

FINANCIAL REPORT TO SHAREHOLDERS

WestportTM
Here and Now.

For the three and nine months
ended September 30,
2014 and 2013

2014 Q3

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 nine months ended September 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 October 30, 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 have unique partnerships with some of the world's largest engine companies, truck producers, automotive manufacturers, and some of the largest natural gas fuel suppliers. 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 \$636 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, as well as dual fuel systems; and 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, North, Central and South America, and Russia.

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 Ford Transit Van, 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 completed its expansion of its facility to double its annual production capacity to 100,000 engines.

GENERAL DEVELOPMENTS

On August 14, 2014, the Company announced that Jill Bodkin was elected as Chairman of the Board of Directors. Former Chairman, John Beaulieu, will remain on the board as a director and has been awarded the title "Chairman Emeritus". Joseph Caron, formerly of Westport's Advisory Board, has been appointed to the Board of Directors.

On September 23, 2014, the Company unveiled its newest proprietary technology, the first generation of an enhanced spark-ignited ("ESI") natural gas system. The Westport™ ESI combustion system is designed to provide OEMs with a "downsized" natural gas solution that is cost competitive while providing similar levels of power, torque, and fuel economy to a larger diesel engine. It is targeted at sub 9L engines for Class 6 and 7 truck applications and is also adaptable for sub 2L applications for use in automotive and non-automotive applications.

On September 30, 2014, the Company changed its forecasted 2014 revenue outlook to a range of \$130 million to \$140 million and will not expect its three operating business units combined to have positive Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") for the year. The Company reiterated its goal for consolidated Adjusted EBITDA to be positive by the end of fiscal 2015.

SELECTED FINANCIAL INFORMATION

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

Selected Consolidated Statements of Operations Data				
	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<i>(expressed in millions of United States dollars, except for per share amounts and shares outstanding)</i>				
Total revenue	\$ 25.3	\$ 46.5	\$ 103.2	\$ 111.4
Gross margin ⁽¹⁾	8.0	16.0	33.8	32.4
GM %	31.6%	34.4%	32.8%	29.1%
Net loss	(25.5)	(30.2)	(84.7)	(96.0)
Net loss per share – basic and diluted ⁽²⁾	(0.40)	(0.53)	(1.34)	(1.72)
Weighted average shares outstanding	63,142,874	56,787,233	63,051,893	55,881,884
Cash used in operations before changes in non-cash working capital ⁽³⁾	(25.3)	(24.5)	(66.8)	(87.3)
⁽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 nine months ended September 30, 2014, \$4.7 and \$13.6, respectively, (2013 - \$4.3 and \$11.7) 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 September 30, 2014 and December 31, 2013:

Selected Balance Sheet Data			
<i>(expressed in millions of United States dollars)</i>			
	September 30, 2014		December 31, 2013
Cash and short-term investments	\$	130.2	\$ 210.6
Total assets		392.5	491.7
Long-term debt		72.7	66.0

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

Selected CWI Statements of Operations Data				
	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<i>(expressed in millions of United States dollars)</i>				
Total revenue	\$ 70.6	\$ 77.5	\$ 230.2	\$ 200.2
Gross margin	15.4	17.7	33.4	50.5
GM %	21.8%	22.8%	14.5%	25.2%
Income before income taxes	2.4	7.8	0.4	19.6
Income attributable to the Company	0.9	2.5	0.5	6.6

Selected WWI Statements of Operations Data				
	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<i>(expressed in millions of United States dollars)</i>				
Total revenue	\$ 179.3	\$ 114.6	\$ 425.7	\$ 373.0
Gross margin	8.9	8.8	24.0	27.8
GM %	5.0%	7.7%	5.6%	7.5%
Income before income taxes	4.1	4.3	8.1	12.2
Income attributable to the Company	1.2	1.3	2.4	3.6

OVERVIEW OF THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 RESULTS

REVENUE

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

Revenues (expressed in millions of U.S. dollars)								
	Three months ended September 30, 2014		Change		Nine months ended September 30, 2014		Change	
	2013		\$	%	2013		\$	%
Applied Technologies	\$ 18.2	\$ 20.4	\$ (2.2)	-11%	\$ 64.9	\$ 68.9	\$ (4.0)	-6%
On-Road Systems	6.6	17.0	(10.4)	-61%	31.9	29.0	2.9	10%
Off-Road Systems	0.3	0.8	(0.5)	-63%	3.1	2.9	0.2	7%
Corporate and Technology Investments	0.2	8.3	(8.1)	-98%	3.3	10.6	(7.3)	-69%
CWI (non-consolidated)	70.6	77.5	(6.9)	-9%	230.2	200.2	30.0	15%
WWI (non-consolidated)	179.3	114.6	64.7	56%	425.7	373.0	52.7	14%
Total segment revenues	\$ 275.2	\$ 238.6	\$ 36.6	15%	\$ 759.1	\$ 684.6	\$ 74.5	11%
Less: Equity investees' revenues	249.9	192.1	57.8	30%	655.9	573.2	82.7	14%
Total consolidated revenues	\$ 25.3	\$ 46.5	\$ (21.2)	-46%	\$ 103.2	\$ 111.4	\$ (8.3)	-7%

Applied Technologies revenue for the three months ended September 30, 2014 decreased \$2.2 million, or 11%, from \$20.4 million to \$18.2 million.

For the nine months ended September 30, 2014, Applied Technology revenue decreased \$4.0 million, or 6%, from \$68.9 million to \$64.9 million. Applied Technologies revenue decreased \$4.0 million primarily due to weakness in certain markets, particularly Europe and the Americas, partially offset by increased sales in Asia.

On-Road Systems revenue for the three months ended September 30, 2014 decreased \$10.4 million, or 61%, from \$17.0 million to \$6.6 million. The decrease in On-Road Systems revenue is primarily due to the discontinuation of the first generation Westport™ HPDI system in December of 2013 and decreased revenue generated from BAF which was acquired on June 28, 2013

For the nine months ended September 30, 2014, On-Road Systems revenue increased \$2.9 million, or 10% from \$29.0 million to \$31.9 million. The increase in On-Road Systems revenue is primarily due to increased revenue generated from BAF which was acquired on June 28, 2013, increased shipments of Westport iCE PACK offset by no revenue from the first generation Westport™ HPDI system, which was discontinued in December of 2013. See “Selected Quarterly Financial Data” for information regarding our change in revenue presentation for a portion of the On-Road product revenue from a gross revenue basis to a net revenue basis.

Off-Road Systems revenue for the three months and nine months ended September 30, 2014 decreased \$0.5 million from \$0.8 million to \$0.3 million for the three months ended period and increased \$0.2 million from \$2.9 million to \$3.1 million for the nine 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 nine months ended September 30, 2014 decreased \$8.1 million, to \$0.2 million from \$8.3 million for the three months ended period and decreased \$7.3 million to \$3.3 million from \$10.6 million for the nine 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 September 30, 2014 decreased \$6.9 million, or 9% from \$77.5 million to \$70.6 million. CWI product revenue for the three months ended September 30, 2014 decreased \$4.1 million on sales of 2,171 units compared to 2,409 units for the three months ended September 30, 2013. CWI parts revenue for the three months ended September 30, 2014 decreased \$2.9 million to \$12.0 million compared with \$14.9 million for the three months end September 30, 2013. The decrease in parts revenue is driven by decreasing engine volumes and in-service engine needs.

