

FINANCIAL REPORT TO SHAREHOLDERS

WestportTM
Here and Now.

For the three and six months
ended June 30, 2014 and 2013

2014 Q2

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, 2014 provides an update to our annual MD&A dated February 25, 2014 for the fiscal year ended December 31, 2013. 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, 2013. 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 July 31, 2014.

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 AIF 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 AIF. 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 and vehicles 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, we sell natural gas and propane engines, fuel systems, and components to customers in more than 79 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 seven of the world's top ten automotive manufacturers. Our strategic relationships with original equipment manufacturers ("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.

Since our founding in 1995, we have invested over \$619 million towards the research, development and commercialization of our proprietary technologies and related products. Conversely, our research and development ("R&D") efforts and investments have resulted in a substantial patent portfolio that serves as the foundation for our differentiated technology offerings and competitive advantage. Our technologies and related products enable combustion engines to use gaseous fuels, such as natural gas, propane, renewable natural gas ("RNG") or hydrogen. The substitution of natural gas for petroleum-based fuel drives a 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.

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

WESTPORT APPLIED TECHNOLOGIES BUSINESS UNIT

Westport Applied Technologies ("Applied Technologies") designs, produces, and sells compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") components and subsystems to over 20 global OEMs, including Fiat, Volkswagen, Tata Motors ("Tata"), the GAZ Group, and Chrysler, 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"), including its wholly owned subsidiary Valtek S.p.A., Westport's Australian operations and part of Westport's China operations are reported under the Applied Technologies business unit and are made either directly to OEMs or through distributors. The Applied Technologies business unit designs and manufactures a range of components including pressure regulators, injectors, electronic control units, valves and filters; sells monofuel and bi-fuel conversion kits; and also offers engine management systems and solutions that can be launched quickly at a competitive price. The Applied Technologies business unit provides Westport with high volume, scalable manufacturing and assembly. The business unit has a strong customer base in Europe and is targeting growing markets in Asia, and North and South America.

WESTPORT ON-ROAD SYSTEMS BUSINESS UNIT

Westport On-Road Systems ("On-Road Systems") engineers, designs, assembles and sells natural gas engine and vehicle systems for automotive, light commercial, and trucking. Westport's existing On-Road Systems OEM customers and partners include Ford Motor Company ("Ford"), GM, PACCAR Inc. ("PACCAR") (Kenworth Truck

Company ("Kenworth") and Peterbilt, a PACCAR company), and Volvo Car Group ("Volvo Car"). Current products include the Westport WiNG™ Power System (the "WiNG System") for the Ford Transit Connect, Ford F-250/F-350 (bi-fuel and dedicated) vehicle models and dedicated natural gas fuel systems for the F-450/F-550, F-650, F-59, and E-450 vehicle models; Volvo Car bi-fuel systems (CNG and gasoline) for the V60 and V70 bi-fuel wagon; Westport JumpStart mobile fuel services; and Westport iCE PACK™ LNG Tank System ("Westport iCE PACK") for spark-ignited ("SI") engines. Westport further supports customers with vehicle conversions through the Ford Qualified Vehicle Modifier ("QVM") program, alternative fuel systems and application engineering.

WESTPORT OFF-ROAD SYSTEMS BUSINESS UNIT

Westport Off-Road Systems ("Off-Road Systems") has been exploring product development opportunities for using liquefied natural gas ("LNG") fuel in large, off-road engine applications including rail, mining, marine, and oil & gas. According to industry statistics and our analysis, the global annual fuel usage in these applications is over 24 billion gallons of diesel fuel annually, presenting a highly attractive opportunity for significant fuel cost savings and reduced emissions through the use of LNG as an alternative fuel. Current products include an LNG tender product for the rail market, and Westport™ 2.4L industrial engines sold to Clark Material Handling ("Clark") and Cummins Western Canada for forklift and oilfield applications, respectively.

CORPORATE AND TECHNOLOGY INVESTMENTS BUSINESS UNIT

The Corporate and Technology Investments business unit ("Corporate and Technology Investments") is responsible for investments in new R&D 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. Once a product is launched, the revenue will be recognized under one of the operating business units: Applied Technologies; On-Road Systems; or Off-Road Systems.

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 for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles. The fuel for CWI engines is typically carried on the vehicles as CNG or LNG. CWI engines are produced at certain Cummins' plants, allowing CWI to leverage Cummins' manufacturing footprint without incurring additional capital costs. CWI also utilizes Cummins' supply chain, back office systems and distribution and sales networks. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty truck and transit bus industries.

WEICHAI WESTPORT INC.

Weichai Westport Inc. ("WWI") is a joint venture between Westport (35% interest), Weichai Holding Group Co. Ltd. ("Weichai") (40% interest) and Hong Kong Peterson (CNG) Equipment Ltd. ("Hong Kong Peterson") (25% interest) focusing 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 is expanding its facility to double its annual production capacity to 100,000 engines by the end of 2014.

GENERAL DEVELOPMENTS

On April 28, 2014, the Company announced the launch of Westport high pressure direct injection (Westport™ HPDI 2.0) on the Weichai Westport WP12 engine platform. The Weichai Westport WP12HPDI is China's first

engine featuring Westport HPDI technology, delivering the power and performance of the base diesel engine, while replacing up to 95% of diesel fuel with cleaner burning, less expensive natural gas. Weichai Westport plans to release 30 trucks for customer validation through 2014 with factory production expected to start in 2015. The WP12 with Westport HPDI 2.0 will be certified to be compliant with China V emissions standards.

On May 5, 2014, the Company announced that it has received certification from California Air Resources Board (CARB) for its 2014 model year Westport WiNG Ford-150 3.7L pickup truck. The CARB certifies that vehicles meet all applicable California emission regulations.

On May 6, 2014, the Company announced that Kroger has ordered 40 Westport iCE PACK power systems for their Freightliner trucks, which will also feature the Cummins Westport ISX12 G engine. The 40 trucks will be delivered in the third quarter of 2014.

On June 3, 2014, the Company announced the appointment of Yang Guang as President of Asia Pacific. In this role, Yang Guang will oversee ongoing business operations and activities in China (including Hong Kong and Taiwan), India, Korea, Japan, Australia and southeast Asian Nations. A key member of Westport's leadership team, he will be developing and growing Westport business in Asia Pacific.

On June 5, 2014, the Company announced the appointment of Ashoka Achuthan as Chief Financial Officer. In this role, Ashoka will oversee all operational financial activities and management within Westport. Bill Larkin has been appointed to Vice President, Corporate Development, focusing on strategic initiatives and investments, and development agreements that will contribute to Westport's financial growth.

On June 27, 2014, the Company announced that it has extended the maturity date of its 9% unsecured subordinated non-convertible debentures formerly due September 22, 2014 to September 15, 2017; and secured an additional C\$19 million in debentures on the same terms, bringing the total outstanding debentures to C\$55 million. The maturity date of the existing debentures was extended by execution of a Supplemental Indenture and an extraordinary resolution of existing debenture holders, for which support of approximately 92.5% of holders was obtained. The Supplemental Indenture allows holders of all debentures to elect, up to six times, to extend the maturity date of their respective debentures by a successive six month term, subject to a minimum of C\$10 million debentures remaining outstanding; and increases the amount of permitted additional unsecured indebtedness and guarantees from C\$50 million to C\$70 million to reflect the additional debentures issued today.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected information of our financial results for the three and six months ended June 30, 2014 and June 30, 2013:

Selected Consolidated Statements of Operations Data				
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
<i>(expressed in millions of United States dollars, except for per share amounts and shares outstanding)</i>				
Total revenue	\$ 40.0	\$ 34.9	\$ 82.0	\$ 64.9
Gross margin ⁽¹⁾	13.6	8.3	25.9	16.3
GM %	34.0%	23.8%	31.6%	25.1%
Net loss	(35.4)	(33.9)	(59.2)	(65.7)
Net loss per share – basic and diluted ⁽²⁾	(0.56)	(0.61)	(0.94)	(1.18)
Weighted average shares outstanding	63,110,446	55,631,945	63,005,649	55,473,038
Cash used in operations before changes in non-cash working capital ⁽³⁾	(19.2)	(33.7)	(41.6)	(62.8)
⁽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, 2014, \$0.9 and \$1.8, respectively, (2013 - \$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 selected information of our financial position as at June 30, 2014 and December 31, 2013:

Selected Balance Sheet Data			
<i>(expressed in millions of United States dollars)</i>			
	June 30, 2014		December 31, 2013
Cash and short-term investments	\$	168.8	\$ 210.6
Total assets		445.0	491.7
Long-term debt		58.1	13.0

The following tables set forth selected information of the financial results of our joint ventures for the three and six months ended June 30, 2014 and June 30, 2013:

Selected CWI Statements of Operations Data				
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
<i>(expressed in millions of United States dollars)</i>				
Total revenue	\$ 79.6	\$ 78.0	\$ 159.6	\$ 122.7
Gross margin	10.4	20.6	18.0	32.8
GM %	13.1%	26.4%	11.3%	26.7%
Income (loss) before income taxes	0.2	10.5	(2.0)	11.8
Income (loss) attributable to the Company	0.4	3.3	(0.4)	4.1

Selected WWI Statements of Operations Data				
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
<i>(expressed in millions of United States dollars)</i>				
Total revenue	\$ 133.1	\$ 152.5	\$ 246.4	\$ 258.4
Gross margin	8.8	11.9	15.1	19.0
GM %	6.6%	7.8%	6.1%	7.4%
Income before income taxes	2.3	4.5	4.0	7.9
Income attributable to the Company	0.7	1.3	1.2	2.4

OVERVIEW OF THREE AND SIX MONTHS ENDED JUNE 30, 2014 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	
	2014	2013	\$	%	2014	2013	\$	%
Applied Technologies	\$ 24.8	\$ 25.2	\$ (0.4)	-2%	\$ 46.7	\$ 48.5	\$ (1.8)	-4%
On-Road Systems	11.6	7.4	4.2	57%	29.4	12.0	17.4	145%
Off-Road Systems	1.5	1.0	0.5	50%	2.8	2.1	0.7	33%
Corporate and Technology Investments	2.1	1.3	0.8	62%	3.1	2.3	0.8	35%
Total consolidated revenues	\$ 40.0	\$ 34.9	\$ 5.1	15%	\$ 82.0	\$ 64.9	\$ 17.1	26%

OPERATING RESULTS

For the three months ended June 30, 2014, our consolidated revenues were \$40.0 million compared to \$34.9 million in the prior year period, an increase of \$5.1 million, or 15%. On-Road Systems generated higher revenue due to the increased revenue generated from BAF and its subsidiary, ServoTech Engineering, Inc. ("ServoTech") which was acquired on June 28, 2013, increased shipments of Westport ICE PACK offset by the loss of revenues from the first generation Westport™ HPDI system, which was discontinued in December 2013.

