

FINANCIAL REPORT TO SHAREHOLDERS

WestportTM
Here and Now.

For the years ended
December 31,
2014, 2013 and 2012

Fiscal 2014

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Innovations Inc. ("Westport", the "Company", "we", "us", "our") is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2014. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated March 9, 2015.

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

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the orders or demand for our products, our investments, cash and capital requirements, the intentions of partners and potential customers, the performance of our products, our future market opportunities, availability of funding and funding requirements, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, 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, liquidity, 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 liquefied petroleum gas, unforeseen claims, exposure to factors beyond our control as well as the additional factors referenced in our AIF. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements except as required by applicable legislation.

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

BUSINESS OVERVIEW

We are a leading provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Our technology and products enable light- (less than 5.9 litre), medium- (5.9 to 10 litre), heavy-duty- (10 to 16 litre) and high-horsepower- (greater than 16 litre) petroleum-based fuel engines and vehicles to use primarily natural gas, giving users a cleaner and generally less expensive alternative fuel based on a more abundant natural resource. Through our partnerships and direct sales efforts, we sell natural gas and propane engines, fuel systems, and components to customers in more than 79 countries. We currently have strategic relationships with three of the world's top four engine producers and supply or have strategic relationships with six of the world's top ten truck producers, as well as seven of the world's top ten automotive manufacturers. Our strategic relationships with 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 \$700 million towards the research, development and commercialization of our proprietary technologies and related products. Conversely, our research and development efforts and investments have resulted in a substantial patent portfolio that serves as the foundation for our differentiated technology offerings and competitive advantage. 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 of the operating business units are summarized below:

Operating Business Units

Westport Applied Technologies Business Unit

Westport Applied Technologies ("Applied Technologies") designs, manufactures and sells compressed natural gas ("CNG"), liquefied natural gas ("LNG"), and liquefied petroleum gas ("LPG") components and subsystems to over 20 global OEMs, including Fiat, Volkswagen, Tata Motors ("Tata"), the GAZ Group, Chrysler, General Motors ("GM"), Hyundai and Kia 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 Emer's wholly-owned subsidiary Valtek S.p.A., Westport's Australian operations, and, recently acquired Netherlands based Prins Autogassystemen Holding B.V. ("Prins") are reported under Applied Technologies, are made either directly to OEMs or through one of their many global distributors. Applied Technologies designs and manufactures a range of components, including pressure regulators, injectors, electronic control units, valves and filters; sells monofuel, bi-fuel and dual-fuel diesel blend conversion kits; and also offers full engine management systems and solutions that can be launched quickly at a competitive price. Applied Technologies provides Westport with high volume, scalable manufacturing and assembly. The business unit has a strong customer base in Europe and is growing in Asia, North and South America, and Africa.

Westport On-Road Systems Business Unit

The On-Road Systems business unit ("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") and Volvo Car Group ("Volvo Car"). Westport supports customers with vehicle conversions through the Ford Qualified Vehicle Modifier ("QVM") program with products in the Ford line, including transit, cargo shuttle and taxi vehicles. Sold under the Westport WiNG™ Power System brand, product offerings include the Ford Transit Van dedicated, F-250/F-350 bi-fuel (CNG and gasoline) and dedicated, F-450 to F-650, F-59 dedicated, E-450 dedicated and Transit Connect bi-fuel vehicle models. Westport also provides aftermarket conversion products, alternative fuel systems and application engineering. Other products include 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™ for spark-ignited ("SI") engines.

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 research and development programs and revenues and expenses related to development programs with OEMs, corporate oversight and general administrative duties. Corporate and Technology Investments focuses on long-term product development and future return on investments. 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.

Westport Joint Ventures**Cummins Westport Inc.**

Cummins Westport Inc. ("CWI"), our 50:50 joint venture with Cummins, Inc., ("Cummins"), serves the medium- to heavy-duty engine markets. CWI engines are offered by many OEMs for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. The fuel for CWI engines is typically carried on the vehicles as CNG or LNG. CWI engines are produced at certain of 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. (40% interest) ("Weichai") 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.