For the nine months ended September 30, 2014, revenue increased \$30.0 million, or 15% from \$200.2 million to \$230.2 million. CWI product revenue for the nine months ended September 30, 2014 increased \$26.8 million on sales of 7,130 units compared to 6,438 units for the nine months ended September 30, 2013. The increased quarterly volumes in North America were driven by higher sales in all segments and a shift in product mix. CWI parts revenue for the nine months ended September 30, 2014 was \$39.4 million compared with \$36.2 million for the nine months end September 30, 2013. Parts revenue increase is driven by increasing engine volumes and in-service engine needs.

WWI revenue for the three months ended September 30, 2014 increased \$64.7 million, or 56% from \$114.6 million to \$179.3 million. WWI shipped 14,587 units for the three months ended September 30, 2014 compared with 9,080 units for the three months ended September 30, 2013. For the nine months ended September 30, 2014, WWI revenue increased \$52.7 million, or 14% from \$373.0 million to \$425.7 million. WWI shipped 34,785 units for the nine months ended September 30, 2014 compared with 30,019 units for the nine months ended September 30, 2013.

GROSS MARGIN

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

Gross Margin <i>(expressed in millions of U.S. dollars)</i>						
	Three months ended September 30, 2014	% of Revenue	Three months ended September 30, 2013	% of Revenue	Change \$	%
Applied Technologies	\$ 5.0	27.5%	\$ 6.5	31.9%	\$ (1.5)	-23%
On-Road Systems	2.7	40.9%	1.1	6.5%	1.6	145%
Off-Road Systems	0.1	33.3%	0.1	12.5%	-	0%
Corporate and Technology Investments	0.2	100.0%	8.3	100.0%	(8.1)	-98%
CWI (non-consolidated)	15.4	21.8%	17.7	22.8%	(2.3)	-13%
WWI (non-consolidated)	8.9	5.0%	8.8	7.7%	0.1	1%
Total segment gross margin	\$ 32.3	11.7%	\$ 42.5	17.8%	\$ (10.2)	-24%
Less: Equity investees' gross margin	24.3	9.7%	26.5	13.8%	(2.2)	-8%
Total consolidated gross margin	\$ 8.0	31.6%	\$ 16.0	34.4%	\$ (8.0)	-50%

Applied Technologies gross margin decreased \$1.5 million to \$5.0 million, or 27.5% of revenue, for the three months ended September 30, 2014 compared to \$6.5 million, or 31.9% of revenue for the three months ended September 30, 2013. The decrease in gross margin percentage was due to weaknesses in certain markets, particularly Europe and the Americas, partially offset by increased sales in Asia.

On-Road Systems gross margin increased \$1.6 million to \$2.7 million or 40.9% of revenue, from margin of \$1.1 million or 6.5% of revenue for the three months ended September 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 decreased \$8.1 million to \$0.2 million from \$8.3 million for the three months ended September 30, 2013. The decrease in gross margin is driven by a reduction in revenue and the prioritization of investment programs. 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 \$2.3 million to \$15.4 million, or 21.8% of revenue from \$17.7 million or 22.8% of revenue. CWI product margin and product gross margin percentage for the three months ended September 30, 2014 were \$13.0 million and 22.3%, respectively, compared to \$11.6 million and 18.5%, respectively, for the three months ended September 30, 2013. The decrease in CWI gross margin percentage during the three months ended September 30, 2014 was primarily due to a switch of product mix. Warranty adjustments and net extended coverage claims totaling \$1.1 million and \$6.6 million were recorded in the three months ended September 30, 2014 and September 30, 2013, respectively. Excluding the warranty related impact, CWI gross margin percentage would have been 23.4% and 31.4% for the three months ended September 30, 2014 and September 30, 2013, respectively. CWI parts gross margin percentage for the three months ended September 30, 2014 decreased compared to the three months ended September 30, 2013.

WWI gross margin increased \$0.1 million to \$8.9 million, or 5.0% of revenue from \$8.8 million or 7.7% of revenue due to aggressive pricing efforts to gain market share.

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

Gross Margin <i>(expressed in millions of U.S. dollars)</i>						
	Nine months ended September 30, 2014	% of Revenue	Nine months ended September 30, 2013	% of Revenue	Change \$	%
Applied Technologies	\$ 18.3	28.2%	\$ 20.3	29.5%	\$ (2.0)	-10%
On-Road Systems	11.8	37.0%	0.9	3.1%	10.9	1211%
Off-Road Systems	0.4	12.9%	0.6	20.7%	(0.2)	-33%
Corporate and Technology Investments	3.3	100.0%	10.6	100.0%	(7.3)	-69%
CWI (non-consolidated)	33.4	14.5%	50.5	25.2%	(17.1)	-34%
WWI (non-consolidated)	24.0	5.6%	27.8	7.5%	(3.8)	-14%
Total segment gross margin	\$ 91.2	12.0%	\$ 110.7	16.2%	\$ (19.5)	-18%
Less: Equity investees' gross margin	57.4	8.8%	78.3	13.7%	(20.9)	-27%
Total consolidated gross margin	\$ 33.8	32.8%	\$ 32.4	29.1%	\$ 1.4	4%

Applied Technologies gross margin decreased \$2.0 million to \$18.3 million, or 28.2% of revenue, for the nine months ended September 30, 2014 compared to \$20.3 million, or 29.5% of revenue for the nine months ended September 30, 2013. The decrease in gross margin percentage was due to weakness in certain markets, particularly Europe and the Americas, partially offset by increased sales in Asia.

On-Road Systems gross margin increased \$10.9 million to \$11.8 million or 37.0% of revenue, from \$0.9 million or 3.1% of revenue for the nine months ended September 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 decreased \$7.3 million to \$3.3 million from \$10.6 million. The decrease in gross margin is driven by a reduction in revenue and the prioritizing of investment programs. 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 \$17.1 million to \$33.4 million, or 14.5% of revenue from \$50.5 million or 25.2% of revenue. CWI product margin and product gross margin percentage for the nine months ended September 30, 2014 were \$21.7 million and 11.4%, respectively, compared to \$34.8 million and 21.2%, respectively, for the nine months ended September 30, 2013. The decrease in CWI gross margin percentage during the nine months ended September 30, 2014 was primarily due to an increase of \$11.7 million in net warranty adjustments and net extended coverage claims compared to the nine months ended September 30, 2013. Warranty adjustments and net extended coverage claims totaling \$26.3 million and \$15.5 million were recorded in the nine months ended September 30, 2014 and September 30, 2013, respectively. Excluding the warranty related impact, CWI gross margin percentage would have been 26.0% and 33.0% for the nine months ended September 30, 2014 and September 30, 2013, respectively. CWI parts gross margin percentage for the nine months ended September 30, 2014 decreased compared to the nine months ended September 30, 2013.

