(1,158)	1,529	371
Change in deferred lease inducements	(11)	-	(11)
Income from investment accounted for by the equity method	(762)	(4,768)	(5,530)
Accretion of long-term debt	195	-	195
Other	54	-	54
Changes in non-cash operating working capital:			
Accounts receivable	6,059	(2,375)	3,684
Inventories	(4,351)	-	(4,351)
Prepaid expenses	(3,974)	(26)	(4,000)
Accounts payable and accrued liabilities	3,600	(3,732)	(132)
Deferred revenue	1,651	(173)	1,478
Warranty liability	2,736	(1,248)	1,488
	(7,739)	(15,220)	(22,959)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(8,655)	-	(8,655)
Purchase of intangible assets	(959)	-	(959)
Sale of short-term investments, net	(71,914)	4,022	(67,892)
Advances on loan receivable	(2,554)	2,554	-
Repayment on loan receivable	2,494	-	2,494
Increase in loan payable	-	2,450	2,450
Repayment of loan payable	-	-	-
Acquisitions, net of acquired cash	(1,073)	-	(1,073)
	(82,661)	9,026	(73,635)
Cash flows from financing activities:			
Increase in operating lines of credit	4,245	-	4,245
Repayment of long-term debt	(4,293)	-	(4,293)
Proceeds from stock options exercised	774	-	774
Shares issued for cash	273,556	-	273,556
Share issuance costs	(8,003)	-	(8,003)
	266,279	-	266,279
Effect of foreign exchange on cash and cash equivalents	(652)	(375)	(1,027)
Increase (decrease) in cash and cash equivalents	175,227	(6,569)	168,658
Cash and cash equivalents, beginning of period	70,298	(7,013)	63,285
Cash and cash equivalents, end of period	\$ 245,525	\$ (13,582)	\$ 231,943