For the six months ended June 30, 2014, our consolidated revenues were \$82.0 million compared to \$64.9 million in the prior year period, an increase of \$17.1 million, or 26%. On-Road Systems generated higher revenue due to the increased revenue generated from BAF and its subsidiary, ServoTech Engineering, Inc. ("ServoTech") which was acquired on June 28, 2013, increased shipments of Westport ICE PACK offset by the loss of revenues from the first generation Westport™ HPDI system, which was discontinued in December 2013. Applied

Technologies revenue decreased \$1.8 million primarily due to weakness in certain markets, particularly Italy, partially offset by increased sales in Russia and China.

Consolidated net loss attributable to the Company for the three months ended June 30, 2014 was \$35.4 million, or \$0.56 loss per diluted share, compared to a \$33.9 million net loss, or \$0.61 loss per diluted share, for the three months ended June 30, 2013. The \$1.5 million increase in net loss was driven by decreases in segment operating loss in On-Road Systems of \$9.8 million which is attributed to income generated from BAF and decrease losses from discontinuation of the first generation Westport™ HPDI system in December 2013, in Off-Road Systems of \$1.1 million which is attributed to the sale of tender cars in 2014 and in Corporate and Technology Investments of \$4.8 million which is attributed to license fee revenue received. The decreases in segment operating losses is offset by decreases in segment operating income of \$0.4 million in Applied Technologies, net foreign exchange losses of \$12.0 million, net decrease in our share of equity income of \$3.6 million, increase in our interest charges of \$0.4 million, and increase in depreciation and amortization charges of \$0.8 million.

Included in our net loss for the three months ended June 30, 2014 is \$8.6 million net foreign exchange loss attributed mainly to the movement in the Canadian dollar relative to the U.S. dollar, which is unrealized. Excluding the foreign exchange impact, our net loss and net loss per share was \$26.8 million and \$0.42, respectively.

Consolidated net loss attributable to the Company for the six months ended June 30, 2014 was \$59.2 million, or \$0.94 loss per diluted share, compared to a \$65.7 million net loss, or \$1.18 loss per diluted share, for the six months ended June 30, 2013. The \$6.5 million decrease in net loss was driven by decreases in segment operating loss in On-Road Systems of \$17.3 million which is attributed to income generated from BAF and decreased losses from discontinuation of the first generation Westport™ HPDI system in December 2013, in Off-Road Systems of \$3.4 million which is attributed to the sale of tender cars in 2014 and in Corporate and Technology Investments of \$1.9 million which is attributed to license fee revenue received. The decreases in segment operating loss is offset by decreases in segment operating income in Applied Technologies of \$2.8 million, increases in depreciation and amortization of \$1.5 which is attributed to the acquired assets of BAF, net decrease in our share of equity income of \$5.6 million, net decrease of \$0.2 from interest and impairment charges and net foreign exchange losses of \$6.0 million.

Included in our net loss for the six months ended June 30, 2014 is \$0.4 million net foreign exchange gain attributed mainly to the movement in the Canadian dollar relative to the U.S. dollar, which is unrealized. Excluding the foreign exchange impact, our net loss and net loss per share was \$59.6 million and \$0.95, respectively.

CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2014, our cash, cash equivalents and short-term investments balance was \$168.8 million compared to \$210.6 million at December 31, 2013. For the six months ended June 30, 2014, cash used in operations was \$52.0 million with \$41.6 million used for operating purposes and \$10.4 million related to changes in working capital. We purchased \$4.8 million of property and equipment and made net principal repayment of a portion of our long-term debt within Emer totaling \$2.2 million. We raised \$9.6 million through sale of our short term investments, issued an additional of \$17.8 million in debenture notes and incurred financing costs of \$2.0 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. The Company's accounting policies are described in Note 2 of our fiscal year ended December 31, 2013 annual

consolidated financial statements. There have been no changes in accounting policies applied to June 30, 2014 except as noted below. 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, 2013 annual consolidated financial statements and our 2013 Annual Management and Discussion Analysis. Actual amounts may vary significantly from estimates used.

NEW ACCOUNTING POLICIES

Derivative Instruments

The Company may enter into financing arrangements that are hybrid instruments that contain embedded derivative features. Derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets and are measured at fair value with gains or losses recognized in earnings. The Company determines the fair value of derivative instruments based on available market data using appropriate valuation models.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

INCOME TAXES

In July 2013, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2013-11, Income Taxes (*Topic 740*): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (“ASU 2013-11”). ASU 2013-11 purpose is to eliminate the diversity in the presentation of unrecognized tax benefits. Entities are required to present any unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. In circumstances where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this standard on January 1, 2014 did not have an impact on the Company’s consolidated financial statements.

REVENUE

In May 2014, FASB issued ASU 2014-09, Revenue From Contracts With Customers (“Topic 606”). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry

Topics of the Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company has not yet evaluated the impact of the adoption of this new standard.

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, 2014, 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.

FINANCIAL OVERVIEW —RESULTS FROM OPERATIONS

REVENUE

The following table summarizes revenues by segment for the three and six months ended June 30, 2014 and June 30, 2013:

Revenues (expressed in millions of U.S. dollars)	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2014	2013	\$	%	2014	2013	\$	%
Applied Technologies	\$ 24.8	\$ 25.2	\$ (0.4)	-2%	\$ 46.7	\$ 48.5	\$ (1.8)	-4%
On-Road Systems	11.6	7.4	4.2	57%	29.4	12.0	17.4	145%
Off-Road Systems	1.5	1.0	0.5	50%	2.8	2.1	0.7	33%
Corporate and Technology Investments	2.1	1.3	0.8	62%	3.1	2.3	0.8	35%
CWI	79.6	78.0	1.6	2%	159.6	122.7	36.9	30%
WWI	133.1	152.5	(19.4)	-13%	246.4	258.4	(12.0)	-5%
Total segment revenues	\$ 252.7	\$ 265.4	\$ (12.7)	-5%	\$488.0	\$ 446.0	\$ 42.0	9%
Less: Equity investees' revenues	212.7	230.5	(17.8)	-8%	406.0	381.1	24.9	7%
Total consolidated revenues	\$ 40.0	\$ 34.9	\$ 5.1	15%	\$ 82.0	\$ 64.9	\$ 17.1	26%

Applied Technologies revenue for the three months ended June 30, 2014 decreased \$0.4 million, or 2%, from \$25.2 million to \$24.8 million.

For the six months ended June 30, 2014, Applied Technology revenue decreased \$1.8 million, or 4%, from \$48.5 million to \$46.7 million. The decrease in revenue is primarily due to weakness in certain markets, particularly Italy, partially offset by increased sales in other parts of Europe and China.

On-Road Systems revenue for the three months ended June 30, 2014 increased \$4.2 million, or 57%, from \$7.4 million to \$11.6 million. The increase in On-Road Systems revenue is primarily due to the revenue generated from

BAF which was acquired on June 28, 2013, increased shipments of Westport iCE PACK offset by no revenue from shipments of the first generation Westport™ HPDI system, which was discontinued in December 2013.

For the six months ended June 30, 2014, On-Road Systems revenue increased \$17.4 million, or 145% from \$12.0 million to \$29.4 million. The increase in On-Road Systems revenue is primarily due to the revenue generated from BAF which was acquired on June 28, 2013, increased shipments of Westport iCE PACK offset by no revenue from shipments of the first generation Westport™ HPDI system, which was discontinued in December 2013.

Off-Road Systems revenue for the three months and six months ended June 30, 2014 increased \$0.5 million and \$0.7 million respectively, from \$1.0 million to \$1.5 million for the three months ended period and from \$2.1 million to \$2.8 million for the six months ended period. The revenue generated relates to sales of the Westport 2.4L industrial engine and delivery of LNG tender cars.

Corporate and Technology Investments revenue for the three and six months ended June 30, 2014 increased \$0.8 million, to \$2.1 million from \$1.3 million for the three months ended period and to \$3.1 million from \$2.3 million for the six months ended period. The revenue relates to license fee earned from our development agreements. All costs associated with our development agreements were recorded as R&D expenses in the period incurred in the consolidated statement of operations.