WWI gross margin decreased \$3.8 million to \$24.0 million, or 5.6% of revenue from \$27.8 million or 7.5% 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 nine months ended September 30, 2014 and September 30, 2013:

Research and Development (expressed in millions of U.S. dollars)								
	Three months ended		Change		Nine months ended		Change	
	September 30,	September 30,			September 30,	September 30,		
	2014	2013	\$	%	2014	2013	\$	%
Applied Technologies	\$ 1.7	\$ 1.7	\$ -	0%	\$ 5.0	\$ 4.5	\$ 0.5	11%
On-Road Systems	2.8	3.8	(1.0)	-26%	10.0	11.0	(1.0)	-9%
Off-Road Systems	0.7	-	0.7	100%	1.5	0.8	0.7	88%
Corporate and Technology Investments	12.4	18.0	(5.6)	-31%	40.8	51.5	(10.7)	-21%
Total research and development	\$ 17.6	\$ 23.5	\$ (5.9)	-25%	\$ 57.3	\$ 67.8	\$ (10.5)	-15%

Applied Technologies For the three months ended September 30, 2014, R&D expenses remain unchanged, compared to the same period last year. For the and nine months ended September 30, 2014, R&D expenses increased \$0.5 million compared to the same period last year, primarily related to new product development programs.

On-Road Systems For the three and nine months ended September 30, 2014, R&D expenses decreased \$1.0 million and \$1.0 million primarily due to lower R&D expenses spent on Westport WiNG Systems as product development was completed in 2013.

Off-Road Systems For the three and nine months ended September 30, 2014, R&D expenses increased \$0.7 million and \$0.7 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 nine months ended September 30, 2014, R&D expenses decreased \$5.6 million and \$10.7 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 nine months ended September 30, 2014 and September 30, 2013:

Selling, General and Administrative (expressed in millions of U.S. dollars)								
	Three months ended		Change		Nine months ended		Change	
	September 30, 2014	2013	\$	%	September 30, 2014	2013	\$	%
Applied Technologies	\$ 6.3	\$ 3.2	\$ 3.1	97%	\$ 15.1	\$ 10.3	\$ 4.8	47%
On-Road Systems	2.5	7.0	(4.5)	-64%	7.3	19.7	(12.4)	-63%
Off-Road Systems	0.3	2.9	(2.6)	-90%	1.1	7.1	(6.0)	-85%
Corporate and Technology Investments	6.5	6.3	0.2	3%	26.5	22.3	4.2	19%
Total selling, general and administrative	\$ 15.6	\$ 19.4	\$ (3.8)	-20%	\$50.0	\$ 59.4	\$ (9.4)	-16%

Applied Technologies For the three and nine months ended September 30, 2014 , SG&A expenses increased \$3.1 million and \$4.8 million, respectively, compared to the same periods last year, due to increase in scope of business to include China operations, an increase to the allowance for doubtful accounts, customer support campaign expense and severance recorded during the quarter.

On-Road Systems For the three and nine months ended September 30, 2014 , SG&A expenses decreased \$4.5 million and \$12.4 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 nine months ended September 30, 2014 , SG&A expenses decreased \$2.6 million and \$6.0 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 nine months ended September 30, 2014 , SG&A expenses increased \$0.2 million and \$4.2 million, respectively, compared to the same periods last year, due to increase in headcount to support new programs and global market development initiatives.

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 nine months ended September 30, 2014, we recognized a net foreign exchange gains of \$2.2 million and \$2.5 million, respectively, with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange loss of \$1.3 million and a foreign exchange gain of \$5.1 million for the three and nine months ended September 30, 2013 respectively. The majority of the foreign exchange gain for the three and nine months ended September 30, 2014 is unrealized.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the three and nine months ended September 30, 2014 was \$4.7 million and \$13.6 million compared to \$4.3 million and \$11.7 million for the three and nine months ended September 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 <i>(expressed in millions of U.S. dollars)</i>				
	3 months ended September 30, 2014		Three months ended September 30, 2014	
		2013		2013
CWI - 50% interest	\$ 0.9	\$ 2.5	\$ 0.5	\$ 6.6
WWI - 35% interest	1.2	1.3	2.4	3.6
Other	-	(0.1)	(0.1)	(0.2)
Income from investment accounted for by the equity method	\$ 2.1	\$ 3.7	\$ 2.8	\$ 10.0

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 September 30, 2014		Nine months ended September 30, 2014	
		2013		2013
Canadian debentures	\$ 1.2	\$ 0.8	\$ 2.7	\$ 2.4
Senior financing facilities	0.5	0.2	\$ 1.0	0.8
Amortization of discount and non-cash interest expense	0.1	0.2	\$ 0.3	0.5
Total Interest on long-term debt	\$ 1.8	\$ 1.2	\$ 4.0	\$ 3.7

INCOME TAX EXPENSE

Income tax recovery for the three and nine months ended September 30, 2014 was \$0.7 million and \$0.4 million, respectively, compared to income tax expense of \$0.3 million and \$0.9 million, respectively, for the three and nine months ended September 30, 2013. The decrease in income tax expense primarily relates to lower taxable income in Emer and OMVL in the current year periods and lower distributable earnings from our investment in CWI.

ASSESSMENT OF GOODWILL

Goodwill is subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company's annual assessment date is November 30. Based on the revenue and operating results of Applied Technologies and On-Road Systems segments in the nine months ended September 30, 2014 and the decline in the outlook for the remainder of 2014 and future years, the Company concluded there was an impairment indicator requiring an interim goodwill impairment assessment as of September 30, 2014. The estimated fair value of the Applied Technology and On-Road Systems reporting units exceeded their carrying amounts and therefore there was no impairment of the goodwill. The percentage by which the fair values of the reporting units exceeded their carrying values was less than 10% for both reporting units. Management considered both the discounted cash flow model and the market multiple approach in their analysis. Some key assumptions used were a weighted average cost of capital of 15% and terminal revenue growth that ranged from 3 to 5%. Variations to the expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which could in turn impact future financial results, including the potential for impairment loss in the future.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at September 30, 2014, our cash, cash equivalents and short-term investment position was \$130.2 million, a decrease of \$80.5 million 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 treasuries issued by Schedule 1 Canadian banks, R1 high-rated corporations and governments.

For the nine months ended September 30, 2014, our cash used in operations was \$83.4 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was \$66.9 million. Changes in non-cash operating working capital resulted in a use of \$16.5 million. The \$16.5 million change in working capital was impacted by increases in inventory of \$3.9 million and prepaid expenses and other assets of \$6.2 million related to prepaid capital assets and inventory. The increases were offset by decreases in accounts receivable of \$8.0 million, accounts payable and accrued liabilities of \$6.9 million, deferred revenue of \$4.1 million due to recognition of extended warranty contracts in service and warranty liability of \$3.3 million related to the first generation Westport™ HPDI system. Cash used in investing activities included purchases of property and equipment of \$6.3 million offset by cash received from the sale of short-term investments of \$30.0 million and \$2.6 million in dividends received from joint ventures. Cash used in financing activities included net principal payments of \$5.6 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 and our share of CWI dividends (typically declared and paid quarterly) 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 September 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	
		Nine months ended	
		September 30, 2014	Inception to date
	\$	\$	\$
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 – 145.4	1.9	84.6
	265.4	11.5	265.4

