

FINANCIAL REPORT TO SHAREHOLDERS

WestportTM
Here and Now.

For the three and six months
ended June 30, 2013 and 2012

Q2 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 and six months ended June 30, 2013 provides an update to our annual amended MD&A dated May 31, 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 August 1, 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 other fuels used for transportation, 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 10 litre), heavy-duty (10 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 89,000 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 approximately \$500 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 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 automotive original equipment manufacturers ("OEMs") and a diverse group of global vehicle 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") and liquefied petroleum gas ("LPG") 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's wholly owned Italian subsidiaries OMVL S.p.A. ("OMVL") and Emer S.p.A. ("Emer") and Westport's Australian operations are reported under Applied Technologies and are made either directly to OEMs or through one of their many distributors.

Applied Technologies designs and manufactures a range of components from pressure regulators, injectors, electronic control units ("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") and through the acquisition of BAF Technologies, Inc. ("BAF"), Creative Bus and AT&T. 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 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, Westport™ 2.4L industrial engines sold to Clark and Cummins Western Canada for forklift and oilfield applications, respectively and products through the BAF acquisition include Ford E-450/E-550, E-250/E-350, F-59 and F-650 and Transit Connect.

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 liquefied natural gas ("LNG") fuel in the large, off-road engine applications like rail, mining, marine and oil and gas. Westport's existing New Markets and Off-Road Systems OEM customers and partners include Caterpillar Inc. ("Caterpillar"), Canadian National Railway ("CN") 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, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. The fuel for CWI engines is typically carried on the vehicles as CNG or LNG. CWI engines are produced at certain Cummins' engine 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 50,000 engines.

GENERAL DEVELOPMENTS

On May 30, 2013, Westport announced that it has signed an agreement with GAZ Group to design and develop spark ignited natural gas systems for a new range of GAZ Group CNG commercial vehicles. Westport's proprietary components and technology will be applied to GAZ's YaMZ-530 4.4L and 6.6L diesel engines.

On June 5, 2013, Westport announced that CN ordered four LNG tenders from Westport to supply fuel to an adjacent natural-gas powered locomotive. The first tender will be delivered in the fourth quarter of 2013.

On June 28, 2013, Westport announced its acquisition of BAF and its subsidiary, ServoTech Engineering, Inc. ("ServoTech") from Clean Energy Fuels Corp ("Clean Energy") for \$25 million in Westport common stock. The acquisition expands Westport's Ford product portfolio and dealership coverage. Westport and Clean Energy also announced a \$5 million joint marketing and sales program.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the three and six months ended June 30, 2013 and June 30, 2012:

Selected Consolidated Statements of Operations Data				
	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(expressed in millions of United States dollars, except for per share amounts and shares outstanding)</i>				
Total revenue	\$ 34.9	\$ 49.1	\$ 64.9	\$ 85.0
Gross margin ⁽¹⁾	8.3	23.1	16.3	31.9
GM %	23.8%	47.0%	25.1%	37.5%
Net loss	(33.9)	(6.1)	(65.7)	(28.7)
Net loss per share – basic and diluted ⁽²⁾	(0.61)	(0.11)	(1.18)	(0.54)
Weighted average shares outstanding	55,631,945	54,941,622	55,473,038	52,912,760
Cash used in operations before changes in non-cash working capital ⁽³⁾	(33.7)	(9.5)	(62.8)	(30.5)
⁽¹⁾ Gross margin is calculated as revenue less cost of product and parts revenue. 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. Gross margin as defined above applies to the discussion of gross margin throughout the MD&A. (For the three and six months ended June 30, 2013, \$1.0 and \$2.0, respectively, (2012 - \$1.0 and \$2.0) in depreciation and amortization is excluded from the calculation of gross margin). ⁽²⁾ 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. ⁽³⁾ See non-GAAP financial measures.				

The following table sets forth a summary of our financial position as at June 30, 2013 and December 31, 2012:

Selected Balance Sheet Data			
<i>(expressed in millions of United States dollars)</i>			
		June 30, 2013	December 31, 2012
Cash and short-term investments	\$	135.3	\$ 215.9
Total assets		449.5	490.1
Long-term financial liabilities ⁽¹⁾		47.9	52.2

⁽¹⁾ Excluding warranty liability, deferred revenue, deferred income tax liabilities and other long-term liabilities.

The following table sets forth a summary of the financial results of our joint ventures for the three and six months ended June 30, 2013 and June 30, 2012:

Selected CWI Statements of Operations Data				
	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(expressed in millions of United States dollars)</i>				
Total revenue	\$ 78.0	\$ 57.0	\$ 122.7	\$ 109.7
Gross margin	20.6	17.4	32.8	37.1
GM %	26.4%	30.5%	26.7%	33.8%
Income before income taxes	10.5	11.6	11.8	26.6
Income attributable to the Company	3.3	3.6	4.1	8.4

Selected WWI Statements of Operations Data				
	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(expressed in millions of United States dollars)</i>				
Total revenue	\$ 152.5	\$ 68.8	\$ 258.4	\$ 106.0
Gross margin	11.9	9.5	19.0	15.7
GM %	7.8%	13.8%	7.4%	14.8%
Income before income taxes	4.5	3.9	7.9	5.9
Income attributable to the Company	1.3	1.1	2.4	1.7

OVERVIEW OF THREE AND SIX MONTHS ENDED JUNE 30, 2013 RESULTS

Total Consolidated Revenues <i>(expressed in millions of U.S. dollars)</i>										
	Three months ended June 30,		Change			Six months ended June 30,		Change		
	2013	2012	\$	%		2013	2012	\$	%	
Applied Technologies	\$ 25.2	\$ 27.8	\$ (2.6)	-9%		\$ 48.5	\$ 51.1	\$ (2.6)	-5%	
On-Road Systems	8.4	7.2	1.2	17%		14.1	19.8	(5.7)	-29%	
Corporate and Technology Investments	1.3	14.1	(12.8)	-91%		2.3	14.1	(11.8)	-84%	
Total consolidated revenues	\$ 34.9	\$ 49.1	\$ (14.2)	-29%		\$ 64.9	\$ 85.0	\$ (20.1)	-24%	

Operating Results

For the three months ended June 30, 2013, our consolidated revenues were \$34.9 million compared to \$49.1 million in the prior year period, a decrease of \$14.2 million, or 29%. The decrease in revenue was primarily driven by a decrease in Corporate and Technology Investments revenue of \$12.8 million due to the one-time license revenue of \$8.0 million recognized in the prior year period and timing of revenue recognized under our development agreements. On-Road Systems had lower revenue generated due to lower sales of the Westport 15L systems and the bi-fuel systems for the V70 wagon when compared to the prior year. The decrease in revenue was offset by increased sales of the Westport WiNG System and shipments of the Westport 2.4L product to forklift and oilfield customers.

For the six months ended June 30, 2013, our consolidated revenues were \$64.9 million compared to \$85.0 million in the prior year period, a decrease of \$20.1 million, or 24%. The decrease in revenue was primarily driven by a decrease in Corporate and Technology Investments revenue of \$11.8 million due the one-time license revenue of \$8.0 million recognized in the prior year period and timing of revenue recognized under our development agreements. On-Road Systems had lower revenue generated due to lower sales of the Westport 15L systems and the bi-fuel systems for the V70 wagon when compared to the prior year. The decrease in revenue was offset by increased sales of the Westport WiNG System 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 June 30, 2013 was \$33.9 million, or \$0.61 loss per diluted share, compared to a \$6.1 million net loss, or \$0.11 loss per diluted

share, for the three months ended June 30, 2012. The \$27.8 million increase in net loss was primarily due to an increase in segment operating loss in Corporate and Technology Investments of \$23.7 million, Off-Road Systems of \$0.5 million, a decrease in segment operating income in Applied Technologies of \$2.6 million, offset by decrease in segment operating loss in On-Road Systems of \$1.3 million. Included in our net loss for the three months ended June 30, 2013 is \$3.4 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 \$37.3 million and \$0.67, respectively.

Consolidated net loss attributable to the Company for the six months ended June 30, 2013 was \$65.7 million, or \$1.18 loss per diluted share, compared to a \$28.7 million net loss, or \$0.54 loss per diluted share, for the six months ended June 30, 2012. The \$37.0 million increase in net loss was primarily due to an increase in segment operating loss in Corporate and Technology Investments of \$31.3 million, Off-Road Systems of \$1.5 million, a decrease in segment operating income in Applied Technologies of \$3.6 million, net decrease in our share of equity income of \$4.3 million from CWI, offset by decrease in segment operating loss in On-Road Systems of \$2.5 million and net increase in our share of equity income of \$0.7 million from WWI. Included in our net loss for the six months ended June 30, 2013 is \$6.4 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 \$72.1 million and \$1.30, respectively.

Cash, cash equivalents and Investments

As of June 30, 2013, our cash, cash equivalents and short-term investments balance was \$135.3 million compared to \$215.9 million at December 31, 2012. For the six months ended June 30, 2013, cash used in operations was \$65.2 million with \$62.8 million used for operating purposes and \$2.4 million related to changes in working capital. We purchased \$15.2 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 \$0.5 million in cash, received dividends from our joint ventures of \$2.2 million and \$1.2 million in cash was acquired as a result of the BAF acquisition.