CWI revenue for the three months ended June 30, 2014 increased \$1.6 million, or 2% from \$78.0 million to \$79.6 million. CWI product revenue for the three months ended June 30, 2014 decreased \$0.9 million on sales of 2,479 units compared to 2,716 units for the three months ended June 30, 2013. CWI parts revenue for the three months ended June 30, 2014 increased \$2.5 million to \$13.7 million compared with \$11.2 million for the three months end June 30, 2013. Parts revenue increase is driven by increasing engine volumes and in-service engine needs.

For the six months ended June 30, 2014, revenue increased \$36.9 million, or 30% from \$122.7 million to \$159.6 million. CWI product revenue for the six months ended June 30, 2014 increased \$30.8 million on sales of 4,959 units compared to 4,029 units for the six months ended June 30, 2013. The increased quarterly volumes in North America were driven by higher sales in all segments but mainly in truck applications. The launch of the ISX12 G heavy duty truck engine in April 2013 contributed to the truck segment growth compared to the prior year period. CWI parts revenue for the six months ended June 30, 2014 was \$27.4 million compared with \$21.3 million for the six months end June 30, 2013. Parts revenue increase is driven by increasing engine volumes and in-service engine needs.

WWI revenue for the three months ended June 30, 2014 decreased \$19.4 million, or 13% from \$152.5 million to \$133.1 million. WWI shipped 11,071 units for the three months ended June 30, 2014 compared with 12,410 units for the three months ended June 30, 2013. For the six months ended June 30, 2014, WWI revenue decreased \$12.0 million, or 5% from \$258.4 million to \$246.4 million. WWI shipped 20,198 units for the six months ended June 30, 2014 compared with 20,939 units for the six months ended June 30, 2013.

GROSS MARGIN

The following table presents gross margin by segment for the three months ended June 30, 2014 compared to three months ended June 30, 2013:

Gross Margin (expressed in millions of U.S. dollars)						
	Three months ended June 30, 2014	% of Revenue	Three months ended June 30, 2013	% of Revenue	Change	
					\$	%
Applied Technologies	\$ 7.8	31.5%	\$ 7.1	28.2%	\$ 0.7	10%
On-Road Systems	3.6	31.0%	(0.3)	-4.1%	3.9	1300%
Off-Road Systems	0.1	6.7%	0.2	20.0%	(0.1)	-50%
Corporate and Technology Investments	2.1	100.0%	1.3	100.0%	0.8	62%
CWI	10.4	13.1%	20.6	26.4%	(10.2)	-50%
WWI	8.8	6.6%	11.9	7.8%	(3.1)	-26%
Total segment gross margin	\$ 32.8	13.0%	\$ 40.8	15.4%	\$ (8.0)	-20%
Less: Equity investees' gross margin	19.2	9.0%	32.5	14.1%	(13.3)	-41%
Total consolidated gross margin	\$ 13.6	34.0%	\$ 8.3	23.8%	\$ 5.3	64%

Applied Technologies gross margin increased \$0.7 million to \$7.8 million, or 31.5% of revenue, for the three months ended June 30, 2014 compared to \$7.1 million, or 28.2% of revenue for the three months ended June 30, 2013. The increase in gross margin percentage was due to a change in product mix during the period.

On-Road Systems gross margin increased \$3.9 million to \$3.6 million or 31.0% of revenue, from negative margin of \$0.3 million or negative 4.1% of revenue for the three months ended June 30, 2013. The increase in gross margin percentage is due to a change in product mix during the period from sales of Westport WiNG Systems and the inclusion of service revenue where costs incurred to earn service revenue are classified as R&D expense rather than cost of product and parts revenue. Lower gross margin percentage in the prior year period was due to lower absorption of fixed overhead costs as a result of low unit deliveries.

Corporate and Technology Investments gross margin increased \$0.8 million to \$2.1 million from \$1.3 million for the three months ended June 30, 2013. The increase in gross margin is driven by license fee received associated with our development agreements. The gross margin percentage was 100% as Corporate and Technology Investments gross margin relates entirely to revenue recognized under our development agreements. All costs associated with our development agreements were recorded as R&D expense.

CWI gross margin decreased \$10.2 million to \$10.4 million, or 13.1% of revenue from \$20.6 million or 26.4% of revenue. CWI product margin and product gross margin percentage for the three months ended June 30, 2014 were \$6.0 million and 9.2%, respectively, compared to \$15.3 million and 23%, respectively, for the three months ended June 30, 2013. The decrease in CWI gross margin percentage during the three months ended June 30, 2014 was primarily due to an increase of \$5.1 million in net warranty adjustments and net extended coverage claims compared to the three months ended June 30, 2013. Warranty adjustments and net extended coverage claims totaling \$10.2 million and \$5.1 million were recorded in the three months ended June 30, 2014 and June 30, 2013, respectively. Excluding the warranty related impact, CWI gross margin percentage would have been 25.9% and 32.9% for the three months ended June 30, 2014 and June 30, 2013, respectively. CWI parts gross margin percentage for the three months ended June 30, 2014 decreased compared to the three months ended June 30, 2013.

WWI gross margin decreased \$3.1 million to \$8.8 million, or 6.6% of revenue from \$11.9 million or 7.8% of revenue due to aggressive pricing efforts to gain market share.

The following table presents gross margin by segment for the six months ended June 30, 2014 compared to six months ended June 30, 2013:

Gross Margin (expressed in millions of U.S. dollars)						
	Six months ended June 30, 2014	% of Revenue	Six months ended June 30, 2013	% of Revenue	Change	
					\$	%
Applied Technologies	\$ 13.3	28.5%	\$ 13.8	28.5%	\$ (0.5)	-4%
On-Road Systems	9.2	31.3%	(0.2)	-1.7%	9.4	-4700%
Off-Road Systems	0.3	10.7%	0.4	19.0%	(0.1)	-25%
Corporate and Technology Investments	3.1	100.0%	2.3	100.0%	0.8	35%
CWI	18.0	11.3%	32.8	26.7%	(14.8)	-45%
WWI	15.1	6.1%	19.0	7.4%	(3.9)	-21%
Total segment gross margin	\$ 59.0	12.1%	\$ 68.1	15.3%	\$ (9.1)	-13%
Less: Equity investees' gross margin	33.1	8.2%	51.8	13.6%	(18.7)	-36%
Total consolidated gross margin	\$ 25.9	31.6%	\$ 16.3	25.1%	\$ 9.6	59%

Applied Technologies gross margin decreased \$0.5 million to \$13.3 million, or 28.5% of revenue, for the six months ended June 30, 2014 compared to \$13.8 million, or 28.5% of revenue for the six months ended June 30, 2013.

On-Road Systems gross margin increased \$9.4 million to \$9.2 million or 31.3% of revenue, from negative margin of \$0.2 million or -1.7% of revenue for the six months ended June 30, 2013. The increase in gross margin percentage is due to a change in product mix during the period from sales of Westport WiNG Systems and the inclusion of service revenue where costs incurred to earn service revenue are classified as R&D expense rather than cost of product and parts revenue. Lower gross margin percentage in the prior year period was due to lower absorption of fixed overhead costs as a result of low unit deliveries.

Corporate and Technology Investments gross margin increased \$0.8 million to \$3.1 million from \$2.3 million. The increase in gross margin is driven by license fee received associated with our development agreements. The gross margin percentage was 100% as Corporate and Technology Investments gross margin relates entirely to service revenue recognized under our development agreements. All costs associated with our development agreements were recorded as R&D expense.

CWI gross margin decreased \$14.8 million to \$18.0 million, or 11.3% of revenue from \$32.8 million or 26.7% of revenue. CWI product margin and product gross margin percentage for the six months ended June 30, 2014 were \$8.7 million and 6.6%, respectively, compared to \$23.2 million and 22.9%, respectively, for the six months ended June 30, 2013. The decrease in CWI gross margin percentage during the six months ended June 30, 2014 was primarily due to an increase of \$16.4 million in net warranty adjustments and net extended coverage claims compared to the six months ended June 30, 2013. Warranty adjustments and net extended coverage claims totaling \$25.2 million and \$8.8 million were recorded in the six months ended June 30, 2014 and June 30, 2013, respectively. Excluding the warranty related impact, CWI gross margin percentage would have been 27.0% and 34.0% for the six months ended June 30, 2014 and June 30, 2013, respectively. CWI parts gross margin percentage for the six months ended June 30, 2014 decreased compared to the six months ended June 30, 2013.

WWI gross margin decreased \$3.9 million to \$15.1 million, or 6.1% of revenue from \$19.0 million or 7.4% of revenue due to aggressive pricing efforts to gain market share.

RESEARCH AND DEVELOPMENT EXPENSES

The following table presents details of R&D expense by segment for the three and six months ended June 30, 2014 and June 30, 2013:

Research and Development <i>(expressed in millions of U.S. dollars)</i>									
	Three months ended June 30,		Change			Six months ended June 30,		Change	
	2014	2013	\$	%		2014	2013	\$	%
Applied Technologies	\$ 1.5	\$ 1.3	\$ 0.2	15%		\$ 3.3	\$ 2.7	\$ 0.6	22%
On-Road Systems	2.9	3.5	(0.6)	-17%		7.2	7.2	-	0%
Off-Road Systems	0.4	0.4	-	0%		0.8	0.9	(0.1)	-11%
Corporate and Technology Investments	13.9	18.7	(4.8)	-26%		28.4	33.5	(5.1)	-15%
Total research and development	\$ 18.7	\$ 23.9	\$ (5.2)	-22%		\$ 39.7	\$ 44.3	\$ (4.6)	-10%

Applied Technologies For the three and six months ended June 30, 2014, R&D expenses increased \$0.2 million and \$0.6 million, respectively, compared to the same periods last year, primarily related to new product development programs.