GENERAL DEVELOPMENTS

On December 2, 2014, the Company acquired Netherlands based Prins Autogassystemen Holding B.V. ("Prins") for a base purchase price of EUR 12.2 million (\$15.0 million). The Company paid cash of EUR 2.5 million (\$3.1 million) and assumed debt of EUR 9.7 million (\$11.9 million). Prins is a world leader in the development of alternative fuel systems and provides cost-effective and innovative solutions for a wide range of engine types. The Company recognized goodwill EUR 2.6 million (\$3.2 million) on the acquisition date.

On October 6, 2014, CWI announced that Rob Neitzke, General Manager of the Construction Segment of Cummins off-highway engine business, was appointed as President of CWI, effective January 1, 2015.

On September 30, 2014, Westport provided an update on its Westport HPDI second generation or Westport™ HPDI 2.0 development program and identified plans to further refine investment programs to align with its OEM customers and the global pace of natural gas vehicle adoption and related infrastructure build out. In line with the pace of market adoption, Westport updated its near-term revenue outlook for the year ended December 31, 2014.

On September 23, 2014, Westport unveiled its newest proprietary technology, the first generation of enhanced spark-ignited ("ESI") natural gas system. This revolutionary approach to natural gas combustion technology is designed to provide vehicle and engine 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. Using 100% dedicated natural gas as fuel, the ESI technology optimizes the combustion and thermal efficiencies of the engine by taking advantages of the positive properties of natural gas.

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

On June 27, 2014, Westport announced that it extended the maturity date of its 9% unsecured subordinated non-convertible debentures formerly due September 22, 2014 to September 15, 2017, and secured an additional C\$19 million in debentures on the same terms, bringing the total outstanding principal amount of debentures to C\$55 million.

On June 5, 2014, Westport announced that Ashoka Achuthan was appointed as Chief Financial Officer ("CFO") of Westport.

On May 6, 2014, Westport announced it was working in cooperation with The Kroger Company ("Kroger"), one of the world's largest retailers with over 2,600 supermarkets in the US, to meet their industry-leading environmental sustainability goals. Kroger placed an order for 31 Westport iCE PACK systems to be integrated onto their Freightliner natural gas trucks, which also feature the Cummins Westport ISX12 G engine.

On May 5, 2014, Westport announced that the only CARB and EPA certified 2014 model year Ford F-150, featuring the Westport WiNG™ Power System, was being debuted and was on display, during the Alternative Clean Transportation Expo in Long Beach, California, from May 6 to 8. Westport is currently working on certifications for the F-150, 2015/2016 model year pickup trucks.

On April 28, 2014, Westport announced the launch of final customer validation units of the next generation Westport™ HPDI 2.0 on the Weichai Westport WP12 engine platform. The Weichai Westport WP12 HPDI is China's first engine featuring Westport HPDI technology, designed to deliver the power and performance of the base diesel engine, while replacing up to 95% of diesel fuel with cleaner burning, less expensive natural gas. The WP12 with Westport™ HPDI 2.0 received China V emissions certification from the National Passenger Car Quality Supervision & Inspection Center (Tianjin Automotive Test Center).

On March 3, 2014, Westport announced a joint development agreement with Delphi (NYSE:DLPH) to further support Westport™ HPDI as a leading natural gas technology platform for heavy-duty engine applications. Through the agreement, Westport and Delphi have agreed to combine their intellectual property and engineering strengths to co-develop and manufacture high-pressure natural gas fuel injectors designed for multiple engine OEMs.