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. There have been no changes in accounting policies applied to June 30, 2013. 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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 did not have a material impact on 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Changes in Internal Control over Financial Reporting

During the six month period ended June 30, 2013, there were no changes to our internal control over financial reporting that materially affected or are reasonably likely to materially affect, our internal controls over financial reporting. However, as described in the December 31, 2012 annual amended MD&A, Management concluded that the following material weakness existed in the Company's internal control over financial reporting as of December 31, 2012. The Company did not employ accounting staff with an appropriate level of technical accounting knowledge, experience and training in the application of recognition, measurement and disclosure requirements of U.S. GAAP and experience with regulatory requirements. This material weakness creates a reasonable possibility that material misstatement of the financial statements will not be prevented or detected on a timely basis. We are in the process of developing enhanced control procedures designed to ensure accounting personnel have adequate knowledge in assessing complex accounting issues involving significant judgment and disclosures in our consolidated financial statements through training and technical accounting courses and seminars, and we are in the process of identifying a policy determining when to consult a third party accounting advisor. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

RESULTS FROM OPERATIONS

Total Revenue

The following table summarizes total revenues by segment for the three and six months ended June 30, 2013 and June 30, 2012:

Total Revenues (expressed in millions of U.S. dollars)										
	Three months ended June 30,		Change		Six months ended June 30,		Change			
	2013	2012	\$	%	2013	2012	\$	%		
Applied Technologies	\$ 25.2	\$ 27.8	\$ (2.6)	-9%	\$ 48.5	\$ 51.1	\$ (2.6)	-5%		
On-Road Systems	8.4	7.2	1.2	17%	14.1	19.8	(5.7)	-29%		
New Markets and Off-Road Systems	-	-	-	n/a	-	-	-	n/a		
Corporate and Technology Investments	1.3	14.1	(12.8)	-91%	2.3	14.1	(11.8)	-84%		
CWI	78.0	57.0	21.0	37%	122.7	109.7	13.0	12%		
WWI	152.5	68.8	83.7	122%	258.4	106.0	152.4	144%		
Total segment revenues	\$ 265.4	\$ 174.9	\$ 90.5	52%	\$ 446.0	\$ 300.7	\$ 145.3	48%		
Less: Equity investees' revenues	230.5	125.8	104.7	83%	381.1	215.7	165.4	77%		
Total consolidated revenues	\$ 34.9	\$ 49.1	\$ (14.2)	-29%	\$ 64.9	\$ 85.0	\$ (20.1)	-24%		

Applied Technologies

Revenue for the three and six months ended June 30, 2013 was \$25.2 million and \$48.5 million, compared to \$27.8 million and \$51.1 million to the same periods last year, respectively. Decrease in revenue of \$2.6 million is due primarily to lower sales in Europe and South East Asia, partially offset by stronger sales in Russia and China.

On-Road Systems

Revenue for the three months ended June 30, 2013 increased \$1.2 million, or 17% from \$7.2 million to \$8.4 million. Increase in On-Road Systems revenue is primarily due to full quarter sales of the Westport WiNG System for the F-250/F-350 bi-fuel Super Duty trucks and increased shipments of Westport 2.4L industrial systems to forklift and oilfield customers. Increases in revenue were offset by lower shipments of Westport 15L systems and bi-fuel systems for the V70 wagon. On-Road Systems parts revenue for the three months ended June 30, 2013 increased \$0.4 million to \$1.1 million compared to \$0.7 million for the three months ended June 30, 2012.

For the six months ended June 30, 2013, On-Road Systems revenue decreased \$5.7 million, or 29% from \$19.8 million to \$14.1 million. The lower shipments of the Westport 15L systems and bi-fuel systems for the V70 wagon resulted in a decrease in revenue. These decreases in revenue were offset by an increase in revenue from the Westport WiNG System for the F-250/F-350 bi-fuel Super Duty truck and increased shipments of Westport 2.4L industrial systems to forklift and oilfield customers. On-Road Systems parts revenue for the six months ended June 30, 2013 increased \$1.1 million to \$2.4 million compared to \$1.3 million for the six months end June 30, 2012.

New Markets and Off-Road Systems

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

For the three and six months ended June 30, 2013, we recognized \$1.3 and \$2.3 million, respectively under our development agreements from 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.

Revenue for the three and six months ended June 30, 2012 was \$14.1 million, which included a one-time license revenue of \$8.0 million and \$6.1 million under our development agreements.

CWI

Revenue for the three months ended June 30, 2013 increased \$21.0 million, or 37% from \$57.0 million to \$78.0 million. CWI product revenue for the three months ended June 30, 2013 increased \$19.0 million, or 40%, to \$66.7 million on sales of 2,716 units compared to \$47.7 million and 1,972 units for the three months ended June 30, 2012. The increased quarterly volumes in North America were driven by higher sales in all segments but mainly in truck and refuse applications. The launch of the ISX12 G heavy duty truck engine in April contributed to the truck segment growth compared to the prior year period. International volumes increased compared to the prior year period as a result of a large shipment in the three months ended June 30, 2013. CWI parts revenue for the three months ended June 30, 2013 was \$11.3 million compared with \$9.3 million for the three months end June 30, 2012.

For the six months ended June 30, 2013 revenue increased \$13.0 million, or 12% from \$109.7 million to \$122.7 million. CWI product revenue for the six months ended June 30, 2013 increased \$10.2 million, or 11%, to \$101.4 million on sales of 4,029 units compared to \$91.2 million and 3,915 units for the six months ended June 30, 2012. For six months ended June 30, 2013, volume in North America increased due to contributions from the ISX12 G. However, international volumes decreased when compared to the prior year period due to a large shipment to international customer in the prior year period. CWI parts revenue for the six months ended June 30, 2013 was \$21.3 million compared with \$18.4 million for the six months end June 30, 2012.

WWI

Revenue for the three months ended June 30, 2013 increased \$83.7 million, or 122% from \$68.8 million to \$152.5 million. WWI shipped 12,410 units for the three months ended June 30, 2013 compared with 5,331 units for the three months ended June 30, 2012. For the six months ended June 30, 2013 WWI revenue increased \$152.4 million, or 144% from \$106.0 million to \$258.4 million. WWI shipped 20,939 units for the six months ended June 30, 2013 compared with 8,059 units for the six months ended June 30, 2012.

Gross Margin

The following table presents gross margin by segment for the three months ended June 30, 2013 compared to three months ended June 30, 2012:

Gross Margin (expressed in millions of U.S. dollars)								
	Three months ended June 30, % of Revenue 2013			Three months ended June 30, % of Revenue 2012			Change	
							\$	%
Applied Technologies	\$	7.1	28.2%	\$	8.2	29.5%	\$ (1.1)	-13%
On-Road Systems		(0.1)	-1.2%		0.8	11.1%	(0.9)	-113%
New Markets and Off-Road Systems		-	n/a		-	n/a	-	n/a
Corporate and Technology Investments		1.3	100.0%		14.1	100.0%	(12.8)	-91%
CWI		20.6	26.4%		17.4	30.5%	3.2	18%
WWI		11.9	7.8%		9.5	13.8%	2.4	25%
Total segment gross margin	\$	40.8	15.5%	\$	50.0	28.6%	\$ (9.2)	-18%
Less: Equity investees' gross margin		32.5	14.1%		26.9	21.4%	5.6	21%
Total consolidated gross margin	\$	8.3	23.8%	\$	23.1	47.0%	\$ (14.8)	-64%

Applied Technologies

Gross margin decreased \$1.1 million to \$7.1 million, or 28.2% of revenue, for the three months ended June 30, 2013 compared to \$8.2 million, or 29.5% of revenue for the three months ended June 30, 2012. The decrease in gross margin percentage was due to lower absorption of fixed overhead costs and product mix during the period.

On-Road Systems

Gross margin decreased \$0.9 million to negative \$0.1 million, or negative 1.2% of revenue, from \$0.8 million, or 11.1% of revenue for the three months ended June 30, 2012. The decrease in gross margin percentage was due to lower absorption of fixed overhead costs, product mix and negative warranty adjustments on the Westport 15L product during the period. Excluding warranty related impact, gross margin percentage would have been 17.9%.

Corporate and Technology Investments

Corporate and Technology Investments gross margin decreased \$12.8 million from \$14.1 to \$1.3 million. The gross margin percentage was 100% as Corporate and Technology Investments gross margin relates entirely to service revenue under our development agreements and one-time license revenue.

CWI

CWI gross margin increased \$3.2 million to \$20.6 million, or 26.4% of revenue from \$17.4 million or 30.5% of revenue. CWI product margin and product gross margin percentage for the three months ended June 30, 2013 were \$15.3 million and 23%, respectively, compared to \$13.5 million and 28%, respectively, for the three months ended June 30, 2012. The decrease in CWI gross margin percentage during the three months ended June 30, 2013 was due to mix of sales primarily from the sale of ISX12 G engines, which have a low gross margin on product launch and net warranty adjustments and net extended coverage claims totaling \$0.3 million compared to the three months ended June 30, 2012. Warranty adjustments and net extended coverage claims totaling \$5.1 million were recorded in the three months ended June 30, 2013. Excluding the warranty related impact, CWI gross margin percentage would have been 32.9%. CWI parts gross margin percentage for the three months ended June 30, 2013 increased compared to the three months ended June 30, 2012.