On-Road Systems For the three months ended June 30, 2014, R&D expenses decreased \$0.6 million primarily due to lower R&D expenses spent on Westport WiNG Systems as product development was completed in 2013. R&D expenses remain unchanged for the comparative six months ended periods.

Off-Road Systems For the three months ended June 30, 2014, R&D expenses remains unchanged. For the six months ended June 30, 2014, R&D expenses decreased \$0.1 million compared to the same period last year. In the current year periods, costs are incurred to support and manage the development of technology in various Off-Road programs.

Corporate and Technology Investments For the three and six months ended June 30, 2014, R&D expenses decreased \$4.8 million and \$5.1 million, respectively, compared to the same periods last year, primarily driven by reduction in program expenses and prioritizing of investment 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, 2014 and June 30, 2013:

Selling, General and Administrative (expressed in millions of U.S. dollars)									
	Three months ended June 30,		Change			Six months ended June 30,		Change	
	2014	2013	\$	%		2014	2013	\$	%
Applied Technologies	\$ 4.6	\$ 3.7	\$ 0.9	24%		\$ 8.8	\$ 7.1	\$ 1.7	24%
On-Road Systems	2.0	7.2	(5.2)	-72%		4.8	12.7	(7.9)	-62%
Off-Road Systems	0.4	1.7	(1.3)	-76%		0.8	4.2	(3.4)	-81%
Corporate and Technology Investments	9.2	8.3	0.9	11%		20.0	16.0	4.0	25%
Total selling, general and administrative	\$ 16.2	\$ 20.9	\$ (4.7)	-22%		\$ 34.4	\$ 40.0	\$ (5.6)	-14%

Applied Technologies For the three and six months ended June 30, 2014, SG&A expenses increased \$0.9 million and \$1.7 million, respectively, compared to the same periods last year, due to increase in scope of business to include China operations.

On-Road Systems For the three and six months ended June 30, 2014, SG&A expenses decreased \$5.2 million and \$7.9 million, respectively, compared to the same periods last year, primarily due to decreased headcount from consolidating our facilities, discontinuation of activity related to the first generation Westport™ HPDI system and general cost reductions.

Off-Road Systems For the three and six months ended June 30, 2014, SG&A expenses decreased \$1.3 million and \$3.4 million, respectively, compared to the same periods last year, due to cost reduction in sales and marketing primarily driven by decreases in headcount.

Corporate and Technology Investments For the three and six months ended June 30, 2014, SG&A expenses increased \$0.9 million and \$4.0 million, respectively, compared to the same periods last year, due to increase in headcount to support new programs and global market development initiatives.

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, 2014 compared to three and six months ended June 30, 2013:

Unconsolidated Joint Venture Operating Expenses (expressed in millions of U.S. dollars)									
	Three months ended June 30,		Change			Six months ended June 30,		Change	
	2014	2013	\$	%		2014	2013	\$	%
CWI	\$ 10.0	\$ 10.0	\$ -	0%		\$ 19.8	\$ 20.8	\$ (1.0)	-5%
WWI	6.5	7.4	(0.9)	-12%		11.1	11.1	-	0%
Total JV operating expenses	\$ 16.5	\$ 17.4	(0.9)	-5%		\$ 30.9	\$ 31.9	(1.0)	-3%

CWI operating expenses of \$10.0 million for the three months ended June 30, 2014 remains unchanged when compared with the same period in the prior year. For the six months ended June 30, 2014, CWI operating expenses decreased by \$1.0 million to \$19.8 million from \$20.8 million for the six month period ended June 30, 2013. The decrease for the six months ended June 30, 2014 is primarily driven by decreased R&D expenses compared to the prior year period due to transition of ISX12 G to production.

WWI operating expenses decreased by \$0.9 million to \$6.5 million for the three months ended June 30, 2014 from \$7.4 million for the three months ended June 30, 2013. For the six months ended June 30, 2014, WWI operating expenses remains unchanged compared to the same periods last year. The decrease relates primarily to lower product development and support costs.

FOREIGN EXCHANGE GAINS AND LOSSES

Foreign exchange gains and losses reflect 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. For the three and six months ended June 30, 2014, we recognized a net foreign exchange loss of \$8.6 million and a net foreign exchange gain of \$0.4 million, respectively, with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange gain of \$3.4 million and \$6.4 million for the three and six months ended June 30, 2013 respectively. A majority of the foreign exchange gain for the three and six months ended June 30, 2014 is unrealized.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the three and six months ended June 30, 2014 was \$4.6 million and \$8.9 million compared to \$3.8 million and \$7.4 million for the three and six months ended June 30, 2013. The increase primarily relates to depreciation of the property and equipment purchases and the intangible assets acquired in the BAF acquisition on June 28, 2013.

INCOME (LOSS) FROM INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Income (loss) 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,	
	2014	2013	2014	2013
CWI - 50% interest	\$ 0.4	\$ 3.3	\$ (0.4)	\$ 4.1
WWI - 35% interest	0.7	1.3	1.2	2.4
Other	-	-	(0.1)	(0.2)
Income from investment accounted for by the equity method	\$ 1.1	\$ 4.6	\$ 0.7	\$ 6.3

INTEREST ON LONG-TERM DEBT AND NON-CASH INTEREST EXPENSE

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

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,	
	2014	2013	2014	2013
Canadian debentures	\$ 0.8	\$ 0.8	\$ 1.5	\$ 1.6
Senior financing facilities	0.2	0.3	0.5	0.7
Amortization of discount and non-cash interest expense	0.1	0.1	0.2	0.2
Total Interest on long-term debt	\$ 1.1	\$ 1.2	\$ 2.2	\$ 2.5

INCOME TAX EXPENSE

Income tax expense for the three and six months ended June 30, 2014 was \$0.3 million and \$0.3 million, respectively, compared to income tax expense of \$0.3 million and 0.6 million, respectively, for the three and six months ended June 30, 2013. The decrease primarily relates to lower taxable income in Emer and OMVL in the current year periods and lower distributable earnings from our investment in CWI.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at June 30, 2014, our cash, cash equivalents and short-term investment position was \$168.8 million, a decrease of \$41.8million from \$210.6 million at December 31, 2013. 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 with maturities greater than 90 days when acquired. 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, 2014, our cash used in operations was \$52.0 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was \$41.6 million. Changes in non-cash operating working capital resulted in a use of \$10.4 million. The \$10.4 million change in working capital was impacted by increases in accounts receivable of \$0.4 million and prepaid expenses and other assets of \$4.5 million related to prepaid capital assets and inventory. The increases were offset by decreases in inventory of \$2.4 million due to improvements in inventory management and supply chain, accounts payable and accrued liabilities of \$0.4 million, deferred revenue of \$4.1 million due to recognition of extended warranty contracts in service and warranty liability of \$3.4 million related to the first generation Westport™ HPDI system. Cash used in investing activities included purchases of property and equipment of \$4.8 million offset by cash received from the sale of short-term investments of \$9.6 million and \$2.6 million in dividends received from joint ventures. Cash used in financing activities included net principal payment of \$2.2 million for a portion of long-term debt and financing costs of \$2.0 million offset by additional issuance of debentures notes of \$17.8 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 R&D activities 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, 2014 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 period	
		Six months ended	Inception to date
		June 30, 2014	
	\$	\$	\$
Off-Road Applications (formerly HHP Applications)	50.0 – 100.0	-	19.3
Capital Expenditures	30.0 – 50.0	0.3	21.7
Geographic Expansion (formerly HD business units)	20.0 – 40.0	6.9	80.5
Geographic Expansion (formerly LD business units)	20.0 – 40.0	2.4	59.3
General Corporate Purposes	36.3 – 146.3	1.9	85.5
	266.3	11.5	266.3

On October 1, 2013, the Company issued 6,000,000 common shares at a price of \$25.39 USD per share for gross proceeds of \$152.3 million. The net proceeds of \$147.3 million (net of share issuance costs of \$5.1 million) will be used for the development of a direct injection natural gas system for multiple automotive OEMs, an off-road and marine engine development program, the development of natural gas products with truck and engine OEMs, the establishment of dedicated Westport production within leading heavy duty commercial vehicle suppliers for the development and production of proprietary natural gas engine fuel injection equipment and vehicle fuel storage components, and for general corporate purposes, including working capital requirements. We expect to use the 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 period	
		Six months ended	Inception to date
		June 30, 2014	
	\$	\$	\$
Corporate and technology development of a direct injection natural gas system	20.0 – 40.0	6.5	6.5
Off-Road and marine engine development program	20.0 – 40.0	3.4	3.4
Corporate and technology development of natural gas products (HPDI, spark ignited tech)	30.0 – 70.0	11.6	11.6
Off-Road HD commercial applications	40.0 – 50.0	1.0	1.0
General corporate purposes	0 – 38.2	21.8	21.8
	148.2	44.3	44.3