On February 12, 2014, Westport and Tata launched a new SI natural gas 3.8L turbocharged engine featuring the WP580 EMS. Designed to support many engine configurations, WP580 EMS is now being used by Tata of India and will be used by other engine OEMs such as GAZ for their truck and bus applications. Westport also unveiled its Westport GEMDi™ technology, which enables engine OEMs to offer a fully integrated, high performance engine optimized for dual-fuel operation. Westport GEMDi™ technology has been co-developed with Tata on their next generation 5L engine that is targeted for medium-duty trucks and buses in India. Upon successful completion of the development phase, commercialization with Tata is expected to follow, with Westport supplying key natural gas engine components.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the years ended December 31, 2014, December 31, 2013 and the year ended December 31, 2012:

Selected Consolidated Statements of Operations Data

	Years ended December 31,		
	2014	2013	2012
<i>(expressed in millions of United States dollars, except for per share amounts and shares outstanding)</i>			
Total revenue	\$ 130.6	\$ 164.0	\$ 155.6
Gross margin (1)	32.7	15.3	53.2
GM %	25.0%	9.3%	34.2%
Net loss	(149.6)	(185.4)	(98.8)
Net loss per share – basic and diluted (2)	(2.37)	(3.22)	(1.83)
Weighted average shares outstanding	63,130,022	57,633,190	54,072,513

- (1) Gross margin is calculated as revenue less cost of product 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 years ended December 31, 2014 and 2013 and 2012, depreciation and amortization is excluded from the calculation of gross margin).
- (2) Fully diluted loss per share is the same as basic loss per share as the effect of conversion of stock options, restricted share units and performance share units would be anti-dilutive.
- (3) See non-GAAP financial measures.

The following table sets forth a summary of our financial position as at December 31, 2014 and December 31, 2013:

Selected Balance Sheet Data

	December 31, 2014	December 31, 2013
<i>(expressed in millions of United States dollars)</i>		
Cash and short-term investments	\$ 94.0	\$ 210.6
Total assets	337.7	491.7
Long-term debt	78.5	66.0

SELECTED ANNUAL FINANCIAL INFORMATION (continued):

The following tables set forth a summary of the financial results of our joint ventures for the years ended December 31, 2014, December 31, 2013 and the year ended December 31, 2012:

Selected CWI Statements of Operations Data

	Years ended December 31,				
	2014		2013		2012
<i>(expressed in millions of United States dollars)</i>					
Total revenue	\$	337.2	\$	310.7	\$ 198.0
Gross margin		66.4		64.2	61.4
GM %		19.7%		20.7%	31.0%
Income before income taxes		21.0		23.1	35.4
Income attributable to the Company		8.1		9.4	13.2

Selected WWI Statements of Operations Data

	Years ended December 31,					
	2014		2013		2012	
<i>(expressed in millions of United States dollars)</i>						
Total revenue	\$	618.5	\$	466.6	\$	272.1
Gross margin		52.5		37.3		24.8
GM %		8.5%		8.0%		9.1%
Income before income taxes		20.3		14.5		9.8
Income attributable to the Company		6.0		4.3		2.9

RESULTS FROM OPERATIONS

Revenue

Total segments revenues, including 100% of CWI and WWI revenue, increased \$145.0 million, or 15% from \$941.3 million in 2013 to \$1,086.3 million in 2014.

The following table summarizes revenues by segment for the year ended December 31, 2014 compared to the year ended December 31, 2013:

Revenues

(expressed in millions of U.S. dollars)

	Years ended December 31,		Change	
	2014	2013	\$	%
Applied Technologies	\$ 86.2	\$ 93.2	\$ (7.0)	(8)%
On-Road Systems	37.0	55.1	(18.1)	(33)%
Off-Road Systems	3.8	3.3	0.5	15 %
Corporate and Technology Investments	3.6	12.4	(8.8)	(71)%
CWI	337.2	310.7	26.5	9 %
WWI	618.5	466.6	151.9	33 %
Total segment revenues	\$ 1,086.3	\$ 941.3	\$ 145.0	15 %
Less: Equity investees' revenues	955.7	777.3	178.4	23 %
Total consolidated revenues	\$ 130.6	\$ 164.0	\$ (33.4)	(20)%

Applied Technologies revenue for the year ended December 31, 2014 decreased \$7.0 million, or 8% to \$86.2 million from \$93.2 million for the year ended December 31, 2013. The decrease in revenue was driven by an unfavourable impact of foreign currency translation from the Euro to the US dollar equivalent and weaknesses in certain markets, particularly Europe and Asia.