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	
		Nine months ended	
		September 30, 2014	Inception to date
	\$	\$	\$
Corporate and technology development of a direct injection natural gas system	20.0 – 40.0	10.6	10.6
Off-Road and marine engine development program	20.0 – 40.0	5.1	5.1
Corporate and technology development of natural gas products (HPDI, spark ignited tech)	30.0 – 70.0	26.8	26.8
Off-Road HD commercial applications	40.0 – 50.0	1.2	1.2
General corporate purposes	0 – 37.3	36.3	36.3
	147.3	80.0	80.0

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.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual Commitments

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

Fiscal Year	Amount
2014 (remaining three months)	
2015	\$ 1,093
2016	4,285
2017	4,910
2018	6,696
Thereafter	48,123
Total	\$ 65,107

Purchase Commitments

The Company purchases components from a variety of suppliers and contract manufacturers. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with suppliers and contract manufacturers. A portion of our reported estimated purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. The Company may be subject to penalties, and may lose important suppliers, if it is unable to meet its purchase commitments. As of September 30, 2014, the Company had total purchase commitments for inventory of \$29,861 through December 31, 2015.

Other

In connection with the Company’s development of certain technology, the Company has agreed to pay a customer an additional \$1,960 contingent upon the achievement of certain agreed-upon engineering milestones in March 2015.

For additional information see our annual MD&A dated February 25, 2014 and are substantially unchanged.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

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 nine months ended September 30, 2014 and September 30, 2013.

SUBSEQUENT EVENTS

The Company has evaluated all events that occurred after the balance sheet date through October 30, 2014, the date when the financial statements were issued, to determine if they must be reported.

On October 22, 2014 the Company laid off 61 employees. The total severance and benefits expected to be paid is \$1.8 million. Of the total severance and benefits expected to be paid, it is expected that \$0.6 million will be paid in the three month period ended December 31, 2014 and that the remainder will be paid in the twelve month period ended December 31, 2015.

SHARES OUTSTANDING

For the three months ended September 30, 2014 and September 30, 2013, the weighted average number of shares used in calculating the net loss per share was 63,142,874 and 56,787,233, respectively. During the three months ended September 30, 2014, we granted zero RSUs and PSUs (together the “Share Units”), and zero 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:

	September 30, 2014		October 31, 2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common Shares outstanding	63,176,478	\$	63,179,344	\$
Share options ⁽¹⁾				
- Outstanding ⁽²⁾	620,339	30.97	617,473	30.97
- Exercisable	427,469	29.70	427,469	29.70
Share Units ⁽¹⁾				
- Outstanding ⁽³⁾	2,099,393	N/A	2,099,393	N/A
- Exercisable	200,314	N/A	200,314	N/A

(weighted average exercise prices are presented in Canadian dollars)

- (1) As at September 30, 2014, excludes 77,707 and 335,769 (October 30, 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 September 30, 2014 and October 30, 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 September 30, 2014, includes 1,293,947 (October 30, 2014 – 1,293,947) PSUs with payout levels ranging between 0% to 200% upon achieving the required performance criteria over the measurement period. Of these 1,293,947 and 1,293,947 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.

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 the September 30, 2014 financial statements. We have identified several policies as critical to the measurement of our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as a variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock-based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in Note 2 of our fiscal year ended December 31, 2013 annual consolidated financial statements and our 2013 Annual Management and Discussion Analysis. Actual amounts may vary significantly from estimates used.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

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.

Going Concern

In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements – Going Concern," outlining management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016 with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the nine month period ended September 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.

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) ⁽¹⁾								
Three months ended (expressed in millions of United States dollars except for per share amounts)	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	31-Mar-14 ⁽²⁾	30-Jun-14 ⁽²⁾	30-Sep-14
Product revenue	\$ 32.1	\$ 28.6	\$ 33.6	\$ 36.7	\$ 49.1	\$ 34.8	\$ 31.8	\$ 22.8
Service and other revenue	7.8	1.4	1.3	9.8	3.5	5.1	6.1	2.5
Total revenue	39.9	30.0	34.9	46.5	52.6	39.9	37.9	25.3
Cost of product revenue	26.5	22.0	26.6	30.5	69.6	27.6	24.3	17.3
Gross margin	13.3	8.0	8.3	16.0	(17.0)	12.3	13.6	8.0
Gross margin percentage	33.3%	26.7%	23.8%	34.4%	-32.3%	30.8%	35.9%	31.6%
Net loss for the period	\$ (37.6)	\$ (31.8)	\$ (33.9)	\$ (30.2)	\$ (89.5)	\$ (23.9)	\$ (35.4)	\$ (25.5)
Loss per share Basic and Diluted ⁽³⁾	\$ (0.68)	\$ (0.57)	\$ (0.61)	\$ (0.53)	\$ (1.42)	\$ (0.38)	\$ (0.56)	\$ (0.40)
Income from unconsolidated joint ventures:								
CWI net income (loss) attributable to the Company	1.2	0.8	3.3	2.5	2.8	(0.8)	0.4	0.9
WWI net income attributable to the Company	0.5	1.0	1.3	1.3	0.7	0.5	0.7	1.2

⁽¹⁾ In addition, the Company combined the insignificant parts revenue with product revenue into a single line item in the condensed consolidated statement of operations and comprehensive loss for all periods presented. The reclassifications have no impact to the condensed consolidated balance sheets, statement of cash flows, gross margin, net loss or basic and diluted loss per share for all periods presented.

⁽²⁾ The Company corrected the accounting for a portion of the On-Road parts revenue. As a result, the Company made an immaterial adjustment to reduce total revenue for the three month period ended March 31, 2014 and June 30, 2014 by \$2.0 million and \$2.1 million respectively. The Company also reduced the cost of revenue for the three month period ended March 31, 2014 and June 30, 2014 by \$2.0 million and \$2.1 million, respectively. This has no impact to the condensed consolidated balance sheets, statement of cash flows, gross margin, net loss or basic and diluted loss per share for all periods presented.

⁽³⁾ 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.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash flow from operations				
Net loss for the period	\$ (25.5)	\$ (30.2)	\$ (84.7)	\$ (96.0)
Items not involving cash:				
Depreciation and amortization	4.7	4.3	13.6	11.7
Stock-based compensation expense	1.0	3.6	9.1	11.1
Unrealized foreign exchange loss (gain)	(2.2)	1.3	(2.5)	(5.1)
Deferred income tax expense (recovery)	(0.8)	(0.2)	(1.0)	(0.3)
Income from investment accounted for by the equity method	(2.1)	(3.7)	(2.8)	(10.0)
Non-cash interest expense	0.5	0.4	1.4	1.3
Intangible asset impairment	-	-	0.3	-
Change in fair value of derivative liability and other	(0.9)	-	(0.2)	-
Cash flows from operations before changes in non-cash operating working capital	\$ (25.3)	\$ (24.5)	\$ (66.8)	\$ (87.3)

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

WESTPORT INNOVATIONS INC.

For the three and nine months ended September 30, 2014 and 2013

WESTPORT INNOVATIONS INC.