Westport's capital requirements will vary depending on a number of factors, including the timing and size of orders for our LNG systems, our ability to successfully launch products on time, our supply chain and manufacturing requirements, our success in executing our business plan, relationships with current and potential strategic partners, commercial sales and margins, product reliability, progress on R&D activities, capital expenditures and working capital requirements. We also continue to review investment and acquisition opportunities on a regular basis for technologies, businesses and markets that would complement our own products or assist us in our commercialization plans. Significant new orders, expanded engine programs,

acquisitions or investments could require additional funding. If such additional funding is not available to us, if expected orders do not materialize or are delayed, or if we have significant overspending in our programs, we may be required to delay, reduce or eliminate certain R&D 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, 2014 and June 30, 2013, the weighted average number of shares used in calculating the net loss per share was 63,110,446 and 55,631,945, respectively. During the three months ended June 30, 2014, we granted 505,591 RSUs and PSUs (together the “Share Units”), including 252,336 Phantom Share Units relating to our long-term incentive programs. The Common Shares, share options and Share Units outstanding and exercisable as at the following dates are shown below:

	June 30, 2014		July 31, 2014	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Common Shares outstanding	63,126,693		63,137,100	
Share options ⁽¹⁾				
- Outstanding ⁽²⁾	687,135	29.68	661,350	29.90
- Exercisable	477,515	27.87	456,897	28.16
Share Units ⁽¹⁾				
- Outstanding ⁽³⁾	2,138,983	N/A	2,122,614	N/A
- Exercisable	208,764	N/A	208,264	N/A

(weighted average exercise prices are presented in Canadian dollars)

- (1) As at June 30, 2014, excludes 77,707 and 335,769 (July 31, 2014 – 77,707 and 335,195) of phantom stock options and phantom Share Units, respectively, which when vested, are exercisable in exchange for a cash payment and do not result in the issuance of Common Shares.
- (2) As at June 30, 2014 and July 31, 2014, includes 143,991 performance stock options with payout levels of 0% or 100% upon achieving the required performance criteria over the measurement period.
- (3) As at June 30, 2014, includes 1,308,947 (July 31, 2014 – 1,298,947) PSUs with payout levels ranging between 0% to 200% upon achieving the required performance criteria over the measurement period. Of these 1,308,947 and 1,298,947 PSUs a total of nil and nil, respectively, are currently known to be issuable based on the prior achievement of the required conversion ratio as at the date hereof, however such awards have not yet become vested.

SELECTED QUARTERLY FINANCIAL DATA

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

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

Selected Consolidated Quarterly Operations Data (unaudited)								
Three months ended	30-Sep-12	31-Dec-12	31-May-13	30-Jun-13	30-Sep-13	31-Dec-13	31-Mar-14	30-Jun-14
<i>(expressed in millions of United States dollars except for per share amounts)</i>								
Product revenue	\$ 28.3	\$ 31.0	\$ 27.3	\$ 32.5	\$ 33.0	\$ 41.4	\$ 34.3	\$ 31.4
Parts revenue	1.0	1.1	1.3	1.1	3.7	7.7	2.5	2.5
Service and other revenue	1.4	7.8	1.4	1.3	9.8	3.5	5.1	6.1
Total revenue	30.7	39.9	30.0	34.9	46.5	52.6	41.9	40.0
Cost of product and parts revenue	22.9	26.5	22.0	26.6	30.5	69.6	29.6	26.4
Gross margin	7.8	13.3	8.0	8.3	16.0	(17.0)	12.3	13.6
Gross margin percentage	25.4%	33.3%	26.7%	23.8%	34.4%	-32.3%	29.4%	34.0%
Net loss for the period	\$(32.5)	\$(37.6)	\$(31.8)	\$(33.9)	\$(30.2)	\$(89.5)	\$(23.9)	\$(35.4)
Loss per share								
Basic and Diluted ⁽¹⁾	\$(0.59)	\$(0.68)	\$(0.57)	\$(0.61)	\$(0.53)	\$(1.42)	\$(0.38)	\$(0.56)
Income from unconsolidated joint ventures:								
CWI net income (loss) attributable to the Company	3.6	1.2	0.8	3.3	2.5	2.8	(0.8)	0.4
WWI net income attributable to the Company	0.7	0.5	1.0	1.3	1.3	0.7	0.5	0.7

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments have been disclosed in our annual MD&A dated February 25, 2014 and are substantially unchanged.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies have been disclosed in our annual MD&A dated February 25, 2014 and are substantially unchanged.

RELATED PARTY TRANSACTIONS

Related party transactions have been disclosed in note 16 of our condensed consolidated financial statements for the three and six months ended June 30, 2014 and June 30, 2013.

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 year ended December 31, 2013 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,	
	2014	2013	2014	2013
Cash flow from operations				
Net loss for the period	\$ (35.4)	\$ (33.9)	\$ (59.2)	\$ (65.7)
Items not involving cash:				
Depreciation and amortization	4.6	3.8	8.9	7.4
Stock-based compensation expense	3.3	4.1	8.1	7.5
Unrealized foreign exchange loss (gain)	8.6	(3.4)	(0.4)	(6.4)
Deferred income tax expense (recovery)	0.1	(0.2)	(0.2)	(0.2)
Income from investment accounted for by the equity method	(1.1)	(4.6)	(0.7)	(6.3)
Non-cash interest expense	0.5	0.5	0.9	0.9
Intangible asset impairment	-	-	0.3	-
Other	0.2	-	0.7	-
Cash flows from operations before changes in non-cash operating working capital	<u>\$ (19.2)</u>	<u>\$ (33.7)</u>	<u>\$ (41.6)</u>	<u>\$ (62.8)</u>

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

WESTPORT INNOVATIONS INC.

For the three and six months ended June 30, 2014 and 2013

WESTPORT INNOVATIONS INC.

Condensed Consolidated Balance Sheets (unaudited)
(Expressed in thousands of United States dollars, except share amounts)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 147,805	\$ 178,513
Short-term investments	21,017	32,091
Accounts receivable (note 3)	56,326	59,315
Inventories (note 4)	38,055	40,626
Prepaid expenses	8,350	6,072
Current portion of deferred income tax assets	2,924	3,109
	274,477	319,726
Equity method investments (note 5)	22,555	22,128
Other assets (note 6)	6,086	2,245
Property, plant and equipment (note 8)	64,714	67,349
Intangible assets (note 9)	35,785	38,344
Deferred income tax assets	15	379
Goodwill (note 10)	41,351	41,500
	\$ 444,983	\$ 491,671
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 54,474	\$ 54,792
Current portion of deferred revenue	2,415	6,727
Current portion of deferred income tax liabilities	15	468
Current portion of long-term debt (note 12)	20,998	53,025
Current portion of warranty liability (note 13)	8,958	9,955
	86,860	124,967
Warranty liability (note 13)	16,057	18,890
Derivative Liability (note 12)	2,720	-
Long-term debt (note 12)	58,123	12,988
Deferred revenue	4,720	4,580
Deferred income tax liabilities	4,576	4,903
Other long-term liabilities	3,035	2,441
	176,091	168,769
Shareholders' equity:		
Share capital:		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
63,126,693 (2013 - 62,733,762) common shares	926,437	916,497
Share-based payments reserve	10,365	13,834
Additional paid in capital	9,073	8,205
Accumulated deficit	(674,566)	(615,342)
Accumulated other comprehensive loss	(2,417)	(292)
	268,892	322,902
	\$ 444,983	\$ 491,671

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Condensed 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,	
	2014	2013	2014	2013
Product revenue	\$ 31,366	\$ 32,515	\$ 65,628	\$ 59,840
Parts revenue	2,531	1,075	5,046	2,368
Service and other revenue	6,139	1,266	11,284	2,701
	40,036	34,856	81,958	64,909
Cost of revenue and expenses:				
Cost of product and parts revenue (excluding items noted below)	26,435	26,599	56,086	48,557
Research and development	18,698	23,894	39,702	44,331
General and administrative	9,536	12,866	20,712	24,553
Sales and marketing	6,587	8,024	13,663	15,423
Foreign exchange loss (gain)	8,566	(3,390)	(365)	(6,406)
Depreciation and amortization	4,585	3,791	8,916	7,387
Bank charges, interest and other	116	206	222	346
Intangible asset impairment	-	-	325	-
	74,523	71,990	139,261	134,191
Loss from operations	(34,487)	(37,134)	(57,303)	(69,282)
Income from investments accounted for by the equity method	1,041	4,609	685	6,296
Interest on long-term debt and non-cash interest expense	(1,102)	(1,243)	(2,203)	(2,495)
Interest and other income (loss)	(498)	134	(67)	333
Loss before income taxes	(35,046)	(33,634)	(58,888)	(65,148)
Income tax expense	312	301	336	586
Net loss for the periods	\$ (35,358)	\$ (33,935)	\$ (59,224)	\$ (65,734)
Other comprehensive loss				
Cumulative translation adjustment	9,268	(5,665)	(2,125)	(12,833)
Comprehensive loss	\$ (26,090)	\$ (39,600)	\$ (61,349)	\$ (78,567)
Loss per share:				
Basic and diluted	\$ (0.56)	\$ (0.61)	\$ (0.94)	\$ (1.18)
Weighted average common shares outstanding:				
Basic and diluted	63,110,446	55,631,945	63,005,649	55,473,038

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

Three and six months ended June 30, 2014 and June 30, 2013 (unaudited)