On-Road Systems revenue for the year ended December 31, 2014 decreased \$18.1 million, or 33% from \$55.1 million to \$37.0 million. The decrease in On-Road Systems revenue is primarily due to the discontinuation of the first generation Westport™ HPDI system in December 2013, offset by increased shipments of Westport iCE PACK, and increased service revenue.

The Off-Road Systems revenue for the year ended December 31, 2014 increased \$0.5 million, or 15% from \$3.3 million to \$3.8 million due to the delivery of LNG Tender cars, offset by a decrease in shipments of Westport™ 2.4L industrial engines to forklift and oilfield customers.

Corporate and Technology Investments revenue for the year ended December 31, 2014 decreased \$8.8 million, or 71% from \$12.4 million to \$3.6 million. The decrease is driven by decreases in license fees earned from our development agreements. All costs associated with our development agreements were recorded as research and development expenses in the period incurred in the consolidated statement of operations.

CWI revenue for the year ended December 31, 2014 increased \$26.5 million, or 9% from \$310.7 million to \$337.2 million. CWI product revenue for the year ended December 31, 2014 increased \$22.6 million, or 9%, to \$283.6 million on sales of 10,512 units compared to \$261.0 million and 10,314 units for the year ended December 31, 2013, which was primarily attributed to the launch of the ISX12 G heavy duty truck engine in April of 2013 contributing to the increased volumes in North America. CWI parts revenue for the year ended December 31, 2014 was \$53.7 million compared with \$49.6 million for the year ended December 31, 2013 which was primarily attributed to the increase of natural gas engine population in service.

WWI revenue for the year ended December 31, 2014 increased \$151.9 million, or 33%, from \$466.6 million to \$618.5 million. WWI shipped 51,006 units in 2014 compared with 38,138 units for the year ended December 31, 2013.

Total segments revenues including 100% of CWI and WWI revenue, increased \$315.6 million, or 50% from \$625.7 million in 2012 to \$941.3 million in 2013.

The following table summarizes total revenue by segment for the years ended December 31, 2013 compared to the year ended December 31, 2012:

Revenues

(expressed in millions of U.S. dollars)

	Years ended December 31,		Change	
	2013	2012	\$	%
Applied Technologies	\$ 93.2	\$ 91.7	\$ 1.5	2 %
On-Road Systems	55.1	37.6	17.5	47 %
Off-Road Systems	3.3	3.1	0.2	6 %
Corporate and Technology Investments	12.4	23.2	(10.8)	(47)%
CWI	310.7	198.0	112.7	57 %
WWI	466.6	272.1	194.5	71 %
Total segment revenues	\$ 941.3	\$ 625.7	\$ 315.6	50 %
Less: Equity investees' revenues	777.3	470.1	307.2	65 %
Total consolidated revenues	\$ 164.0	\$ 155.6	\$ 8.4	5 %

Applied Technologies revenue for the year ended December 31, 2013 increased \$1.5 million, or 2%, to \$93.2 million from \$91.7 million for the year ended December 31, 2012. The increase in revenue was driven by stronger sales in Russia and China and service revenue earned under development agreements, offset by lower sales in Europe, South America and South Asia.

On-Road Systems revenue for the year ended December 31, 2013 increased \$17.5 million, or 47% from \$37.6 million to \$55.1 million. The increase in revenue is primarily due to launch of Westport iCE PACK in the fourth quarter of 2013, increased sales of the WiNG System as the product launch occurred in the second quarter of the prior year and revenue generated from BAF offset by decreased shipments of the first generation Westport™ HPDI system and the bi-fuel systems for the V70 bi-fuel wagon. On-Road Systems parts revenue for the year ended December 31, 2013 increased \$10.2 million to \$13.6 million compared with \$3.4 million for the year ended December 31, 2012 primarily due to parts revenue generated from BAF.