WWI

WWI gross margin increased \$2.4 million to \$11.9 million, or 7.8% of revenue from \$9.5 million or 13.8% of revenue. The decrease in gross margin percentage related primarily to product mix and product pricing remains discounted as WWI penetrates new markets and builds market share.

The following table presents gross margin by segment for the six months ended June 30, 2013 compared to six months ended June 30, 2012:

Gross Margin (expressed in millions of U.S. dollars)								
	Six months ended June 30, % of Revenue 2013			Six months ended June 30, % of Revenue 2012			Change	
	\$			\$			\$	%
Applied Technologies	\$	13.7	28.2%	\$	14.8	29.0%	\$ (1.1)	-7%
On-Road Systems		0.3	2.1%		3.0	15.2%	(2.7)	-90%
New Markets and Off-Road Systems		-	n/a		-	n/a	-	n/a
Corporate and Technology Investments		2.3	100.0%		14.1	100.0%	(11.8)	-84%
CWI		32.8	26.7%		37.1	33.8%	(4.3)	-12%
WWI		19.0	7.4%		15.7	14.8%	3.3	21%
Total segment gross margin	\$	68.1	15.3%	\$	84.7	28.3%	\$ (16.6)	-20%
Less: Equity investees' gross margin		51.8	13.6%		52.8	24.5%	(1.0)	-2%
Total consolidated gross margin	\$	16.3	25.1%	\$	31.9	37.5%	\$ (15.6)	-49%

Applied Technologies

Applied Technologies gross margin decreased \$1.1 million to \$13.7 million, or 28.2% of revenue for the six months ended June 30, 2013 compared to \$14.8 million, or 29.0% of revenue for the six months ended June 30, 2012. The decrease in gross margin percentage was due to lower absorption of fixed overhead costs and product mix during the period.

On-Road Systems

On-Road Systems gross margin decreased \$2.7 million to \$0.3 million, or 2.1% of revenue for the six months ended June 30, 2013 compared to \$3.0 million, or 15.2% of revenue for the six months ended June 30, 2012. The decrease in gross margin percentage was due to lower absorption of fixed overhead costs, product mix and negative warranty adjustments on the Westport 15L product during the period. Excluding warranty related impact, gross margin percentage would have been 17.0%.

Corporate and Technology Investments

Corporate and Technology Investments gross margin decreased \$11.8 million from \$14.1 to \$2.3 million. The gross margin percentage was 100% as Corporate and Technology Investments gross margin relates entirely to service revenue under our development agreements and one-time license revenue.

CWI

CWI gross margin decreased \$4.3 million to \$32.8 million, or 26.7% of revenue from \$37.1 million or 33.8% of revenue. CWI product margin and product gross margin percentage for the six months ended June 30, 2013 were \$23.2 million and 22.9%, respectively, compared to \$29.5 million and 32.3%, respectively, for the six months ended June 30, 2012. The decrease in CWI gross margin percentage during the six months ended June 30, 2013 was due primarily to mix of sales, net warranty adjustments and net extended coverage claims totaling \$1.0 million compared to the six months ended June 30, 2012. Warranty adjustments and net extended coverage claims of totaling \$8.9 million were recorded in the six months ended June 30, 2013. Excluding the warranty related impact, CWI gross margin percentage would have been 34.0%. CWI parts gross margin percentage for the six months ended June 30, 2013 increased compared to the six months ended June 30, 2012.

WWI

WWI gross margin increased \$3.3 million to \$19.0 million, or 7.4% of revenue from \$15.7 million or 14.8% of revenue. The decrease in gross margin percentage related primarily to product mix and product pricing remains discounted as WWI penetrates new markets and builds market share.

The following table presents details of research and development (“R&D”) expense by segment for the three and six months ended June 30, 2013 and June 30, 2012:

Research and Development												
(expressed in millions of U.S. dollars)												
	Three months ended June 30,				Change		Six months ended June 30,				Change	
	2013		2012		\$	%	2013		2012		\$	%
Applied Technologies	\$	1.3	\$	0.6	\$	0.7	117%	\$	2.6	\$	1.5	
On-Road Systems		3.5		6.2		(2.7)	-44%		7.3		13.9	(6.6) -47%
New Markets and Off-Road Systems		0.4		0.9		(0.5)	-56%		0.8		1.5	(0.7) -47%
Corporate and Technology Investments		18.7		10.4		8.3	80%		33.6		15.5	18.1 117%
Total research and development	\$	23.9	\$	18.1	\$	5.8	32%	\$	44.3	\$	32.4	\$ 11.9 37%

Research and development expenses, net of program funding, for the three and six months ended June 30, 2013 increased \$5.8 million and \$11.9 million, respectively, compared to the same periods last year.

Applied Technologies

For the three and six months ended June 30, 2013, R&D expenses increased \$0.7 million and \$1.1 million, respectively, compared to the same periods last year, primarily related to new product development programs and quality enhancements.

On-Road Systems

For the three and six months ended June 30, 2013, R&D expenses decreased \$2.7 million and \$6.6 million, respectively, compared to the same periods last year, primarily due to costs incurred in the prior year for the launch of the Westport WiNG System on the F-250/F-350 bi-fuel Super Duty trucks.

Corporate and Technology Investments

For the three and six months ended June 30, 2013, R&D expenses increased \$8.3 million and \$18.1 million, respectively, compared to the same periods last year, primarily driven by increases in investment under our new and existing development programs.

Selling, General and Administrative Expenses

The following table presents details of selling, general and administrative ("SG&A") expense by segment for the three and six months ended June 30, 2013 and June 30, 2012:

Selling, General and Administrative												
(expressed in millions of U.S. dollars)												
	Three months ended June 30,				Change		Six months ended June 30,				Change	
	2013		2012		\$	%	2013		2012		\$	%
Applied Technologies	\$	3.7	\$	2.8	\$ 0.9	32%	\$	7.1	\$	5.7	\$ 1.4	25%
On-Road Systems		5.8		5.2	0.6	12%		11.4		10.1	1.3	13%
New Markets and Off-Road Systems		3.1		2.1	1.0	48%		5.5		3.3	2.2	67%
Corporate and Technology Investments		8.3		5.8	2.5	43%		16.0		14.6	1.4	10%
Total selling, general and administrative	\$	20.9	\$	15.9	\$ 5.0	31%	\$	40.0	\$	33.7	\$ 6.3	19%

Selling, General and administrative expenses for the three and six months ended June 30, 2013 increased \$5.0 million and \$6.3 million, respectively, compared to the same periods last year.

Applied Technologies

For the three and six months ended June 30, 2013, SG&A expenses increased \$0.9 million and \$1.4 million, respectively, compared to the same periods last year primarily due to increase in salaries and benefits, costs related to our Australian facility and sales and marketing activities.

On-Road Systems

For the three and six months ended June 30, 2013, SG&A expenses increased \$0.6 million and \$1.3 million, respectively, compared to the same periods last year primarily due to increased headcount, higher facilities and office expenses related to our Detroit and Kentucky facilities and sales and marketing associated with the F-250/F-350 bi-fuel Super Duty trucks.

New Markets and Off-Road Systems

For the three and six months ended June 30, 2013, SG&A expenses increased \$1.0 million and \$2.2 million, respectively, compared to the same periods last year as there was limited activity other than sales and marketing activity in the prior year period. In the current year periods, expenses relate to costs to support the development of the business and manage the Off-Road applications programs.

Corporate and Technology Investments

For the three months ended June 30, 2013, SG&A expenses increased from \$5.8 million to \$8.3 million due to increase in headcount to support new programs and global market development efforts. For the six months ended June 30, 2013, SG&A expenses increased from \$14.6 million to \$16.0 million due to increase in headcount to support new programs and global market development efforts, offset by a reduction in professional service fees incurred in the prior year period.

Unconsolidated Joint Venture Operating Expenses

The following table presents details of the operating expense of our joint ventures for the three and six months ended June 30, 2013 compared to three and six months ended June 30, 2012:

Unconsolidated Joint Venture Operating Expenses									
(expressed in millions of U.S. dollars)									
	Three months ended					Six months ended			
	June 30,		Change			June 30,		Change	
	2013	2012	\$	%		2013	2012	\$	%
CWI	\$ 10.0	\$ 5.9	\$ 4.1	69%		\$ 20.8	\$ 10.6	\$ 10.2	96%
WWI	7.4	5.6	1.8	32%		11.1	9.8	1.3	13%
Total JV operating expenses	\$ 17.4	\$ 11.5	5.9	51%		\$ 31.9	\$ 20.4	11.5	56%

CWI

CWI operating expenses were \$10.0 million for the three months ended June 30, 2013 compared with \$5.9 million for the three months ended June 30, 2012. For the six months ended June 30, 2013, CWI operating expenses increased by \$10.2 million to \$20.8 million from \$10.6 million for the six month period ended June 30, 2012. The \$4.1 million and \$10.2 million increases for the three and six months ended June 30, 2013, respectively, were primarily driven by research and development expenses related to ISX12 G and ISB6.7 G programs, as well as reliability improvements for current products.