	Common shares outstanding	Share capital	Share-based payments reserve	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
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)	-	-	-	-
Issuance of common shares in connection with acquisition	718,485	24,091	-	-	-	-	24,091
Acquisition to be settled by issuance of common shares	-	-	3,285	-	-	-	3,285
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	\$ 764,345	\$ 12,069	\$ 7,237	\$ (495,666)	\$ 4,183	\$ 292,168
Balance, December 31, 2013	62,733,762	\$ 916,497	\$ 13,834	\$ 8,205	\$ (615,342)	\$ (292)	\$ 322,902
Issue of common shares on exercise of stock options	3,358	34	-	(12)	-	-	22
Issue of common shares on exercise of performance share units	146,224	3,671	(3,671)	-	-	-	-
Stock-based compensation	-	-	4,079	437	-	-	4,516
Net loss for the period	-	-	-	-	(23,866)	-	(23,866)
Other comprehensive loss	-	-	-	-	-	(11,393)	(11,393)
Balance, March 31, 2014	62,883,344	\$ 920,202	\$ 14,242	\$ 8,630	\$ (639,208)	\$ (11,685)	\$ 292,181
Issue of common shares on exercise of stock options	1,000	15	-	(5)	-	-	10
Issue of common shares on exercise of performance share units	147,435	3,038	(3,038)	-	-	-	-
Issuance of common shares in connection with acquisition	94,914	3,182	-	-	-	-	3,182
Acquisition to be settled by issuance of common shares	-	-	(3,182)	-	-	-	(3,182)
Stock-based compensation	-	-	2,343	448	-	-	2,791
Net loss for the period	-	-	-	-	(35,358)	-	(35,358)
Other comprehensive income	-	-	-	-	-	9,268	9,268
Balance, June 30, 2014	63,126,693	\$ 926,437	\$ 10,365	\$ 9,073	\$ (674,566)	\$ (2,417)	\$ 268,892

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Loss for the period	\$ (35,358)	\$ (33,935)	\$ (59,224)	\$ (65,734)
Items not involving cash:				
Depreciation and amortization	4,585	3,791	8,916	7,387
Stock-based compensation expense	3,323	4,084	8,056	7,465
Unrealized foreign exchange loss (gain)	8,566	(3,390)	(365)	(6,406)
Deferred income tax expense (recovery)	87	(129)	(182)	(161)
Income from investments accounted for by the equity method	(1,041)	(4,609)	(685)	(6,296)
Non-cash interest expense	499	453	876	913
Intangible asset impairment	-	-	325	-
Other	164	(12)	700	(25)
Changes in non-cash operating working capital:				
Accounts receivable	(7,711)	(4,722)	(445)	(2,327)
Inventories	(867)	103	2,371	(4,284)
Prepaid expenses and other assets	(2,014)	141	(4,459)	(344)
Accounts payable and accrued liabilities	5,628	4,697	(428)	3,761
Deferred revenue	(2,140)	1,053	(4,108)	784
Warranty liability	(2,658)	744	(3,378)	113
	(28,937)	(31,731)	(52,030)	(65,154)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(1,536)	(6,930)	(4,813)	(15,176)
Sale of short-term investments, net	7,715	7,192	9,626	25,873
Acquisitions, net of acquired cash	-	1,178	-	1,178
Dividends received from joint venture	-	768	2,626	2,224
	6,179	2,208	7,439	14,099
Cash flows from financing activities:				
Repayment of operating lines of credit	-	-	-	(1,807)
Repayment of long-term debt	(1,449)	-	(2,226)	-
Issuance of subordinated debenture notes	17,797	-	17,797	-
Financing costs incurred	(2,033)	-	(2,033)	-
Proceeds from stock options exercised	-	380	22	464
Share issuance costs	10	-	10	-
	14,325	380	13,570	(1,343)
Effect of foreign exchange on cash and cash equivalents	1,351	(1,822)	313	(1,836)
Decrease in cash and cash equivalents	(7,082)	(30,965)	(30,708)	(54,234)
Cash and cash equivalents, beginning of period	154,887	165,689	178,513	188,958
Cash and cash equivalents, end of period	\$ 147,805	\$134,724	\$147,805	\$134,724
Supplementary information:				
Interest paid	\$ 104	\$ -	\$ 1,878	\$ 1,568
Taxes paid, net of refunds	1	49	144	161
Non-cash transactions:				
Shares issued on exercise of performance share units	3,038	4,254	6,709	6,138
Common Shares issued and to be issued to acquire BAF Technologies, Inc.	-	27,376	-	27,376

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Condensed 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, 2014, and the unaudited consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the three and six months ended June 30, 2014 and 2013 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, 2013 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 balance sheet, consolidated statements of operations and comprehensive loss, and consolidated cash flows as at June 30, 2014 and for all periods presented, have been recorded. The results of operations for the three and six months ended June 30, 2014 is not necessarily indicative of the results for Westport Innovations Inc.'s ("the Company") full year.

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, Chinese Renminbi (RMB), and Swedish Krona. The Company translates assets and liabilities of non-US dollar functional currency 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.

Except as otherwise noted, all amounts in these financial statements are presented in U.S. dollars. For the periods presented, the Company used the following exchange rates:

	Exchange rate as at:		Average for the three months ended:		Average for the six months ended:	
	June 30, 2014	December 31, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Canadian dollar	0.94	0.94	0.92	0.99	0.91	0.98
Australian dollar	0.94	0.89	0.93	1.01	0.91	0.99
Euro	1.37	1.38	1.37	1.31	1.37	1.31
RMB	0.16	0.17	0.16	0.16	0.16	0.16
Swedish Krona	0.15	0.16	0.15	0.15	0.15	0.15

New accounting policy:

Derivative Instruments

The Company enters into financing arrangements that are hybrid instruments that contain embedded derivative features. Derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets and are measured at fair value with gains or losses recognized in earnings. The Company determines the fair value of derivative instruments based on available market data using appropriate valuation models.

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)
(Expressed in thousands of United States dollars except share and per share amounts)

2. Accounting changes:

New accounting pronouncements:

In May 2014, Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606"). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company has not yet evaluated the impact of the adoption of this new standard.

3. Accounts receivable:

	June 30, 2014	December 31, 2013
Customer trade receivable	\$ 53,629	\$ 54,017
Government funding receivable	44	483
Due from joint venture	730	3,621
Other receivables	3,018	2,689
Income tax receivable	400	77
Allowance for doubtful accounts	(1,495)	(1,572)
	\$ 56,326	\$ 59,315

4. Inventories:

	June 30, 2014	December 31, 2013
Purchased parts	\$ 23,923	\$ 23,228
Assembled parts	1,041	881
Work-in-process	6,484	9,889
Finished goods	6,607	6,628
	\$ 38,055	\$ 40,626

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)
(Expressed in thousands of United States dollars except share and per share amounts)

5. Equity method investments:

	June 30, 2014	December 31, 2013
Weichai Westport Inc. (a)	\$ 15,356	\$ 14,534
Cummins Westport Inc. (b)	6,757	7,191
Other equity method investees	442	403
	\$ 22,555	\$ 22,128

(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 months and six months ended June 30, 2014, the Company recognized income of \$688 (2013 - \$1,345) and \$1,196 (2013 - \$2,350) 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, 2014	December 31, 2013
Current assets:		
Cash and short-term investments	\$ 16,513	\$ 4,696
Accounts receivable	62,003	31,967
Inventory	72,638	80,412
Other current assets	1,865	176
Long-term assets		
Property, plant and equipment	5,504	7,021
Deferred income tax assets	6,775	6,874
Total assets	\$ 165,298	\$ 131,146
Current liabilities:		
Accounts payable and accrued liabilities	\$ 123,931	\$ 93,016
Total liabilities	\$ 123,931	\$ 93,016

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Product revenue	\$ 133,072	\$ 152,503	\$ 246,431	\$ 258,355
Cost of revenue and expenses:				
Cost of product revenue	124,249	140,591	231,299	239,405
Operating expenses	6,511	7,390	11,109	11,050
	130,760	147,981	242,408	250,455
Income before income taxes	2,312	4,522	4,023	7,900
Income tax expense	346	678	604	1,185
Income for the period	\$ 1,966	\$ 3,844	\$ 3,419	\$ 6,715

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)
(Expressed in thousands of United States dollars except share and per share amounts)

5. Equity method investments (continued):

(b) Cummins Westport Inc.:

The Company and Cummins Inc. ("Cummins") each own 50% of the common shares of CWI. For the three and six months ended June 30, 2014, the Company recognized its share of CWI's income of \$400 (2013 – \$3,347) and loss of \$434 (2013 – income of \$4,137) respectively, as income from investment accounted for by the equity method (note 7).

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

	June 30, 2014	December 31, 2013 ⁽¹⁾
Current assets:		
Cash and short-term investments	\$ 86,674	\$ 73,736
Accounts receivable	8,699	4,245
Current portion of deferred income tax assets	19,712	13,958
Other current assets	89	210
	115,174	92,149
Long-term assets:		
Property, plant and equipment	1,434	1,096
Deferred income tax assets	27,003	21,698
Total assets	\$ 143,611	\$ 114,943
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,546	\$ 7,772
Current portion of deferred revenue	6,496	5,478
Current portion of warranty liability	45,631	28,482
	57,673	41,732
Long-term liabilities:		
Warranty liability	43,821	39,087
Deferred revenue	26,586	17,815
Other long-term liabilities	2,089	2,000
	72,496	58,902
Total liabilities	\$ 130,169	\$ 100,634

- ⁽¹⁾ The Company has adjusted the December 31, 2013 information, as previously presented in our 2013 Annual Financial Statement Notes, to reflect the finalized audited financial information of CWI. The changes reflect reclassifications within the balance sheet information only. The changes have no impact on the Company's equity interest in CWI's income in either 2014 or for the year ended December 31, 2013.