The Off-Road Systems revenue for the year ended December 31, 2013 increased \$0.2 million, or 6%, from \$3.1 million to \$3.3 million due to increased shipments of Westport™ 2.4L industrial engines to forklift and oilfield customers.

Corporate and Technology Investments revenue for the year ended December 31, 2013 decreased \$10.8 million, or 47% from \$23.2 million to \$12.4 million. The decrease is primarily driven by one-time license revenue of \$8.0 million recognized in the prior year for the transfer of the proprietary know-how related to the HPDI technology. All costs associated with our development agreements were recorded as research and development expenses in the period incurred in the consolidated statement of operations.

CWI revenue for the year ended December 31, 2013 increased \$112.7 million, or 57% from \$198.0 million to \$310.7 million. CWI product revenue for the year ended December 31, 2013 increased \$99.3 million, or 61%, to \$261.0 million on sales of 10,314 units compared to \$161.7 million and 6,804 units for the year ended December 31, 2012, which was primarily attributed to the launch of the ISX12 G heavy duty truck engine in April contributing to the increased volumes in North America. CWI parts revenue for the year ended December 31, 2013 was \$49.6 million compared with \$36.3 million for the year ended December 31, 2012.

WWI revenue for the year ended December 31, 2013 increased \$194.5 million, or 71%, from \$272.1 million to \$466.6 million. WWI shipped 38,138 units in 2013 compared with 22,025 units for the year ended December 31, 2012.

Gross Margin

Total segments gross margin, including 100% share of CWI and WWI increased \$34.8 million from \$116.8 million in 2013 to \$151.6 million in 2014.

The following table presents gross margin by segment for the year ended December 31, 2014 compared to the year ended December 31, 2013:

Gross Margin

(expressed in millions of U.S. dollars)

	Year ended December 31, 2014		Year ended December 31, 2013		Change	
		% of Revenue		% of Revenue	\$	%
Applied Technologies	\$ 21.7	25.2%	\$ 26.5	28.4 %	\$ (4.8)	(18)%
On-Road Systems	7.0	18.9%	(23.9)	(43.4)%	30.9	(129)%
Off-Road Systems	0.4	10.5%	0.4	12.1 %	—	— %
Corporate and Technology Investments	3.6	100.0%	12.3	99.2 %	(8.7)	(71)%
CWI	66.4	19.7%	64.2	20.7 %	2.2	3 %
WWI	52.5	8.5%	37.3	8.0 %	15.2	41 %
Total segment gross margin	\$ 151.6	14.0%	\$ 116.8	12.4 %	\$ 34.8	30 %
Less: Equity investees' gross margin	118.9	12.4%	101.5	13.1 %	17.4	17 %
Total consolidated gross margin	\$ 32.7	25.0%	\$ 15.3	9.3 %	\$ 17.4	114 %

Applied Technologies gross margin decreased \$4.8 million to \$21.7 million, or 25.2% of revenue, for the year ended December 31, 2014 compared to \$26.5 million, or 28.4% of revenue for the year ended December 31, 2013. The decrease in gross margin percentage is due to a change in product mix and weaknesses in certain markets including Europe and Asia.

On-Road Systems gross margin increased \$30.9 million to \$7.0 million, or 18.9% of revenue from negative \$23.9 million, or negative 43.4% of revenue for the year ended December 31, 2013. The increase in gross margin is primarily due to the inclusion of warranty adjustments and inventory net realizable write downs of \$26.3 million taken in the year ended December 31, 2013 related to the discontinuation of the first generation Westport™ HPDI system.

Corporate and Technology Investments gross margin decreased \$8.7 million from \$12.3 million to \$3.6 million. The decrease in gross margin is driven by a reduction in revenue and the prioritizing of investment programs. The gross margin percentage was approximately 100% in both periods as Corporate and Technology Investments gross margin relates entirely to service revenue and revenue earned under our development agreements and other fee payments.