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

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 129,415	\$ 178,513
Short-term investments	745	32,091
Accounts receivable (note 3)	44,694	59,315
Inventories (note 4)	42,320	40,626
Prepaid expenses	8,746	6,072
Current portion of deferred income tax assets	3,045	3,109
	228,965	319,726
Equity method investments (note 5)	24,239	22,128
Other assets (note 6)	6,420	2,245
Property, plant and equipment (note 8)	60,681	67,349
Intangible assets (note 9)	32,579	38,344
Deferred income tax assets	24	379
Goodwill (note 10)	39,596	41,500
	\$ 392,504	\$ 491,671
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 45,471	\$ 54,792
Current portion of deferred revenue	1,982	6,727
Current portion of deferred income tax liabilities	6	468
Current portion of long-term debt (note 12)	18,129	53,025
Current portion of warranty liability (note 13)	8,903	9,955
	74,491	124,967
Warranty liability (note 13)	15,109	18,890
Long-term debt (note 12)	54,576	12,988
Deferred revenue	4,842	4,580
Deferred income tax liabilities	3,764	4,903
Other long-term liabilities	3,092	2,441
	155,874	168,769
Shareholders' equity:		
Share capital:		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
63,176,478 (2013 - 62,733,762) common shares	926,925	916,497
Share-based payments reserve	10,927	13,834
Additional paid in capital	9,400	8,205
Accumulated deficit	(700,042)	(615,342)
Accumulated other comprehensive loss	(10,580)	(292)
	236,630	322,902
	\$ 392,504	\$ 491,671

See accompanying notes to condensed 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	Note 1			
Product revenue	\$ 22,844	\$ 36,656	\$ 89,432	\$ 98,864
Service and other revenue	2,457	9,872	13,742	12,573
	25,301	46,528	103,174	111,437
Cost of revenue and expenses:				
Cost of product revenue	17,332	30,471	69,332	79,028
Research and development	17,602	23,485	57,303	67,816
General and administrative	10,203	12,252	30,915	36,805
Sales and marketing	5,380	7,140	19,043	22,563
Foreign exchange (gain) loss	(2,179)	1,326	(2,544)	(5,080)
Depreciation and amortization	4,651	4,281	13,567	11,668
Bank charges, interest and other	100	82	322	428
Intangible asset impairment	-	-	325	-
	53,089	79,037	188,263	213,228
Loss from operations	(27,788)	(32,509)	(85,089)	(101,791)
Income from investments accounted for by the equity method	2,135	3,673	2,820	9,969
Interest on long-term debt	(1,650)	(1,196)	(3,853)	(3,691)
Interest and other income	1,082	103	1,015	436
Loss before income taxes	(26,221)	(29,929)	(85,107)	(95,077)
Income tax (recovery) expense	(745)	296	(409)	882
Net loss for the periods	(25,476)	(30,225)	(84,698)	(95,959)
Other comprehensive loss				
Cumulative translation adjustment	(8,163)	6,661	(10,288)	(6,172)
Comprehensive loss	\$ (33,639)	\$ (23,564)	\$ (94,986)	\$ (102,131)
Loss per share:				
Basic and diluted	\$ (0.40)	\$ (0.53)	\$ (1.34)	\$ (1.72)
Weighted average common shares outstanding:				
Basic and diluted	63,142,874	56,787,233	63,051,893	55,881,884

See accompanying notes to condensed consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

Three and nine months ended September 30, 2014 and September 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	83,962	731	-	(267)	-	-	464
Issue of common shares on exercise of share units	287,500	6,138	(6,138)	-	-	-	-
Issue 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	-	-	5,694	1,120	-	-	6,814
Net loss for the period	-	-	-	-	(65,734)	-	(65,734)
Other comprehensive loss	-	-	-	-	-	(12,833)	(12,833)
Balance, June 30, 2013	56,384,038	\$ 764,345	\$ 12,069	\$ 7,237	\$ (495,666)	\$ 4,183	\$ 292,168
Issue of common shares on exercise of stock options	25,979	405	-	(136)	-	-	269
Issue of common shares on exercise of share units	281,895	3,525	(3,525)	-	-	-	-
Share issue costs	-	(45)	-	-	-	-	(45)
Stock-based compensation	-	-	3,259	601	-	-	3,860
Net loss for the period	-	-	-	-	(30,225)	-	(30,225)
Other comprehensive income	-	-	-	-	-	6,661	6,661
Balance, September 30, 2013	56,691,912	\$ 768,230	\$ 11,803	\$ 7,702	\$ (525,891)	\$ 10,844	\$ 272,688
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	4,358	49	-	(17)	-	-	32
Issue of common shares on exercise of share units	293,659	6,709	(6,709)	-	-	-	-
Issuance of common shares in connection with acquisition	94,914	3,182	-	-	-	-	-
Acquisition to be settled by issuance of common shares	-	-	(3,182)	-	-	-	-
Stock-based compensation	-	-	6,422	885	-	-	7,307
Net loss for the period	-	-	-	-	(59,224)	-	(59,224)
Other comprehensive loss	-	-	-	-	-	(2,125)	(2,125)
Balance, June 30, 2014	63,126,693	\$ 926,437	\$ 10,365	\$ 9,073	\$ (674,566)	\$ (2,417)	\$ 268,892
Issue of common shares on exercise of stock options	38,713	325	-	(115)	-	-	210
Issue of common shares on exercise of share units	11,072	163	(163)	-	-	-	-
Stock-based compensation	-	-	725	442	-	-	1,167
Net loss for the period	-	-	-	-	(25,476)	-	(25,476)
Other comprehensive loss	-	-	-	-	-	(8,163)	(8,163)
Balance, September 30, 2014	63,176,478	\$ 926,925	\$ 10,927	\$ 9,400	\$ (700,042)	\$ (10,580)	\$ 236,630

See accompanying notes to condensed consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net loss for the period	\$ (25,476)	\$ (30,225)	\$ (84,698)	\$ (95,959)
Items not involving cash:				
Depreciation and amortization	4,651	4,281	13,567	11,668
Stock-based compensation expense	997	3,638	9,053	11,103
Unrealized foreign exchange (gain) loss	(2,179)	1,326	(2,544)	(5,080)
Deferred income tax (recovery)	(816)	(166)	(998)	(327)
Income from investments accounted for by the equity method	(2,135)	(3,673)	(2,820)	(9,969)
Non-cash interest expense	500	410	1,376	1,323
Intangible asset impairment	-	-	325	-
Change in fair value of derivative liability and other	(850)	(12)	(152)	(37)
Changes in non-cash operating working capital:				
Accounts receivable	8,434	(2,157)	7,989	(4,484)
Inventories	(6,305)	2,230	(3,934)	(2,054)
Prepaid expenses and other assets	(1,755)	(449)	(6,214)	(793)
Accounts payable and accrued liabilities	(6,503)	(9,653)	(6,931)	(5,892)
Deferred revenue	11	888	(4,097)	1,672
Warranty liability	49	(194)	(3,329)	(81)
	(31,377)	(33,756)	(83,407)	(98,910)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(1,511)	(6,734)	(6,324)	(21,910)
Maturity of short-term investments, net	20,356	81	29,982	25,954
Acquisitions, net of acquired cash	-	-	-	1,178
Dividends received from joint venture	-	3,345	2,626	5,569
	18,845	(3,308)	26,284	10,791
Cash flows from financing activities:				
Repayment of operating lines of credit	-	-	-	(1,807)
Repayment of long-term debt	(3,409)	(9,947)	(5,635)	(9,947)
Issuance of subordinated debenture notes	-	-	17,797	-
Financing costs incurred	-	-	(2,033)	-
Proceeds from stock options exercised	211	269	243	733
Share issuance costs	-	(45)	-	(45)
	(3,198)	(9,723)	10,372	(11,066)
Effect of foreign exchange on cash and cash equivalents	(2,660)	872	(2,347)	(964)
Decrease in cash and cash equivalents	(18,390)	(45,915)	(49,098)	(100,149)
Cash and cash equivalents, beginning of period	147,805	134,724	178,513	188,958
Cash and cash equivalents, end of period	\$ 129,415	\$ 88,809	\$ 129,415	\$ 88,809
Supplementary information:				
Interest paid	\$ 2,708	\$ 1,547	\$ 4,586	\$ 3,115
Taxes paid, net of refunds	232	174	376	335
Non-cash transactions:				
Equity increase as a result of shares issued on exercise of share units	163	3,525	6,872	9,663
Common Shares issued and to be issued to acquire BAF Technologies, Inc.	-	-	-	27,376