WWI

WWI operating expenses increased by \$1.8 million to \$7.4 million for the three months ended June 30, 2013 from \$5.6 million for the three months ended June 30, 2012. For the six months ended June 30, 2013, WWI operating expenses increased by \$1.3 million to \$11.1 million from \$9.8 million for the six month period ended June 30, 2012. The increase relates primarily to higher product development costs and facilities and support costs associated with the continued growth.

Foreign exchange gains and losses

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 and six months ended June 30, 2013, we recognized a net foreign exchange gain of \$3.4 million and \$6.4 million, respectively, with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange gain of \$4.9 million and \$4.5 million for the three and six months ended June 30, 2012 respectively. A majority of the foreign exchange gain for the three and six months ended June 30, 2013 is unrealized.

Depreciation and amortization

Depreciation and amortization for the three and six months ended June 30, 2013 was \$3.8 million and \$7.4 million compared to \$2.7 million and \$5.2 million for the three and six months ended June 30, 2012 respectively. 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

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
CWI - 50% interest	\$ 3.3	\$ 3.6	\$ 4.1	\$ 8.4
WWI - 35% interest	1.3	1.1	2.4	1.7
Other	-	(0.1)	(0.2)	-
Income from investment accounted for by the equity method	\$ 4.6	\$ 4.6	\$ 6.3	\$ 10.1

Interest on long-term debt and amortization of discount expense

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Canadian debentures	\$ 0.8	\$ 0.8	\$ 1.6	\$ 1.6
Senior financing facilities	0.3	0.4	0.6	0.7
Amortization of discount and non-cash interest expense	0.1	0.1	0.3	0.3
Total Interest on long-term debt	\$ 1.2	\$ 1.3	\$ 2.5	\$ 2.6

Income tax expense

Income tax expense for the three and six months ended June 30, 2013 was \$0.3 million and \$0.6 million, respectively, compared to an income tax expense of \$0.8 million and \$1.6 million, respectively, for the three and six months ended June 30, 2012. The decrease primarily relates to lower taxable income in Emer and OMVL in the current year periods.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at June 30, 2013, our cash, cash equivalents and short-term investment position was \$135.3 million, a decrease of \$80.6 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 six months ended June 30, 2013, our cash used in operations was \$65.2 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was \$62.8 million. Changes in non-cash working capital resulted in a use of \$2.4 million. The \$2.4 million change in working capital was impacted, by increases in accounts receivable of \$2.3 million, inventory of \$4.3 million and prepaid expenses of \$0.3 million, partially offset by increases in accounts payable and accrued liabilities of \$3.8 million, deferred revenue of \$0.8 million and warranty liability of \$0.1 million. Cash used in investing activities included purchase of fixed assets of \$15.2 million offset by cash received from sale of short-term investments of \$25.8 million, \$2.2 million in dividends received from joint ventures and \$1.2 million in cash was acquired as result of the BAF acquisition. Cash provided by financing activities included \$0.5 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 quarterly) 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 June 30, 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		
		Six months ended	Twelve months ended	Inception to date
		June 30, 2013	December 31, 2012	
	\$	\$	\$	\$
Off-Road Applications (formerly HHP Applications)	50.0 – 100.0	6.9	6.5	13.4
Capital Expenditures	30.0 – 50.0	4.2	14.2	18.4
Geographic Expansion (formerly HD business units)	20.0 – 40.0	22.9	37.0	59.9
Geographic Expansion (formerly LD business units)	20.0 – 40.0	14.3	29.5	43.8
General Corporate Purposes	36.3 – 146.3	32.3	28.1	60.4
	266.3	80.6	115.3	195.9

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

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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 June 30, 2013 and 2012 the weighted average number of shares used in calculating the net loss per share was 55,631,945 and 54,941,622, respectively. During the three months ended June 30, 2013, we granted nil stock options and nil share units relating to our long-term incentive programs. The shares, share options and performance share units outstanding and exercisable as at the following dates are shown below:

	June 30, 2013		August 1, 2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Shares outstanding	56,384,038		56,488,220	
Share Options				
- Outstanding	883,979	29.69	852,287	30.14
- Exercisable	340,654	23.17	316,628	23.95
Share Units				
- Outstanding	1,385,485	N/A	1,320,533	N/A
- Exercisable	267,197	N/A	185,374	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-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13
<i>(expressed in millions of United States dollars except for per share amounts)</i>								
Product revenue	\$ 31.0	\$ 32.1	\$ 35.3	\$ 34.3	\$ 28.3	\$ 31.0	\$ 27.3	\$ 32.5
Parts revenue	0.5	1.0	0.7	0.7	1.0	1.1	1.3	1.1
Service and other revenue	0.4	9.8	-	14.1	1.4	7.8	1.4	1.3
Total revenue	31.9	42.9	36.0	49.1	30.7	39.9	30.0	34.9
Cost of product and parts revenue	26.8	28.5	27.1	26.0	22.9	26.5	22.0	26.6
Gross margin	5.1	14.4	8.9	23.1	7.8	13.3	8.0	8.3
Gross margin percentage	16.0%	33.6%	24.7%	47.0%	25.4%	33.3%	26.7%	23.8%
Net loss for the period	\$ (13.2)	\$ (14.5)	\$ (22.6)	\$ (6.1)	\$ (32.5)	\$ (37.6)	\$ (31.8)	\$ (33.9)
Net loss per share								
Basic and Diluted ⁽¹⁾	\$ (0.28)	\$ (0.30)	\$ (0.44)	\$ (0.11)	\$ (0.59)	\$ (0.68)	\$ (0.57)	\$ (0.61)
Income from unconsolidated joint ventures:								
CWI net income attributable to the Company	4.7	5.3	4.8	3.6	3.6	1.2	0.8	3.3
WWI net income attributable to the Company	0.4	0.5	0.6	1.1	0.7	0.5	1.0	1.3

⁽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 amended MD&A dated May 31, 2013 and are substantially unchanged.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies have been disclosed in our annual amended MD&A dated May 31, 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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Cash flow from operations				
Net loss for the period	\$ (33.9)	\$ (6.1)	\$ (65.7)	\$ (28.7)
Items not involving cash:				
Depreciation and amortization	3.8	2.7	7.4	5.2
Stock-based compensation expense	4.1	2.9	7.5	6.5
Unrealized foreign exchange gain	(3.4)	(4.9)	(6.4)	(4.5)
Deferred income tax expense	(0.2)	0.2	(0.2)	0.6
Income from investment accounted for by the equity method	(4.6)	(4.6)	(6.3)	(10.1)
Accretion of long-term debt	0.5	0.3	0.9	0.5
Cash flows from operations before changes in non-cash operating working capital	<u>\$ (33.7)</u>	<u>\$ (9.5)</u>	<u>\$ (62.8)</u>	<u>\$ (30.5)</u>

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

WESTPORT INNOVATIONS INC.

For the three and six months ended June 30, 2013 and 2012

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets (unaudited)

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

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 134,724	\$ 188,958
Short-term investments	562	26,902
Accounts receivable (note 4)	44,903	44,189
Inventories (note 5)	53,474	44,946
Prepaid expenses	7,171	6,641
Current portion of deferred income tax assets	4,396	7,183
	245,230	318,819
Long-term investments (note 6)	23,859	19,118
Other assets	1,936	1,852
Property, plant and equipment (note 8)	65,609	58,194
Intangible assets (note 9)	40,760	35,215
Goodwill (note 10)	72,067	56,879
	\$ 449,461	\$ 490,077
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 57,463	\$ 48,509
Current portion of deferred revenue	2,517	1,254
Current portion of deferred income tax liabilities	232	65
Current portion of long-term debt (note 12)	28,652	28,566
Current portion of warranty liability (note 13)	4,854	2,072
	93,718	80,466
Warranty liability (note 13)	1,867	4,308
Long-term debt (note 12)	47,925	52,156
Deferred revenue	4,413	5,215
Deferred income tax liabilities	9,097	9,245
Other long-term liabilities	2,649	2,606
	159,669	153,996
Shareholders' equity:		
Share capital:		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
56,384,038 (2012 - 55,294,091) common shares	762,254	733,385
Other equity instruments	11,784	9,228
Additional paid in capital	7,237	6,384
Accumulated deficit	(495,666)	(429,932)
Accumulated other comprehensive income	4,183	17,016
	289,792	336,081
	\$ 449,461	\$ 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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
		(Restated - note 1)		(Restated - note 1)
Product revenue	\$ 32,515	\$ 34,341	\$ 59,840	\$ 69,604
Parts revenue	1,075	653	2,368	1,342
Service and other revenue	1,266	14,080	2,701	14,080
	34,856	49,074	64,909	85,026
Cost of revenue and expenses:				
Cost of product and parts revenue	26,599	26,005	48,557	53,105
Research and development	23,894	18,107	44,331	32,353
General and administrative	12,866	8,653	24,553	20,193
Sales and marketing	8,024	7,309	15,423	13,562
Foreign exchange gain	(3,390)	(4,885)	(6,406)	(4,510)
Depreciation and amortization	3,791	2,729	7,387	5,214
Bank charges, interest and other	206	214	346	527
	71,990	58,132	134,191	120,444
Loss before undernoted	(37,134)	(9,058)	(69,282)	(35,418)
Income from investments accounted for by the equity method	4,609	4,595	6,296	10,125
Interest on long-term debt and amortization of discount	(1,243)	(1,366)	(2,495)	(2,648)
Interest and other income	134	574	333	810
Loss before income taxes	(33,634)	(5,255)	(65,148)	(27,131)
Income tax expense	301	802	586	1,553
Net loss for the periods	\$ (33,935)	\$ (6,057)	\$ (65,734)	\$ (28,684)
Other comprehensive loss:				
Cumulative translation adjustment	(5,665)	(10,441)	(12,833)	(6,906)
Comprehensive loss	\$ (39,600)	\$ (16,498)	\$ (78,567)	\$ (35,590)
Loss per share:				
Basic and diluted	\$ (0.61)	\$ (0.11)	\$ (1.18)	\$ (0.54)
Weighted average common shares outstanding:				
Basic and diluted	55,631,945	54,941,622	55,473,038	52,912,760