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)
(Expressed in thousands of United States dollars except share and per share amounts)

5. Equity method investments (continued):

(b) Cummins Westport Inc. (continued):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Product revenue	\$ 65,809	\$ 66,712	\$ 132,259	\$ 101,389
Parts revenue	13,746	11,260	27,365	21,300
	79,555	77,972	159,624	122,689
Cost of revenue and expenses:				
Cost of product and parts revenue	69,152	57,411	141,603	89,858
Research and development	5,532	5,441	10,286	11,478
General and administrative	402	284	676	576
Sales and marketing	4,115	4,268	8,796	8,781
Foreign exchange (gain) loss	(8)	19	2	25
Bank charges, interest and other	217	115	440	244
	79,410	67,538	161,803	110,962
(Loss) income from operations	145	10,434	(2,179)	11,727
Interest and investment income	62	26	130	39
(Loss) income before income taxes	207	10,460	(2,049)	11,766
Income tax (recovery) loss	(593)	3,766	(1,181)	3,491
(Loss) income for the period	\$ 800	\$ 6,694	\$ (868)	\$ 8,275

6. Other assets:

	June 30, 2014	December 31, 2013
Deferred financing fees (a)	\$ 2,153	\$ 376
Deposits and other	3,933	1,869
	\$ 6,086	\$ 2,245

(a) Certain financing fees paid to the creditor on issuance of additional subordinated debentures (note 12) have been deferred and amortized into expense over the term of the debentures (3 years) using the effective interest rate method.

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)
(Expressed in thousands of United States dollars except share and per share amounts)

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 key decision-making at the Board of Directors' level requires unanimous approval, this power is shared. Accordingly, neither party is the primary beneficiary and therefore CWI is accounted for as a variable interest entity.

Prior to February 20, 2012, the Company and Cummins shared equally in the profits and losses of CWI. Under the amended and restated Joint Venture Agreement ("amended and restated JVA") executed on February 20, 2012, 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, 2014		As at December 31, 2013	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	\$ 6,757	\$ 6,757	\$ 7,191	\$ 7,191
Accounts receivable	730	730	3,621	3,621

8. Property, plant and equipment:

June 30, 2014	Cost	Accumulated depreciation	Net book value
Computer equipment and software	\$ 9,975	\$ 7,000	\$ 2,976
Furniture and fixtures	6,533	1,728	4,805
Machinery and equipment	89,215	36,511	52,703
Leasehold improvements	14,871	10,641	4,230
	\$ 120,594	\$ 55,880	\$ 64,714

December 31, 2013	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 532	\$ 70	\$ 462
Computer equipment and software	12,794	9,152	3,642
Furniture and fixtures	6,414	2,408	4,006
Machinery and equipment	96,656	42,439	54,217
Leasehold improvements	16,422	11,400	5,022
	\$ 132,818	\$ 65,469	\$67,349

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)
(Expressed in thousands of United States dollars except share and per share amounts)

9. Intangible assets:

June 30, 2014	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 20,810	\$ 3,418	\$ 17,392
Technology	7,455	3,175	4,280
Customer contracts	18,392	4,852	13,540
Other intangibles	872	299	573
Total	\$ 47,529	\$ 11,744	\$ 35,785

December 31, 2013	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 20,974	\$ 2,900	\$ 18,074
Technology	7,468	2,796	4,672
Customer contracts	18,447	3,886	14,561
Other intangibles	1,262	225	1,037
Total	\$ 48,151	\$ 9,807	\$ 38,344

10. Goodwill:

A continuity of goodwill is as follows:

	June 30, 2014	December 31, 2013
Balance, beginning of period (January 1st):	\$ 41,500	\$ 56,879
Acquisition of BAF Technologies, Inc.	-	18,542
Impairment losses	-	(34,964)
Impact of foreign exchange changes	(149)	1,043
Balance, end of period	\$ 41,351	\$ 41,500

11. Accounts payable and accrued liabilities:

	June 30, 2014	December 31, 2013
Trade accounts payable	\$ 46,380	\$ 42,872
Accrued payroll	5,526	7,937
Accrued interest	1,342	893
Income taxes payable	1,037	709
Other payables	189	2,381
	\$ 54,474	\$ 54,792

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)
(Expressed in thousands of United States dollars except share and per share amounts)

12. Long-term debt:

	June 30, 2014	December 31, 2013
Subordinated debenture notes	\$ 48,797	\$ 33,847
Senior financing	12,648	15,941
Senior revolving financing	13,690	13,779
Other bank financing	2,240	403
Capital lease obligations	1,746	2,043
	79,121	66,013
Current portion	(20,998)	(53,025)
	\$ 58,123	\$ 12,988

On September 23, 2011, the Company raised \$33,720 (CDN\$36,000) through the issuance of debentures to Macquarie Private Wealth Inc. ("Macquarie") on a private placement basis (the "Initial Debentures"). The Initial Debentures were unsecured and subordinated to senior indebtedness, mature on September 22, 2014, and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term, which commenced on March 15, 2012. The Initial Debentures are redeemable at the option of the Company at a price equal to \$1,150 per \$1,000 principal amount of the debentures on or before March 22, 2013. After March 22, 2013 and before maturity, the debentures can be redeemed at a price equal to \$1,100 per \$1,000 principal amount.

On June 27, 2014, the Company raised \$17,797 (CDN\$19,000) through the issuance of debentures to Richardson GMP Limited ("RGMP"), formerly Macquarie Private Wealth Inc. on a private placement basis (the "Additional Debentures"). In conjunction with the issuance of the Additional Debentures, the Company amended the terms of the Initial Debentures (the "Amended Initial Debentures"). The Amended Initial Debentures are ranked *pari passu* with the Additional Debentures and both shall be treated as the same series of debentures (the "New Debentures") with the same terms. The New Debentures \$51,517 (CDN\$55,000) is composed of the Additional Debentures \$17,797 (CDN\$19,000) and the Amended Initial Debentures \$33,720 (CDN\$36,000). The New Debentures are unsecured and subordinated to senior indebtedness, mature on September 15, 2017, and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term. The New Debentures are redeemable at the option of the Company at a price equal to \$1,150 per \$1,000 principal amount of the debentures after September 15, 2015 and on or before March 15, 2016. After March 15, 2016 and before maturity, the debentures can be redeemed at a price equal to \$1,100 per \$1,000 principal amount.

The New Debentures contain an extension option that will allow each debentureholder to have the option to extend, a maximum of six times, the maturity date for an additional period of six months provided that greater than CDN\$10,000 of the aggregate principal amount of the New Debentures remain outstanding.

The Company has performed the assessment of embedded derivatives within the New Debentures and concluded that there is an embedded derivative that requires bifurcation related to the extension option from the New Debentures. The extension option was deemed not clearly and closely related to the New Debentures and is separately accounted for as a standalone derivative. The Company recorded this embedded derivative as a non-current liability on its consolidated balance sheet. At issuance on June 27, 2014, the embedded derivative's fair value was determined to be \$2,720 (CDN\$2,904). The Company is accreting the carrying value of the debt to interest expense by using the effective interest rate method through to the maturity date of the New Debentures. The fair value of the embedded derivative will be marked-to-market at the end of each reporting period, with any changes in value reported in the consolidated statement of operations. The Company determined the fair value of the embedded derivative using the Interest Rate Option Pricing Method which incorporated the Black-Karasinski model.

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12. Long Term Debt (continued):

The Company allocated the fair value at issuance as follows:

	June 27, 2014
Derivative liability	\$ 2,720
Subordinated debenture notes	48,797
Fair value of debenture notes	\$ 51,517

The Company incurred \$2,033 of financing fees related to the issuance of the New Debentures, which has been recorded in Other Assets (see note 6). The Company determined that there were no material changes in the fair value of the embedded derivative between June 27, 2014 and June 30, 2014.

13. Warranty liability:

A continuity of the warranty liability is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$ 27,253	\$ 5,623	\$ 28,845	\$ 6,380
Warranty assumed on acquisition	-	582	-	582
Warranty claims	(1,717)	(786)	(4,400)	(2,181)
Warranty accruals	452	707	1,242	859
Change in estimate	-	1,200	-	1,200
Impact of foreign exchange changes	(973)	(605)	(672)	(119)
Balance, end of period	\$ 25,015	\$ 6,721	\$ 25,015	\$ 6,721
Less: Current portion	(8,958)	(4,854)	(8,958)	(4,854)
Long-term portion	\$ 16,057	\$ 1,867	\$ 16,057	\$ 1,867

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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 three and six months ended June 30, 2014 and 2013 are presented as follows:

	Six months ended June 30, 2014		Six months ended June 30, 2013	
	Number of shares	Weighted average exercise price (CDN\$)	Number of shares	Weighted average exercise price (CDN\$)
Outstanding, beginning of period	816,450	\$ 30.20	996,047	\$27.78
Exercised	(4,358)	8.18	(83,962)	5.64
Forfeited/expired	(47,250)	33.76	(28,106)	33.83
Outstanding, end of period	764,842	\$30.10	883,979	\$29.69
Options exercisable, end of period	527,368	\$28.43	340,654	\$23.17

During the three and six months ended June 30, 2014, the Company recognized \$436 (2013 - \$648) and \$933 (2013 - \$1,294) respectively, in stock-based compensation related to stock options.

No options were granted during the three and six months ended June 30, 2014 and June 30, 2013.

As at June 30, 2014, \$1,098 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 0.52 years.