See accompanying notes to condensed 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 and change in prior period presentation:

(a) Basis of Presentation

The unaudited condensed consolidated balance sheet as at September 30, 2014, and the unaudited condensed consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the three and nine months ended September 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 condensed consolidated balance sheets, condensed consolidated statements of operations and comprehensive loss, condensed consolidated statements of shareholders' equity and condensed consolidated cash flows as at and for the period ended September 30, 2014 and for all periods presented, have been recorded. The results of operations for the three and nine months ended September 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 nine months ended:	
	September 30, 2014	December 31, 2013	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Canadian dollar	0.89	0.97	0.92	0.98	0.91	0.96
Australian dollar	0.91	0.93	0.92	0.98	0.92	0.92
Euro	1.26	1.35	1.32	1.32	1.36	1.33
RMB	0.16	0.16	0.16	0.16	0.16	0.16
Swedish Krona	0.14	0.16	0.14	0.15	0.15	0.15

(b) Change in prior period presentation

For the three months ended September 30, 2014, the Company corrected the accounting for a portion of the On-Road parts revenue. As a result, the Company made an immaterial adjustment to reduce total revenue for the six month period ended June 30, 2014 by \$4.1 million, from \$82.0 million to \$77.9 million. The Company also reduced the cost of revenue for the six month period ended June 30, 2014 by \$4.1 million, from \$56.1 million to \$52.0 million. In addition, the Company combined the insignificant parts revenue with product revenue into a single line item in the condensed consolidated statement of operations and comprehensive loss for all periods presented. These adjustments have no impact to the condensed consolidated balance sheets, statement of cash flows, net loss or basic and diluted loss per share for the nine months ended September 30, 2014.

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.

In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements – Going Concern," outlining management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016 with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

3. Accounts receivable:

	September 30, 2014	December 31, 2013
Customer trade receivable	\$ 44,599	\$ 54,017
Government funding receivable	40	483
Due from joint venture	719	3,621
Other receivables	1,711	2,689
Income tax receivable	436	77
Allowance for doubtful accounts	(2,811)	(1,572)
	\$ 44,694	\$ 59,315

4. Inventories:

	September 30, 2014	December 31, 2013
Purchased parts	\$ 23,608	\$ 23,228
Assembled parts	3,870	881
Work-in-process	6,453	9,889
Finished goods	8,389	6,628
	\$ 42,320	\$ 40,626

Cost of revenue related to product and parts revenue for the three and nine month periods ended was \$17,332 and \$69,332 (three months ended September 30, 2013 - \$30,471; nine months ended September 30, 2013 - \$79,028).

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:

	September 30, 2014	December 31, 2013
Weichai Westport Inc. (a)	\$ 15,997	\$ 14,534
Cummins Westport Inc. (b)	7,646	7,191
Other equity method investees	596	403
	<u>\$ 24,239</u>	<u>\$ 22,128</u>

(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 nine months ended September 30, 2014, the Company recognized income of \$1,206 (2013 - \$1,270) and \$2,402 (2013 - \$3,620) 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:

	September 30, 2014	December 31, 2013
Current assets:		
Cash and short-term investments	\$ 10,589	\$ 4,696
Accounts receivable	118,442	31,967
Inventory	74,107	80,412
Other current assets	1,951	176
Long-term assets		
Property, plant and equipment	5,438	7,021
Deferred income tax assets	6,785	6,874
Total assets	\$ 217,312	\$ 131,146
Current liabilities:		
Accounts payable and accrued liabilities	172,312	93,016
Total liabilities	\$ 172,312	\$ 93,016

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Product revenue	\$ 179,259	\$ 114,622	\$425,690	\$372,977
Cost of revenue and expenses:				
Cost of product revenue	170,394	105,799	401,693	345,204
Operating expenses	4,812	4,555	15,921	15,605
	<u>175,206</u>	<u>110,354</u>	<u>417,614</u>	<u>360,809</u>
Income before income taxes	4,053	4,268	8,076	12,168
Income tax expense	607	640	1,211	1,825
Income for the period	\$ 3,446	\$ 3,628	\$ 6,865	\$ 10,343

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 nine months ended September 30, 2014, the Company recognized its share of CWI's income of \$893 (2013 – \$2,490) and income of \$458 (2013 – income of \$6,628) 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:

	September 30, 2014	December 31, 2013
Current assets:		
Cash and short-term investments	\$ 96,471	\$ 73,736
Accounts receivable	10,033	4,245
Current portion of deferred income tax assets	22,194	13,958
Other current assets	179	210
	128,877	92,149
Long-term assets:		
Property, plant and equipment	1,352	1,096
Deferred income tax assets	28,581	21,698
Total assets	\$ 158,810	\$ 114,943
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,023	\$ 7,772
Current portion of deferred revenue	7,262	5,478
Current portion of warranty liability	48,818	28,482
	67,103	41,732
Long-term liabilities:		
Warranty liability	43,107	39,087
Deferred revenue	31,107	17,815
Other long-term liabilities	2,201	2,000
	76,415	58,902
Total liabilities	\$ 143,518	\$ 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Product revenue	\$ 58,532	\$ 62,597	\$ 190,790	\$ 163,986
Parts revenue	12,042	14,895	39,407	36,195
	70,574	77,492	230,197	200,181
Cost of revenue and expenses:				
Cost of product and parts revenue	55,173	59,833	196,776	149,691
Research and development	4,990	5,576	15,277	17,054
General and administrative	201	319	877	895
Sales and marketing	7,661	3,875	16,457	12,656
Foreign exchange (gain) loss	25	(22)	27	3
Bank charges, interest and other	179	122	619	366
	68,229	69,703	230,033	180,665
Income from operations	2,345	7,789	164	19,516
Interest and investment income	64	10	194	49
Income before income taxes	2,409	7,799	358	19,565
Income tax loss (recovery)	623	2,820	(557)	6,311
Income for the period	\$ 1,786	\$ 4,979	\$ 915	\$ 13,254