CWI gross margin increased \$2.2 million to \$66.4 million, or 19.7% of revenue from \$64.2 million or 20.7% of revenue. CWI product margin and product gross margin percentage for the year ended December 31, 2014 were \$52.2 million and 18.4%, respectively, compared to \$42.7 million and 16.4%, respectively, for the year ended December 31, 2013. This increase in CWI gross margin percentage was due primarily to an decrease of \$8.3 million in net warranty adjustments and net extended coverage claims and mix of sales compared to the year ended December 31, 2013. Warranty adjustments and net extended coverage claims totaling \$21.7 million were recorded for the year ended December 31, 2014 which is a decrease of \$15.1 million from prior year claims of \$36.8 million. CWI parts gross margin percentage was 26.5% for the year ended December 31, 2014 compared to 43.5% for the year ended December 31, 2013.

WWI gross margin increased \$15.2 million to \$52.5 million, or 8.5% of revenue from \$37.3 million or 8.0% of revenue. The increase in gross margin percentage related primarily to a change product mix and product pricing.

Total segments gross margin, including 100% share of CWI and WWI decreased \$22.6 million from \$139.4 million in 2012 to \$116.8 million in 2014.

The following table presents gross margin by segment for the year ended December 31, 2013 compared to year ended December 31, 2012:

Gross Margin

(expressed in millions of U.S. dollars)

	Year Ended December 31, 2013		Year Ended December 31, 2012		Change	
		% of Revenue		% of Revenue	\$	%
Applied Technologies	\$ 26.5	28.4 %	\$ 25.3	27.6%	\$ 1.2	5 %
On-Road Systems	(23.9)	(43.4)%	4.1	10.9%	(28.0)	683 %
Off-Road Systems	0.4	12.1 %	0.6	19.4%	(0.2)	-33%
Corporate and Technology Investments	12.3	99.2 %	23.2	100.0%	(10.9)	(47)%
CWI	64.2	20.7 %	61.4	31.0%	2.8	5 %
WWI	37.3	8.0 %	24.8	9.1%	12.5	50 %
Total segment gross margin	\$ 116.8	12.4 %	\$ 139.4	22.3%	\$ (22.6)	(16)%
Less: Equity investees' gross margin	101.5	13.1 %	86.2	18.3%	15.3	18 %
Total consolidated gross margin	\$ 15.3	9.3 %	\$ 53.2	34.2%	\$ (37.9)	(71)%

Applied Technologies gross margin increased \$1.2 million to \$26.5 million, or 28.4% of revenue, for the year ended December 31, 2013 compared to \$25.3 million, or 27.6% of revenue for the year ended December 31, 2012. The increase in gross margin percentage is due to a change in product mix during the period and service revenue recorded at 100% gross margin.

On-Road Systems gross margin decreased \$28.0 million to negative \$23.9 million, or negative 43.4% of revenue from \$4.1 million, or 10.9% of revenue for the year ended December 31, 2012. Gross margin for the year ended December 31, 2013 includes \$26.3 million of warranty adjustment and inventory obsolescence provision. The incremental decrease in gross margin percentage was due to lower absorption of fixed overhead costs, product mix and negative warranty adjustments and inventory obsolescence provisions on the first generation Westport™ HPDI system during the period. Excluding this warranty adjustment and inventory provision, gross margin and gross margin percentage would have been \$2.4 million, or 4.4%.

Corporate and Technology Investments gross margin decreased \$10.9 million from \$23.2 million to \$12.3 million. The decrease is primarily driven by one-time license revenue of \$8.0 million recognized in the prior year period. The gross margin percentage was 100% in both periods as Corporate and Technology Investments gross margin relates entirely to service revenue and revenue earned under our development agreements and other fee payments.

CWI gross margin increased \$2.8 million to \$64.2 million, or 20.7% of revenue from \$61.4 million or 31.0% of revenue. CWI product margin and product gross margin percentage for the year ended December 31, 2013 were \$42.7 million and 16.4%, respectively, compared to \$46.5 million and 28.8%, respectively, for the year ended December 31, 2012. This decrease in CWI gross margin percentage was due primarily to an increase of \$20.5 million in net warranty adjustments and net extended coverage claims and mix of sales compared to the year ended December 31, 2012. Warranty adjustments and net extended coverage claims totaling \$36.8 million were recorded in the year ended December 31, 2013. Excluding the warranty related impact, CWI gross margin percentage would have been 32.5%. CWI parts gross margin percentage was 43.5% for the year ended December 31, 2013 compared to 41.3% for the year ended December 31, 2012.