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)

Six months ended June 30, 2013 and June 30, 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
Issue of common shares on exercise of stock options	10,861	172	-	(59)	-	-	113
Issue of common shares on exercise of performance share units	86,777	1,085	(1,085)	-	-	-	-
Share issue costs	-	(123)	-	-	-	-	(123)
Stock-based compensation	-	-	2,093	593	-	-	2,686
Net loss for the period	-	-	-	-	(6,057)	-	(6,057)
Other comprehensive loss	-	-	-	-	-	(10,441)	(10,441)
Balance, June 30, 2012 (Restated - note 1)	54,994,694	\$ 728,733	\$ 8,851	\$ 5,185	\$ (359,842)	\$ 6,365	\$ 389,292
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
Issue of common shares on exercise of stock options	68,951	598	-	(218)	-	-	380
Issue of common shares on exercise of performance share units	196,326	4,254	(4,254)	-	-	-	-
Issue of common shares in connection with acquisition (note 3)	718,485	22,000	-	-	-	-	22,000
Acquisition to be settled by issuance of common shares (note 3)	-	-	3,000	-	-	-	3,000
Stock-based compensation	-	-	3,044	546	-	-	3,590
Net loss for the period	-	-	-	-	(33,935)	-	(33,935)
Other comprehensive loss	-	-	-	-	-	(5,665)	(5,665)
Balance, June 30, 2013	56,384,038	\$ 762,254	\$ 11,784	\$ 7,237	\$ (495,666)	\$ 4,183	\$ 289,792

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
		(Restated - note 1)		(Restated - note 1)
Cash flows from operating activities:				
Loss for the period	\$ (33,935)	\$ (6,057)	\$ (65,734)	\$ (28,684)
Items not involving cash:				
Depreciation and amortization	3,791	2,729	7,387	5,214
Stock-based compensation expense	4,084	2,896	7,465	6,458
Unrealized foreign exchange gain	(3,390)	(4,885)	(6,406)	(4,510)
Deferred income tax (recovery) expense	(129)	182	(161)	617
Income from investments accounted for by the equity method	(4,609)	(4,595)	(6,296)	(10,125)
Accretion of long-term debt	453	320	913	515
Other	(12)	(16)	(25)	27
Changes in non-cash operating working capital:				
Accounts receivable	(4,722)	(8,635)	(2,327)	(4,951)
Inventories	103	(4,940)	(4,284)	(9,291)
Prepaid expenses	141	186	(344)	(3,814)
Accounts payable and accrued liabilities	4,697	234	3,761	102
Deferred revenue	1,053	523	784	2,000
Warranty liability	744	170	113	1,658
	(31,731)	(21,888)	(65,154)	(44,784)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(6,930)	(4,838)	(15,176)	(13,493)
Purchase of intangible assets	-	(30)	-	(989)
Sale (purchase) of short-term investments, net	7,192	(867)	25,873	(68,759)
Repayment of loan receivable	-	-	-	2,494
Increase loan payable	-	-	-	2,450
Acquisitions, net of acquired cash	1,178	(52)	1,178	(1,125)
Dividends received from joint venture	768	-	2,224	-
	2,208	(5,787)	14,099	(79,422)
Cash flows from financing activities:				
Increase in operating lines of credit	-	-	-	4,245
Repayment of operating lines of credit	-	(2,885)	(1,807)	(2,885)
Repayment of long-term debt	-	(2,111)	-	(6,404)
Proceeds from stock options exercised	380	113	464	887
Shares issued for cash	-	-	-	273,556
Share issuance costs	-	(123)	-	(8,126)
	380	(5,006)	(1,343)	261,273
Effect of foreign exchange on cash and cash equivalents	(1,822)	4,364	(1,836)	3,274
(Decrease) increase in cash and cash equivalents	(30,965)	(28,317)	(54,234)	140,341
Cash and cash equivalents, beginning of period	165,689	231,943	188,958	63,285
Cash and cash equivalents, end of period	\$ 134,724	\$ 203,626	\$ 134,724	\$ 203,626
Supplementary information:				
Interest paid	\$ -	\$ 440	\$ 1,568	\$ 2,079
Taxes paid, net of refunds	49	170	161	170
Non-cash transactions:				
Shares issued on exercise of performance share units	4,254	1,085	6,138	2,071
Common Shares issued and to be issued to acquire BAF Technologies, Inc.	25,000	-	25,000	-

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

1. Basis of presentation:

The unaudited consolidated balance sheet as at June 30, 2013, and the unaudited consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the three months and six months ended June 30, 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 June 30, 2013 and for all periods presented, have been recorded. The results of operations for the three months and six months ended June 30, 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 18 - Restatement of previously issued financial statements. Refer to note 2 (a) of the annual audited consolidated financial statements for additional information.

In interim financial statements previously filed in 2012, the Company had consolidated Cummins Westport Inc. ("CWI"). The Company subsequently 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, accordingly, restated its consolidated financial statements for the three and six months periods ended June 30, 2012 to be 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:		Average for the three months ended:		Average for the six months ended:	
	June 30, 2013	December 31, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Canadian dollar	0.95	1.01	0.99	1.00	0.98	0.99
Australian dollar	0.91	1.04	1.01	1.03	0.99	1.01
Euro	1.30	1.32	1.31	1.30	1.31	1.28
RMB	0.16	0.16	0.16	0.16	0.16	0.16
Swedish Krona	0.15	0.15	0.15	0.15	0.15	0.14

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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("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 did not have a material impact on 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. 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)

3. Acquisition of BAF Technologies, Inc.:

On June 28, 2013 ("the acquisition date"), the Company acquired 100% of the outstanding common shares of BAF Technologies, Inc. ("BAF") and its subsidiary, ServoTech Engineering, Inc. (ServoTech) from Clean Energy Fuels Corp. ("Clean Energy"). The results of BAF's consolidated operations have been included in these consolidated financial statements since the acquisition date. BAF is a natural gas vehicle business that supports clients with vehicle conversions under Ford's Qualified Vehicle Modifier (QVM) program. ServoTech is an engineering company that provides a total engineering solution from initial concept phase to prototype hardware and final prove-out.

Pursuant to the Stock Purchase Agreement, the purchase price for BAF was \$25,000, to be settled in 816,460 of the Company's common shares. The number of shares transferred was determined using the 10-day volume weighted average price (VWAP) per share prior to and including the acquisition date (\$30.62 per share). Of the 816,460 common shares, 718,485 shares (fair value of \$22,000) were issued on the acquisition date and 97,975 (fair value of \$3,000) will be issuable to Clean Energy 12 months after the acquisition date. The fair value of the 97,975 common shares has been recognized in "Other equity instruments".

The following table summarizes the preliminary allocation of the consideration to the fair value of the assets acquired and liabilities assumed at the acquisition date. The Company is in the process of obtaining third-party valuations of the assets acquired and liabilities assumed and therefore, the fair values set forth below represent management's estimates but are subject to adjustment once the valuations are complete. The Company expects that Inventory, Property, plant and equipment, Intangibles assets, Goodwill and Deferred income tax liabilities may be affected by the valuation and, accordingly, the allocation adopted at June 30, 2013 is provisional pending finalization of the valuations.

	Estimated Fair Value
Cash	\$ 1,178
Accounts receivables	1,288
Prepaid expense	499
Inventory	5,792
Property, plant and equipment	905
Intangible assets	7,700
Other asset	298
Total identifiable assets acquired	17,660
Accounts payable and accrued liabilities	5,505
Deferred income tax liabilities - current	64
Warranty liabilities	582
Total current liabilities	6,151
Deferred income tax liabilities	2,926
Total liabilities assumed	9,077
Net identifiable assets acquired	8,583
Allocation to Goodwill	16,417
Total consideration	\$ 25,000

The Company recognized \$442 of acquisition related costs in "General and Administrative" expense under the Corporate segment during the three months ended June 30, 2013.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

3. Acquisition of BAF Technologies, Inc. (continued):

Intangible Assets

The provisional fair values for specifically identifiable intangible assets by major asset class are as set forth below.