6. Other assets:

	September 30, 2014	December 31, 2013
Deferred financing fees (a)	\$ 1,913	\$ 376
Deposits and other	4,507	1,869
	\$ 6,420	\$ 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 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 September 30, 2014		As at December 31, 2013	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	\$ 7,646	\$ 7,646	\$ 7,191	\$ 7,191
Accounts receivable	719	719	3,621	3,621

8. Property, plant and equipment:

September 30, 2014	Cost	Accumulated depreciation	Net book value
Computer equipment and software	\$ 10,086	\$ 7,395	\$ 2,691
Furniture and fixtures	5,706	1,620	4,086
Machinery and equipment	86,093	36,614	49,479
Leasehold improvements	14,966	10,541	4,425
	\$ 116,851	\$ 56,170	\$ 60,681

December 31, 2013	Cost	Accumulated depreciation	Net book value
Computer equipment and software	\$ 9,652	\$ 6,174	\$ 3,478
Furniture and fixtures	6,608	1,692	4,916
Machinery and equipment	86,067	32,099	53,968
Leasehold improvements	15,084	10,097	4,987
	\$ 117,411	\$ 50,062	\$ 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:

September 30, 2014	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 19,234	\$ 3,371	\$ 15,863
Technology	6,884	3,115	3,769
Customer contracts	17,479	5,042	12,437
Other intangibles	875	365	510
Total	\$ 44,472	\$ 11,893	\$ 32,579

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

The Company reviews its long-lived assets for impairment including property, plant and equipment, and intangible assets whenever events and changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Based on the revenue and operating results for the Applied Technologies and On-Road Systems segments in the first nine months of 2014 and the decline in the outlook for the remainder of 2014 and future years, the Company concluded there was an impairment indicator requiring the performance of an interim long-lived assets impairment test for customer contracts, technology and other intangibles for the Applied Technologies and On-Road Systems segments as of September 30, 2014. The estimated fair value of the Applied Technology and On-Road Systems' long-lived assets exceeded their carrying amounts and therefore there was no impairment of long-lived assets.

10. Goodwill:

A continuity of goodwill is as follows:

	September 30, 2014	December 31, 2013
Balance, beginning of period (January 1, 2014):	\$ 41,500	\$ 56,879
Acquisition of BAF Technologies, Inc.	-	18,542
Impairment losses		(34,964)
Impact of foreign exchange changes	(1,904)	1,043
Balance, end of period	\$ 39,596	\$ 41,500

Goodwill is subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company's annual assessment date is November 30. Based on the revenue and operating results of Applied Technologies and On-Road Systems segments in the nine months ended September 30, 2014 and the decline in the outlook for the remainder of 2014 and future years, the Company concluded there was an impairment indicator requiring an interim goodwill impairment assessment as of September 30, 2014. The estimated fair value of the Applied Technology and On-Road Systems reporting units exceeded their carrying amounts and therefore there was no impairment of the goodwill. The percentage by which the fair values of the reporting units exceeded their carrying values was less than 10% for both reporting units. Management considered both the discounted cash flow model and the market multiple approach in their analysis. Some key assumptions used were a weighted average cost of capital of 15% and terminal revenue growth that ranged from 3 to 5%. Variations to the expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which could in turn impact future financial results, including the potential for impairment loss in the future.

WESTPORT INNOVATIONS INC.

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

11. Accounts payable and accrued liabilities:

	September 30, 2014	December 31, 2013
Trade accounts payable	\$ 38,704	\$ 42,872
Accrued payroll	5,613	7,937
Accrued interest	176	893
Income taxes payable	971	709
Other payables	7	2,381
	<u>\$ 45,471</u>	<u>\$ 54,792</u>

12. Long-term debt:

	September 30, 2014	December 31, 2013
Subordinated debenture notes	\$ 48,073	\$ 33,847
Senior financing	9,765	15,941
Senior revolving financing	12,634	13,779
Other bank financing	641	403
Capital lease obligations	1,592	2,043
	<u>72,705</u>	<u>66,013</u>
Current portion	(18,129)	(53,025)
	<u>\$ 54,576</u>	<u>\$ 12,988</u>

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 debenture holder 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 in other long-term liabilities on its consolidated balance sheet. At issuance on June 27, 2014, the embedded derivative's fair value was determined to be \$1,169 (CDN\$1,249). The Company is accreting the carrying value of the debt to interest expense by using the effective interest method through to the maturity date of the New Debentures. The Company accreted \$82 of the embedded derivative discount for the 3 and 9 month periods ended (2013 \$Nil and \$Nil). The fair value loss (gain) for the mark-to-market adjustment recorded in interest and other income (loss) for the three and nine month periods ended September 30, 2014 was \$(894) and \$(894) (2013 \$Nil and \$ Nil). The Company determined the fair value of the embedded derivative using the Interest Rate Option Pricing Method which incorporated the Black-Karasinski model.

WESTPORT INNOVATIONS INC.

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

13. Warranty

A continuity of the warranty liability is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$ 25,015	\$ 6,721	\$ 28,845	\$ 6,380
Warranty assumed on acquisition		-		582
Warranty claims	(2,270)	(1,134)	(6,670)	(3,315)
Warranty accruals	908	1,253	2,150	2,112
Change in estimate	-	-	-	1,200
Impact of foreign exchange changes	359	(146)	(313)	(265)
Balance, end of period	\$ 24,012	\$ 6,694	\$ 24,012	\$ 6,694
Less: Current Portion	(8,903)	(4,084)	(8,903)	(4,084)
Long-term portion	\$ 15,109	\$ 2,610	\$ 15,109	\$ 2,610

WESTPORT INNOVATIONS INC.

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

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 nine months ended September 30, 2014 and 2013 are presented as follows:

	Nine months ended September 30, 2014		Nine months ended September 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	(43,071)	6.17	(109,941)	6.85
Forfeited/expired	(75,333)	33.78	(41,729)	33.66
Outstanding, end of period	698,046	\$31.29	844,377	\$30.23
Options exercisable, end of period	477,322	\$30.13	324,766	\$24.52

During the three and nine months ended September 30, 2014, the Company recognized \$501 (2013 - \$343) and \$1,434 (2013 - \$1,637) respectively, in stock-based compensation related to stock options.

No options were granted during the three and nine months ended September 30, 2014 and September 30, 2013.

As at September 30, 2014, \$539 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 0.27 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 in share-based payments reserve on the condensed consolidated balance sheets. 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 September 30, 2014 and 2013 are as follows:

	Nine months ended September 30, 2014		Nine months ended September 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	583,148	31.70
Exercised/vested	(248,390)	30.38	(416,017)	23.95
Forfeited/expired	(64,844)	24.95	(113,721)	25.39
Outstanding, end of period	2,434,588	\$ 19.03	1,148,504	\$ 24.56
Units outstanding and exercisable, end of period	200,314	\$ 11.00	229,234	\$ 11.16

	Nine months ended September 30, 2014		Nine months ended September 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	583,148	31.70
Vested	(224,066)	33.44	(382,636)	26.82
Forfeited	(64,844)	24.95	(113,721)	25.39
Unvested, end of period	2,234,274	\$ 19.75	919,270	\$ 27.91

During the three and nine months ended September 30, 2014, the Company recognized \$496 (2013 - \$3,295) and \$7,670 (2013 - \$9,466) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

As at September 30, 2014, \$30,018 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 2.08 years.