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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, 2014 and 2013 are as follows:

	Six months ended June 30, 2014		Six months ended June 30, 2013	
	Number of units	Weighted average grant date fair value (CDN\$)	Number of units	Weighted average grant date fair value (CDN\$)
Outstanding, beginning of period	1,200,591	\$ 23.68	1,095,094	\$20.68
Granted	1,547,231	19.29	565,290	30.33
Exercised/vested	(237,318)	31.04	(211,694)	29.85
Forfeited/expired	(35,752)	29.05	(63,205)	27.49
Outstanding, end of period	2,474,752	\$ 20.17	1,385,485	\$22.90
Units outstanding and exercisable, end of period	208,764	\$ 11.10	267,197	\$ 9.61

	Six months ended June 30, 2014		Six months ended June 30, 2013	
	Number of units	Weighted average grant date fair value (CDN\$)	Number of units	Weighted average grant date fair value (CDN\$)
Unvested, beginning of period	975,953	\$ 26.55	832,479	\$24.41
Granted	1,547,231	19.29	565,290	30.33
Vested	(221,444)	32.11	(242,412)	30.54
Forfeited	(35,752)	29.05	(37,069)	24.19
Unvested, end of period	2,265,988	\$ 21.01	1,118,288	\$26.08

During the three and six months ended June 30, 2014, the Company recognized \$2,887 (2013 - \$3,436) and \$7,123 (2013 - \$6,171) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

As at June 30, 2014, \$32,229 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 2.33 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, 2014, 352,879 Units (June 30, 2013 – 290,571) were subject to revenue growth, service and market conditions. The fair value of these PSUs was determined using a Monte-Carlo simulation using the following weighted average assumptions: expected dividend yield – nil% (June 30, 2013 – nil%); expected stock price volatility – 53.68% (June 30, 2013 – 56.47%); and risk free interest rate – 1.2% (June 30, 2013 – 1.15%). 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") and January 1, 2014 ("2014 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 factors range from 0% to 200% of the PSUs granted. For the 2013 LTI and 2014 LTI PSUs, 100% of these PSUs vest after three years from the date of the grant.

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 Units outstanding and exercisable as at June 30, 2014 and exercised during the six months ended June 30, 2014 is as follows:

	June 30, 2014
	CDN\$
Stock options:	
Outstanding	\$ 1,097
Exercisable	1,097
Exercised	44
Units:	
Outstanding	\$ 47,614
Exercisable	4,017
Exercised	5,048

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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,	
	2014	2013	2014	2013
Research and development	\$ 752	\$ 575	\$ 1,162	\$ 986
General and administrative	1,807	2,993	5,014	5,517
Sales and marketing	764	516	1,880	962
	\$ 3,323	\$ 4,084	\$ 8,056	\$7,465

(c) Loss per share:

All of the stock options and 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, assembles and sells natural gas engine and vehicle systems for automotive, light commercial and trucking;
- Off-Road Systems, engineers, designs and markets Westport proprietary natural gas technologies, including the Westport™ high pressure direct injection ("HPDI") technology, Westport™ 2.4L industrial engines 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 are incurred by all segments and are not allocated to the reporting segments;
- CWI which serves the medium- to heavy-duty engine markets with spark ignited natural gas engines. 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, 2013. 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, impairment charges, foreign exchange gains and losses, bank charges, interest and other expenses, interest and other income, and gain on sale of long-term investments.

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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, 2014 and 2013. Comparative periods have been recast to conform to current segment presentation.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue:				
Applied Technologies	\$ 24,810	\$ 25,220	\$ 46,700	\$ 48,498
On-Road Systems	11,623	7,383	29,360	12,042
Off-Road Systems	1,487	982	2,819	2,055
Corporate and Technology Investments	2,116	1,271	3,079	2,314
CWI	79,555	77,972	159,624	122,689
WWI	133,072	152,503	246,431	258,355
Total segment revenues	252,663	265,331	488,013	445,953
Less: equity investees' revenue	(212,627)	(230,475)	(406,055)	(381,044)
Total consolidated revenues	\$ 40,036	\$ 34,856	\$ 81,958	\$ 64,909
Net consolidated operating income (loss) excluding depreciation and amortization, intangible asset impairments, foreign exchange gain, bank charges and other:				
Applied Technologies	\$ 1,680	\$ 2,092	\$ 1,159	\$ 3,936
On-Road Systems	(1,243)	(11,027)	(2,791)	(20,065)
Off-Road Systems	(712)	(1,851)	(1,264)	(4,644)
Corporate and Technology Investments	(20,945)	(25,741)	(45,309)	(47,182)
CWI	354	10,568	(1,737)	11,996
WWI	2,312	4,522	4,023	7,900
Total segment operating loss	(18,554)	(21,437)	(45,919)	(48,059)
Less: equity investees' operating loss (income)	(2,666)	(15,090)	(2,286)	(19,896)
Net consolidated operating loss excluding depreciation and amortization, intangible asset impairments, foreign exchange gain, bank charges and other:	(21,220)	(36,527)	(48,205)	(67,955)
Depreciation and amortization:				
Applied Technologies	1,882	1,930	3,860	3,866
On-Road Systems	1,325	715	2,498	1,217
Off-Road Systems	-	-	-	92
Corporate and Technology Investments	1,378	1,146	2,558	2,212
Intangible asset impairments:				
On-Road Systems	-	-	325	-
	4,585	3,791	9,241	7,387
Net consolidated operating loss before foreign exchange gain, bank charges and other	(25,805)	(40,318)	(57,446)	(75,342)
Foreign exchange gain, bank charges and other	8,682	(3,184)	(143)	(6,060)
Loss from operations	(34,487)	(37,134)	(57,303)	(69,282)
Interest on long-term debt and other income (expenses), net	(1,600)	(1,109)	(2,270)	(2,162)
Income from investment accounted for by the equity method	1,041	4,609	685	6,296
Loss before income taxes	\$ (35,046)	\$ (33,634)	\$ (58,888)	\$ (65,148)

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15. Segmented information (continued):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Total additions to long-lived assets excluding business combinations:				
Applied Technologies	\$ 372	\$ 656	\$ 423	\$ 1,962
On-Road Systems	577	5,941	3,338	9,487
Off-Road Systems	8	113	8	234
Corporate and Technology Investments	579	220	1,044	3,493
	\$ 1,536	\$ 6,930	\$ 4,813	\$ 15,176

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,	
	2014	2013	2014	2013
Americas (including United States)	44	30	46	27
Asia (including China)	13	13	11	15
Other (including Italy)	43	57	43	58

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, 2014, total goodwill of \$22,809 (December 31, 2013 - \$22,958) was allocated to Applied Technologies and \$18,542 (December 31, 2013 - \$18,542) to On-Road Systems reporting segments.

As at June 30, 2014, total long-term investments of \$22,261 (December 31, 2013 - \$21,872) was allocated to the Corporate and Technology Investments segment and \$294 (December 31, 2013 - \$256) was allocated to the Applied Technologies segment. Total assets are allocated as follows:

	June 30, 2014	December 31, 2013
Applied Technologies	\$ 154,623	\$ 144,803
On-Road Systems	108,699	111,323
Off-Road Systems	6,754	6,564
Corporate and Technology Investments and unallocated assets	174,907	228,981
CWI	143,611	114,943
WWI	165,298	131,146
	753,892	737,760
Less: equity investees' total assets	308,909	246,089
Total consolidated assets	\$ 444,983	\$ 491,671

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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 countries:

	June 30, 2014	December 31, 2013
Italy	\$ 63,055	\$ 66,918
Canada	29,407	30,713
United States	47,855	47,322
Sweden	255	322
China	6,785	8,675
Australia	1,431	1,360
	\$ 148,788	\$ 155,310
Less: equity investees' long-lived assets	6,938	8,117
	\$ 141,850	\$ 147,193

16. Related party transactions:

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

As at June 30, 2014, net amounts due from CWI totaled \$730 (December 31, 2013 - \$3,621). 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, 2014 and June 30, 2013, cost reimbursements from CWI consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Research and development	\$ 1	\$ 47	\$ 3	\$ 107
General and administrative	481	301	911	821
Sales and marketing	1,467	1,298	2,743	2,400
	\$1,949	\$1,646	\$3,657	\$3,328

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

During the three and six months ended June 30, 2014, the Company recognized revenue of \$2,190 (2013 - \$nil) and \$4,184 (2013 - \$nil) from sales of parts to a company that is 49% owned by a management member of Westport's subsidiary.

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17. Fair value of financial instruments:

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable (note 3) and accounts payable and accrued liabilities (note 11) 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 equity method investments (note 5) represent our interests in the CWI, WWI and other equity accounted for investees, which are accounted for using the equity method.

The carrying value reported in the balance sheets for obligations under capital lease (note 12), 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 value reported in the balance sheet for the embedded derivative (note 12) is recorded at fair value.

The carrying value reported in the balance sheet for senior financing agreements (note 12) approximates its fair value as at June 30, 2014, 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, 2014 and December 31, 2013, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

As at June 30, 2014, the embedded derivative is measured at fair value on a recurring basis and a Level 3 valuation was performed. The fair value of the embedded derivative was determined using the Interest Rate Option Pricing model which incorporated the Black-Karasinski model. The following inputs were used in determining the fair value of the derivative: time to maturity – 6.25 years; coupon rate – 9% semi-annually; credit spread – 8.1%; mean reversion parameter – 2.134%; volatility – 28%; riskless rate curve – Canadian Dollar Swap rate. There was no embedded derivative as at December 31, 2013.