	Assigned fair value	Weighted average amortization period
Customer relationships	\$ 5,500	8 years
Core technology	1,200	10 years
Other intangibles	1,000	3 years
Total	<u>\$ 7,700</u>	

Inventory

The provisional fair value of \$ \$5,792 assigned to inventory was estimated based on assumptions about the selling prices and selling costs associated with the inventory.

Goodwill

Of the total consideration paid, \$16,417 has been provisionally allocated to goodwill. While the allocation of goodwill among segments is not complete, the majority of goodwill recognized is expected to be assigned to the On-Road segment. The allocation of purchase price paid to goodwill is subject to adjustment pending receipt of the final valuation from a third party. The goodwill recognized is attributable primarily to securing synergies that are specific to the Company's business.

Deferred Income taxes

The Company recognized a provisional deferred income tax liability of \$2,990 relating to the difference in book and tax bases of acquired assets.

Results of BAF

The revenue and expenses of BAF for the three days, June 28 – June 30, 2013, of the reporting period during which BAF was a part of the Company are immaterial.

Pro forma results

The following unaudited supplemental pro forma information presents the consolidated financial results as if the acquisition of BAF had occurred on January 1, 2012 for the three and six-month period ended June 30, 2013 and June 30, 2012. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2012, nor are they indicative of any future results.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 37,835	\$ 56,212	\$ 72,158	\$ 100,444
Net loss	\$ (36,457)	\$ (6,107)	\$ (69,481)	\$ (28,022)

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

3. Acquisition of BAF Technologies, Inc. (continued):

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of BAF to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2012, together with the consequential tax effects.

Marketing Agreement

As part of the business acquisition, the Company entered into a marketing agreement (Marketing Agreement) with Clean Energy, effective on the acquisition date for a period of two years. The Company is required to make a cash payment of \$5,000 to Clean Energy in March 2014. Under the terms of the Marketing Agreement, Clean Energy will provide products and services to the Company.

The Marketing Agreement has been accounted for as a separate transaction from the business combination and the Company has provisionally estimated the fair value of the agreement to be \$5,000. The Company is in the process of evaluating the fair value of the Marketing Agreement. To the extent the fair value of the agreement is less than \$5,000, the excess consideration payable will be allocated to the consideration for the acquisition of BAF. The fair value assigned to the Marketing Agreement will be allocated to the products and services to be received and recognized when the products are received and services performed.

4. Accounts receivable:

	June 30, 2013	December 31, 2012
Customer trade receivable	\$ 40,777	\$ 39,754
Government funding receivable	492	541
Due from joint venture	734	2,127
Other receivables	3,173	1,916
Income tax receivable	111	172
Allowance for doubtful accounts	(384)	(321)
	\$ 44,903	\$ 44,189

5. Inventories:

	June 30, 2013	December 31, 2012
Purchased parts	\$ 30,689	\$ 25,454
Assembled parts	5,394	4,870
Work-in-process	9,223	7,516
Finished goods	8,462	7,385
Obsolescence provision	(294)	(279)
	\$ 53,474	\$ 44,946

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

6. Long-term investments:

	June 30, 2013	December 31, 2012
Weichai Westport Inc. (a)	\$ 12,867	\$ 11,275
Cummins Westport Inc. (b)	10,496	7,126
Other equity accounted for investees	496	717
	\$ 23,859	\$ 19,118

(a) Weichai Westport Inc.:

The Company has a 35% equity interest in Weichai Westport Inc. ("WWI"), a joint venture with Weichai Holding Group Co. Ltd. and Hong Kong Peterson (CNG) Equipment Ltd. For the three and six months ended June 30, 2013, the Company recognized income of \$1,345 (2012 - \$1,065) and \$2,350 (2012 - \$1,666) respectively, 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:

	June 30, 2013	December 31, 2012
Current assets:		
Cash and short-term investments	\$ 4,224	\$ 1,145
Accounts receivable	68,188	21,512
Inventory	66,917	55,109
Other current assets	875	1,053
Long-term assets		
Property, plant and equipment	4,948	4,930
Deferred income tax assets	3,296	3,248
Total assets	\$ 148,448	\$ 86,997
Current liabilities:		
Accounts payable and accrued liabilities	\$ 115,224	\$ 61,180
Total liabilities	\$ 115,224	\$ 61,180

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Product revenue	\$ 152,503	\$ 68,811	\$ 258,355	\$ 106,018
Cost of revenue and expenses:				
Cost of product revenue	140,591	59,327	239,405	90,325
Operating expenses	7,390	5,619	11,050	9,808
	147,981	64,946	250,455	100,133
Income before income taxes	4,522	3,865	7,900	5,885
Income tax expense:	678	821	1,185	1,125
Income for the period	\$ 3,844	\$ 3,044	\$ 6,715	\$ 4,760

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

6. Long-term investments (continued):

(b) Cummins Westport Inc.:

The Company and Cummins each own 50% of the common shares of CWI. For the three and six months ended June 30, 2013, the Company recognized its share of CWI's income of \$3,347 (2012 - \$3,642) and \$4,138 (2012 - \$8,410) respectively, 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:

	June 30, 2013	December 31, 2012
Current assets:		
Cash and short-term investments	\$ 53,395	\$ 44,371
Accounts receivable	8,183	6,995
Current portion of deferred income tax assets	8,877	7,304
Other current assets	171	225
Long-term assets:		
Property, plant and equipment	1,015	873
Deferred income tax assets	13,595	9,786
Total assets	\$ 85,236	\$ 69,554
Current liabilities:		
Current portion of warranty liability	\$ 16,195	\$ 13,317
Current portion of deferred revenue	4,380	3,862
Accounts payable and accrued liabilities	5,007	9,401
	25,582	26,580
Long-term liabilities:		
Warranty liability	21,871	17,501
Deferred revenue	15,171	9,968
Other long-term liabilities	1,693	1,312
	38,735	28,781
Total liabilities	\$ 64,317	\$ 55,361

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

6. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Product revenue	\$ 66,712	\$ 47,698	\$ 101,389	\$ 91,247
Parts revenue	11,260	9,323	21,300	18,431
	77,972	57,021	122,689	109,678
Cost of revenue and expenses:				
Cost of product and parts revenue	57,411	39,578	89,858	72,592
Research and development	5,441	2,436	11,478	4,355
General and administrative	284	420	576	773
Sales and marketing	4,268	3,044	8,781	5,475
Foreign exchange loss	19	7	25	17
Bank charges, interest and other	115	88	244	167
	67,538	45,573	110,962	83,379
Income before undernoted	10,434	11,448	11,727	26,299
Interest and investment income	26	134	39	267
Income before income taxes	10,460	11,582	11,766	26,566
Income tax expense:	3,766	4,298	3,491	9,746
Income for the period	\$ 6,694	\$ 7,284	\$ 8,275	\$ 16,820

7. 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, and then any excess profits 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 contractually required to provide.

The carrying amount and maximum exposure to losses 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 June 30, 2013		As at December 31, 2012	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	\$ 10,496	\$ 10,496	\$7,126	\$7,126
Accounts receivable	734	734	2,127	2,127

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

8. Property, plant and equipment:

June 30, 2013	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 551	\$ 68	\$ 483
Computer equipment and software	11,902	8,601	3,301
Furniture and fixtures	4,038	2,133	1,905
Machinery and equipment	93,692	38,028	55,664
Leasehold improvements	14,838	10,582	4,256
	\$ 125,021	\$ 59,412	\$65,609

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

9. Intangible assets:

June 30, 2013	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 19,925	\$ 2,238	\$ 17,687
Technology	8,112	2,227	5,885
Customer contracts	19,642	3,474	16,168
Other intangibles	1,040	20	1,020
Total	\$ 48,719	\$ 7,959	\$ 40,760

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
Other intangibles	44	18	26
Total	\$ 41,601	\$ 6,386	\$ 35,215

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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10. Goodwill:

A continuity of goodwill is as follows:

	June 30, 2013	December 31, 2012
Balance, beginning of period:	\$ 56,879	\$ 55,814
Acquisition of BAF Technologies, Inc. (note 3)	16,417	-
Impact of foreign exchange changes	(1,229)	1,065
Balance, end of period	\$ 72,067	\$ 56,879

11. Accounts payable and accrued liabilities:

	June 30, 2013	December 31, 2012
Trade accounts payable	\$ 48,164	\$37,956
Accrued payroll	4,975	8,539
Accrued interest	903	961
Income taxes payable	739	876
Other payables	2,682	177
	\$ 57,463	\$48,509

12. Long-term debt:

	June 30, 2013	December 31, 2012
Subordinated debenture notes	\$ 34,227	\$ 36,185
Long-term payable	9,893	9,836
Senior financing	16,819	18,812
Senior revolving financing	13,017	13,185
Other bank financing	1,274	1,171
Capital lease obligations	1,347	1,533
	76,577	80,722
Current portion	(28,652)	(28,566)
	\$ 47,925	\$ 52,156

WESTPORT INNOVATIONS INC.