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

(b) Share units (continued):

Of the Units granted during the nine months ended September 30, 2014, 352,879 Units (September 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% (September 30, 2013 – nil%); expected stock price volatility – 53.68% (September 30, 2013 – 56.47%); and risk free interest rate – 1.2% (September 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 September 30, 2014 and exercised during the nine months ended September 30, 2014 is as follows:

	September 30, 2014 CDN\$
Stock options:	
Outstanding	\$ 47
Exercisable	47
Exercised	328
Units:	
Outstanding	\$ 28,623
Exercisable	2,356
Exercised	5,157

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Research and development	\$ 445	\$ 606	\$ 1,607	\$ 1,592
General and administrative	691	2,587	5,705	8,104
Sales and marketing	(139)	445	1,741	1,407
	\$ 997	\$ 3,638	\$ 9,053	\$11,103

(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.

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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 nine months ended September 30, 2014 and 2013. Comparative periods have been recast to conform to current segment presentation.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue:				
Applied Technologies	\$ 18,244	\$ 20,441	\$ 64,945	\$ 68,939
On-Road Systems	6,577	16,994	31,851	29,036
Off-Road Systems	272	830	3,091	2,885
Corporate and Technology Investments	208	8,263	3,287	10,577
CWI	70,573	77,492	230,197	200,181
WWI	179,259	114,622	425,690	372,977
Total segment revenues	275,133	238,642	759,061	684,595
Less: equity investees' revenue	(249,832)	(192,114)	(655,887)	(573,158)
Total consolidated revenues	\$ 25,301	\$ 46,528	\$ 103,174	\$ 111,437
Net consolidated operating income (loss) excluding depreciation and amortization, intangible asset impairments, foreign exchange gain, bank charges and other:				
Applied Technologies	\$ (2,921)	\$ 1,638	\$ (1,762)	\$ 5,574
On-Road Systems	(2,616)	(9,711)	(5,407)	(29,776)
Off-Road Systems	(985)	(2,763)	(2,249)	(7,407)
Corporate and Technology Investments	(18,694)	(15,984)	(64,002)	(63,166)
CWI	2,601	7,889	864	19,885
WWI	4,053	4,268	8,076	12,168
Total segment operating loss	(18,562)	(14,663)	(64,480)	(62,722)
Less: equity investees' operating loss (income)	(6,654)	(12,157)	(8,940)	(32,053)
Net consolidated operating loss excluding depreciation and amortization, intangible asset impairments, foreign exchange gain, bank charges and other:	(25,216)	(26,820)	(73,420)	(94,775)
Depreciation and amortization:				
Applied Technologies	1,850	1,934	5,710	5,800
On-Road Systems	1,485	1,128	3,983	2,345
Off-Road Systems	-	-	-	92
Corporate and Technology Investments	1,316	1,219	3,874	3,431
Intangible asset impairments:				
On-Road Systems	-	-	325	-
	4,651	4,281	13,892	11,668
Net consolidated operating loss before foreign exchange gain, bank charges and other	(29,867)	(31,101)	(87,311)	(106,443)
Foreign exchange gain, bank charges and other	(2,079)	1,408	(2,222)	(4,652)
Loss from operations	(27,788)	(32,509)	(85,089)	(101,791)
Interest on long-term debt and other income (expenses), net	(567)	(1,093)	(2,838)	(3,255)
Income from investment accounted for by the equity method	2,134	3,673	2,820	9,969
Loss before income taxes	\$ (26,221)	\$ (29,929)	\$ (85,107)	\$ (95,077)

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15. Segmented information (continued):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Total additions to long-lived assets excluding business combinations:				
Applied Technologies	\$ 795	\$ 1,490	\$ 1,218	\$ 3,452
On-Road Systems	-	3,461	3,338	12,948
Off-Road Systems	-	115	8	349
Corporate and Technology Investments	716	1,668	1,760	5,161
	\$ 1,511	\$ 6,734	\$ 6,324	\$ 21,910

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Americas (including United States)	36	50	43	37
Asia (including China)	12	6	11	11
Other (including Italy)	52	44	46	52

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

As at September 30, 2014, total goodwill of \$21,054 (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 September 30, 2014, total equity method investments of \$23,790 (December 31, 2013 - \$21,872) was allocated to the Corporate and Technology Investments segment and \$449 (December 31, 2013 - \$256) was allocated to the Applied Technologies segment.

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15. Segmented information (continued):

Total assets are allocated as follows:

	September 30, 2014	December 31, 2013
Applied Technologies	\$ 127,556	\$ 144,803
On-Road Systems	112,186	111,323
Off-Road Systems	990	6,564
Corporate and Technology Investments and unallocated assets	151,772	228,981
CWI	158,810	114,943
WWI	217,312	131,146
	768,626	737,760
Less: equity investees' total assets	376,122	246,089
Total consolidated assets	\$ 392,504	\$ 491,671

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

Long-lived assets information by countries:

	September 30, 2014	December 31, 2013
Italy	\$ 56,938	\$ 66,918
Canada	27,206	30,713
United States	46,691	47,322
Sweden	255	322
China	6,631	8,675
Australia	1,925	1,360
	\$ 139,646	\$ 155,310
Less: equity investees' long-lived assets	6,790	8,117
	\$ 132,856	\$ 147,193

16. Related party transactions:

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

As at September 30, 2014, net amounts due from CWI totaled \$719 (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 nine months ended September 30, 2014 and September 30, 2013, cost reimbursements from CWI consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Research and development	\$ -	\$ 75	\$ 3	\$ 182
General and administrative	344	380	1,255	1,201
Sales and marketing	998	830	3,741	3,230
	\$ 1,342	\$1,285	\$4,999	\$4,613

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

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17. Contractual obligations and commitments

(a) Contractual Commitments

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

Fiscal Year	Amount
2014 (remaining three months)	
2015	\$ 1,093
2016	4,285
2017	4,910
2018	6,696
Thereafter	48,123
Total	\$ 65,107

(b) Purchase Commitments

The Company purchases components from a variety of suppliers and contract manufacturers. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with suppliers and contract manufacturers. A portion of our reported estimated purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. The Company may be subject to penalties, and may lose important suppliers, if it is unable to meet its purchase commitments. As of September 30, 2014, the Company had total purchase commitments for inventory of \$29,861 through December 31, 2015.

(c) Other

In connection with the Company's development of certain technology, the Company has agreed to pay a customer an additional \$1,960 contingent upon the achievement of certain agreed-upon engineering milestones in March 2015.

18. Subsequent Events

The Company has evaluated all events that occurred after the balance sheet date through October 30, 2014, the date when the financial statements were issued, to determine if they must be reported.

On October 22, 2014 the Company laid off 61 employees. The total severance and benefits expected to be paid is \$1.8 million. Of the total severance and benefits expected to be paid, it is expected that \$0.6 million will be paid in the three month period ended December 31, 2014 and that the remainder will be paid in the twelve month period ended December 31, 2015.