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13. Warranty liability:

A continuity of the warranty liability is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Balance, beginning of period	\$ 5,623	\$ 5,756	\$ 6,380	\$ 4,401
Warranty assumed on acquisition	582	-	582	-
Warranty claims	(786)	(832)	(2,181)	(1,114)
Warranty accruals	707	1,056	859	2,808
Change in estimate	1,200	-	1,200	-
Impact of foreign exchange changes	(605)	106	(119)	(9)
Balance, end of period	\$ 6,721	\$ 6,086	\$ 6,721	\$ 6,086
Less: Current portion	(4,854)	(1,777)	(4,854)	(1,777)
Long-term portion	\$ 1,867	\$ 4,309	\$ 1,867	\$ 4,309

14. Stock options and other stock-based plans:

(a) Stock options:

Stock options are available for issuance under the Westport Omnibus Plan and were previously granted under the Company's Stock Option Plan. A summary of the Company's stock option activity for the six months ended June 30, 2013 are presented as follows:

	Six months ended June 30, 2013		Six months ended June 30, 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	-	-	770,727	33.77
Exercised	(83,962)	5.64	(81,327)	10.99
Cancelled/expired	(28,106)	33.83	(163)	6.13
Outstanding, end of period	883,979	\$29.69	1,017,264	\$27.60
Options exercisable, end of period	340,654	\$23.17	238,204	\$ 8.00

During the three and six months ended June 30, 2013, the Company recognized \$648 (2012 - \$666) and \$1,294 (2012 - \$1,308), respectively, in stock-based compensation related to stock options.

No options were granted during the six months ended June 30, 2013. The fair value of the options granted during the six months ended June 30, 2012 was determined using the Black-Scholes option pricing formula simulation with the following weighted average assumptions: expected dividend yield – nil%, expected stock price volatility – 47.79%, risk free interest rate – 0.38%, expected life of options – 3 years. The weighted average grant date fair value was \$10.97 for options granted for the six months ended June 30, 2012.

As at June 30, 2013, \$3,861 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 1.52 years.

WESTPORT INNOVATIONS INC.

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

(b) Share units:

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

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan (together, the "Plans") as of June 30, 2013 and 2012 are as follows:

	Six months ended June 30, 2013		Six months ended June 30, 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	185,705	35.99
Exercised	(211,694)	29.85	(132,766)	15.78
Cancelled/expired	(63,205)	27.49	-	-
Outstanding, end of period	1,385,485	\$ 22.90	1,303,856	\$ 20.83
Units outstanding and exercisable, end of period	267,197	\$ 9.61	251,362	\$ 8.42

	Six months ended June 30, 2013		Six months ended June 30, 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	185,705	35.99
Vested	(242,412)	30.54	(107,197)	18.67
Cancelled	(37,069)	24.19	-	-
Unvested, end of period	1,118,288	\$ 26.08	1,052,494	\$ 23.79

During the three and six months ended June 30, 2013, the Company recognized \$3,436 (2012 - \$2,230) and \$6,171 (2012 - \$5,150), respectively, of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

As at June 30, 2013, \$20,986 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 1.55 years.

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

(b) Share units (continued):

Of the Units granted during the six months ended June 30, 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 six months ended June 30, 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.

During the three and six months ended June 30, 2013, 75,806 PSU's were exercised with a payout factor of 200% (2012 – nil).

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

The aggregate intrinsic value of the Company's stock option awards and share units at June 30, 2013 is as follows:

	June 30, 2013
	CDN\$
Stock options:	
Outstanding	\$ 5,093
Exercisable	4,182
Exercised	2,056
Share units:	
Outstanding	\$ 49,115
Exercisable	9,472
Exercised	8,531

WESTPORT INNOVATIONS INC.

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

(b) Share units (continued):

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Research and development	\$ 575	\$ 554	\$ 986	\$1,074
General and administrative	2,993	1,523	5,517	3,723
Sales and marketing	516	819	962	1,661
	\$ 4,084	\$ 2,896	\$ 7,465	\$6,458

(c) 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.

15. Segmented information:

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

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

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

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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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15. Segmented information (continued):

The Company did not record any intersegment sales or transfers for the three and six months ended June 30, 2013 and 2012.

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue:				
Applied Technologies	\$ 25,220	\$ 27,844	\$ 48,498	\$ 51,133
On-Road Systems	8,370	7,150	14,127	19,817
New Markets and Off-Road Systems	-	-	-	-
Corporate and Technology Investments	1,266	14,080	2,284	14,080
CWI	77,972	57,021	122,689	109,678
WWI	152,503	68,811	258,355	106,018
Total segment revenues	265,331	174,906	445,953	300,722
Less: equity investees' revenue	(230,475)	(125,832)	(381,044)	(215,696)
Total consolidated revenues	\$ 34,856	\$ 49,074	\$ 64,909	\$ 85,026
Net consolidated operating loss excluding depreciation and amortization, foreign exchange loss (gain), bank charges and other:				
Applied Technologies	\$ 2,174	\$ 4,813	\$ 4,041	\$ 7,562
On-Road Systems	(9,364)	(10,702)	(18,484)	(20,996)
New Markets and Off-Road Systems	(3,527)	(2,994)	(6,262)	(4,752)
Corporate and Technology Investments	(25,810)	(2,117)	(47,250)	(16,001)
CWI	10,568	11,543	11,996	26,483
WWI	4,522	3,865	7,900	5,885
Total segment operating loss	(21,437)	4,408	(48,059)	(1,819)
Less: equity investees' operating income	(15,090)	(15,408)	(19,896)	(32,368)
Net consolidated operating loss excluding depreciation and amortization, foreign exchange (gain) loss, bank charges and other:	(36,527)	(11,000)	(67,955)	(34,187)
Depreciation and amortization:				
Applied Technologies	1,930	2,015	3,854	3,948
On-Road Systems	715	132	1,321	264
New Markets and Off-Road Systems	-	-	-	-
Corporate and Technology Investments	1,146	582	2,212	1,002
	3,791	2,729	7,387	5,214
Net consolidated operating loss before foreign exchange (gain) loss, bank charges and other	(40,318)	(13,729)	(75,342)	(39,401)
Foreign exchange (gain) loss, bank charges and other	(3,184)	(4,671)	(6,060)	(3,983)
Loss before undernoted	(37,134)	(9,058)	(69,282)	(35,418)
Interest on long-term debt and other income (expenses), net	(1,109)	(792)	(2,162)	(1,838)
Income from investment accounted for by the equity method	4,609	4,595	6,296	10,125
Loss before income taxes	\$ (33,634)	\$ (5,255)	\$ (65,148)	\$ (27,131)

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Notes to Consolidated Financial Statements (unaudited)

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15. Segmented information (continued):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Total additions to long-lived assets excluding business combinations:				
Applied Technologies	\$ 656	\$ 1,014	\$ 1,962	\$ 1,014
On-Road Systems	5,941	2,977	9,487	3,604
New Markets and Off-Road Systems	113	-	234	-
Corporate and Technology Investments	220	877	3,493	9,864
	\$ 6,930	\$ 4,868	\$ 15,176	\$ 14,482

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 and presented as a percentage of the Company's product and service revenues are as follows:

	% of total product revenue and service and other revenue			
	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Americas (including United States)	30	38	27	38
Asia (including China)	13	10	15	10
Other (including Italy)	57	52	58	52

The Company's revenue earned from Canadian customers is not significant and has been included in revenue from sales in the Americas.

As at June 30, 2013, total goodwill of \$50,905 (December 31, 2012 - \$51,711) was allocated to Applied Technologies and \$21,162 (December 31, 2012 - \$5,168) to On-Road Systems reporting segments.

As at June 30, 2013, total long-term investments of \$23,509 (December 31, 2012 - \$18,544) was allocated to the Corporate and Technology Investments segment and \$350 (December 31, 2012 - \$574) was allocated to the Applied Technologies segment. Total assets are allocated as follows:

	June 30, 2012	December 31, 2012
Applied Technologies	\$ 188,532	\$ 161,206
On-Road Systems	102,209	85,401
New Markets and Off-Road Systems	6,181	6,556
Corporate and Technology Investments and unallocated assets	152,539	236,914
CWI	85,236	69,554
WWI	148,448	86,997
	683,145	646,628
Less: equity investees' total assets	233,684	156,551
Total consolidated assets	\$ 449,461	\$ 490,077

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15. Segmented information (continued):

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

Long-lived assets information by geographic area:

	June 30, 2012	December 31, 2012
Italy	\$ 95,337	\$ 99,099
Canada	32,327	29,707
United States	42,386	12,440
Sweden	7,046	7,720
China	6,440	6,524
Australia	863	601
	\$ 184,399	\$ 156,091
Less: equity investees' long-lived assets	5,963	5,803
	\$ 178,436	\$ 150,288

16. Related party transactions:

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

As at June 30, 2013, net amounts due from CWI total \$734 (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 and six months ended June 30, 2013 and June 30, 2012 cost reimbursements from CWI consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Research and development	\$ 47	\$ 48	\$ 107	\$ 116
General and administrative	301	314	821	496
Sales and marketing	1,298	1,037	2,400	2,080
	\$1,646	\$1,399	\$3,328	\$2,692

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

17. 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.

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17. Fair value of financial instruments (continued):

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 12) 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 12) is recorded at amortized cost using the effective interest rate method. It is being accreted to the gross proceeds of €7,600 that is payable to OMVL on July 2, 2013 at the effective interest rate of 3.65%. As at June 30, 2013, the fair value of the long-term payable is the same as its carrying value as it matured and was repaid on July 2, 2013.

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

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Notes to Consolidated Financial Statements (unaudited)

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18. Restatement of previously issued financial statements:

The following tables present the impact to the previously issued financial statements for the three and six months ended June 30, 2012. As previously reported column below represent amounts as reported in the Company's June 30, 2012 consolidated financial statements filed on or about August 2, 2012.

Effect on Consolidated Statement of Operations	For the three months ended June 30, 2012		
	As previously reported	Correction	(Restated - Note 1)
Product revenue	\$ 81,770	\$ (47,429)	\$ 34,341
Parts revenue	10,245	(9,592)	653
Service and other revenue	14,080	-	14,080
	106,095	(57,021)	49,074
Cost of revenue and expenses:			
Cost of product and parts revenue	65,583	(39,578)	26,005
Research and development	20,543	(2,436)	18,107
General and administrative	9,073	(420)	8,653
Sales and marketing	10,353	(3,044)	7,309
Foreign exchange gain	(4,878)	(7)	(4,885)
Depreciation and amortization	2,766	(37)	2,729
Bank charges, interest and other	265	(51)	214
	103,705	(45,573)	58,132
Income (loss) before undernoted	2,390	(11,448)	(9,058)
Income from investment accounted for by the equity method	953	3,642	4,595
Interest on long-term debt and amortization of discount	(1,366)	-	(1,366)
Interest and other income	708	(134)	574
Loss before income taxes	2,685	(7,940)	(5,255)
Income tax expense (recovery)	5,100	(4,298)	802
Net loss for the period	\$ (2,415)	\$ (3,642)	\$ (6,057)
Net income (loss) attributed to:			
Joint venture partners	3,642	(3,642)	-
The Company	(6,057)	-	(6,057)
Loss per share:			
Basic and diluted	\$ (0.11)		\$ (0.11)
Weighted average common shares outstanding:			
Basic and diluted	54,941,622		54,941,622

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Notes to Consolidated Financial Statements (unaudited)

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

Effect on Consolidated Statement of Comprehensive (Loss) Income	For the three months ended June 30, 2012		
	As previously reported	Correction	(Restated - Note 1)
Loss for the period	\$ (2,415)	\$ (3,642)	\$ (6,057)
Other comprehensive loss:			
Cumulative translation adjustment	(10,441)	-	(10,441)
Comprehensive loss	\$ (12,856)	\$ (3,642)	\$ (16,498)
Comprehensive income (loss) attributable to:			
Joint venture partners	3,642	(3,642)	-
The Company	(16,498)	-	(16,498)

WESTPORT INNOVATIONS INC.

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

Effect on Consolidated Statement of Cash Flow	For the three months ended June 30, 2012		
	As previously reported	Correction	(Restated - Note 1)
Cash flows from operating activities:			
Loss for the period	\$ (2,415)	\$ (3,642)	\$ (6,057)
Items not involving cash:			
Depreciation and amortization	2,766	(37)	2,729
Stock-based compensation expense	2,896	-	2,896
Unrealized foreign exchange gain	-	(4,885)	(4,885)
Deferred income tax (recovery) expense	(1,782)	1,964	182
Change in deferred lease inducements	(15)	-	(15)
Income from investment accounted for by the equity method	(953)	(3,642)	(4,595)
Accretion of long-term debt	320	-	320
Other	(1)	-	(1)
Changes in non-cash operating working capital:			
Accounts receivable	(10,569)	1,934	(8,635)
Inventories	(4,940)	-	(4,940)
Prepaid expenses	204	(18)	186
Accounts payable and accrued liabilities	(6,011)	6,245	234
Deferred revenue	1,377	(854)	523
Warranty liability	5,002	(4,832)	170
	(14,121)	(7,767)	(21,888)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(4,895)	57	(4,838)
Purchase of intangible assets	(30)	-	(30)
Purchase (sale) of short-term investments, net	(7,130)	6,263	(867)
Increase in loan payable	-	-	-
Acquisitions, net of acquired cash	(52)	-	(52)
	(12,107)	6,320	(5,787)
Cash flows from financing activities:			
Repayment of operating lines of credit	(2,885)	-	(2,885)
Repayment of long-term debt	(2,111)	-	(2,111)
Proceeds from stock options exercised	113	-	113
Share issuance costs	(123)	-	(123)
	(5,006)	-	(5,006)
Effect of foreign exchange on cash and cash equivalents	(521)	4,885	4,364
Increase (decrease) in cash and cash equivalents	(31,755)	3,438	(28,317)
Cash and cash equivalents, beginning of period	245,525	(13,582)	231,943
Cash and cash equivalents, end of period	\$ 213,770	\$ (10,144)	\$203,626

WESTPORT INNOVATIONS INC.

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

Effect on Consolidated Statement of Operations	For the six months ended June 30, 2012		
	As previously reported	Correction	(Restated - Note 1)
Product revenue	\$ 160,582	\$ (90,978)	\$ 69,604
Parts revenue	20,042	(18,700)	1,342
Service and other revenue	14,080	-	14,080
	194,704	(109,678)	85,026
Cost of revenue and expenses:			
Cost of product and parts revenue	125,697	(72,592)	53,105
Research and development	36,708	(4,355)	32,353
General and administrative	20,966	(773)	20,193
Sales and marketing	19,037	(5,475)	13,562
Foreign exchange gain	(4,493)	(17)	(4,510)
Depreciation and amortization	5,285	(71)	5,214
Bank charges, interest and other	623	(96)	527
	203,823	(83,379)	120,444
Loss before undernoted	(9,119)	(26,299)	(35,418)
Income from investment accounted for by the equity method	1,715	8,410	10,125
Interest on long-term debt and amortization of discount	(2,648)	-	(2,648)
Interest and other income	1,077	(267)	810
Loss before income taxes	(8,975)	(18,156)	(27,131)
Income tax expense (recovery):	11,299	(9,746)	1,553
Net loss for the period	\$ (20,274)	\$ (8,410)	\$ (28,684)
Net income (loss) attributed to:			
Joint venture partners	8,410	(8,410)	-
The Company	(28,684)	-	(28,684)
Loss per share:			
Basic and diluted	\$ (0.54)		\$ (0.54)
Weighted average common shares outstanding:			
Basic and diluted	52,912,760		52,912,760

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

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

Effect on Consolidated Statement of Comprehensive (Loss) Income	For the six months ended June 30, 2012		
	As previously reported	Correction	(Restated - Note 1)
Loss for the period	\$ (20,274)	\$ (8,410)	\$ (28,684)
Other comprehensive loss:			
Cumulative translation adjustment	(6,906)	-	(6,906)
Comprehensive loss	\$ (27,180)	\$ (8,410)	\$ (35,590)
Comprehensive income (loss) attributable to:			
Joint venture partners	8,410	(8,410)	-
The Company	(35,590)	-	(35,590)

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)

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

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

Effect on Consolidated Statement of Cash Flow	For the six months ended June 30, 2012		
	As previously reported	Correction	(Restated - Note 1)
Cash flows from operating activities:			
Loss for the period	\$ (20,274)	\$ (8,410)	\$ (28,684)
Items not involving cash:			
Depreciation and amortization	5,285	(71)	5,214
Stock-based compensation expense	6,458	-	6,458
Unrealized foreign exchange gain	-	(4,510)	(4,510)
Deferred income tax (recovery) expense	(2,876)	3,493	617
Change in deferred lease inducements	(26)	-	(26)
Income from investment accounted for by the equity method	(1,715)	(8,410)	(10,125)
Accretion of long-term debt	515	-	515
Other	53	-	53
Changes in non-cash operating working capital:			
Accounts receivable	(4,510)	(441)	(4,951)
Inventories	(9,291)	-	(9,291)
Prepaid expenses	(3,770)	(44)	(3,814)
Accounts payable and accrued liabilities	(2,411)	2,513	102
Deferred revenue	3,027	(1,027)	2,000
Warranty liability	7,738	(6,080)	1,658
	(21,797)	(22,987)	(44,784)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(13,550)	57	(13,493)
Purchase of intangible assets	(989)	-	(989)
(Purchase) sale of short-term investments, net	(79,044)	10,285	(68,759)
Advances on loan receivable	(2,554)	2,554	-
Repayment on loan receivable	2,494	-	2,494
Increase in loan payable	-	2,450	2,450
Acquisitions, net of acquired cash	(1,125)	-	(1,125)
	(94,768)	15,346	(79,422)
Cash flows from financing activities:			
Increase in operating lines of credit	4,245	-	4,245
Repayment of operating lines of credit	(2,885)	-	(2,885)
Repayment of long-term debt	(6,404)	-	(6,404)
Proceeds from stock options exercised	887	-	887
Shares issued for cash	273,556	-	273,556
Share issuance costs	(8,126)	-	(8,126)
	261,273	-	261,273
Effect of foreign exchange on cash and cash equivalents	(1,236)	4,510	3,274
Increase (decrease) in cash and cash equivalents	143,472	(3,131)	140,341
Cash and cash equivalents, beginning of period	70,298	(7,013)	63,285
Cash and cash equivalents, end of period	\$ 213,770	\$ (10,144)	\$ 203,626