WWI gross margin increased \$12.5 million to \$37.3 million, or 8.0% of revenue from \$24.8 million or 9.1% of revenue. The decrease in gross margin percentage related primarily to product mix and product pricing which remains discounted as WWI penetrates new markets and builds market share.

Research and Development Expenses

The following table presents details of research and development ("R&D") expense by segment for the year ended December 31, 2014 compared to year ended December 31, 2013:

Research and Development

(expressed in millions of U.S. dollars)

	Years ended December 31,		Change	
	2014	2013	\$	%
Applied Technologies	\$ 6.6	\$ 5.6	\$ 1.0	18 %
On-Road Systems	12.7	15.2	(2.5)	(16)%
Off-Road Systems	1.9	2.2	(0.3)	(14)%
Corporate and Technology Investments	55.2	68.1	(12.9)	(19)%
Total research and development	\$ 76.4	\$ 91.1	\$ (14.7)	(16)%

Applied Technologies R&D expenses increased \$1.0 million primarily related to new product development programs.

On-Road Systems R&D expenses decreased \$2.5 million primarily due to lower R&D expenses spent on Westport WiNG Systems as product development was completed in 2013.

Off-Road Systems R&D expenses decreased \$0.3 million from \$2.2 million in the prior year to \$1.9 million for the year ended December 31, 2014. In the current year period, expenses relate to costs to support and manage the development of the business and the Off-Road programs.

Corporate and Technology Investments research and development expenses decreased \$12.9 million from \$68.1 million to \$55.2 million primarily driven by reduction in program expenses and prioritizing of investment programs.

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

Research and Development

(expressed in millions of U.S. dollars)

	Years ended December 31,		Change	
	2013	2012	\$	%
Applied Technologies	\$ 5.6	\$ 3.1	\$ 2.5	81 %
On-Road Systems	15.2	24.6	(9.4)	(38)%
Off-Road Systems	2.2	3.5	(1.3)	(37)%
Corporate and Technology Investments	68.1	42.0	26.1	62 %
Total research and development	\$ 91.1	\$ 73.2	\$ 17.9	24 %

Applied Technologies R&D expenses increased \$2.5 million primarily related to new product development programs.

On-Road Systems R&D expenses decreased \$9.4 million primarily due to costs incurred in the prior year for the launch of the WiNG System on the F-250/F-350 bi-fuel Super Duty trucks offset by increased costs from recording expenses relating to BAF and ServoTech since the acquisition occurred on June 28, 2013.

Off-Road Systems R&D expenses decreased \$1.3 million from \$3.5 million in the prior year to \$2.2 million for the year ended December 31, 2013. In the current year period, expenses relate to costs to support and manage the development of the business and the Off-Road programs.

Corporate and Technology Investments research and development expenses increased \$26.1 million from \$42.0 million to \$68.1 million primarily driven by increases in our investment in new and existing development programs.

Selling, General and Administrative Expenses

The following table presents details of Selling, General and Administrative ("SG&A") expense by segment for the year ended December 31, 2014 compared to the year ended December 31, 2013:

Selling, General and Administrative

(expressed in millions of U.S. dollars)

	Years ended December 31,		Change	
	2014	2013	\$	%
Applied Technologies	\$ 20.5	\$ 14.3	\$ 6.2	43 %
On-Road Systems	8.8	20.8	(12.0)	(58)%
Off-Road Systems	1.2	12.4	(11.2)	(90)%
Corporate and Technology Investments	35.3	27.7	7.6	27 %
Total selling, general and administrative	\$ 65.8	\$ 75.2	\$ (9.4)	(13)%

Applied Technologies SG&A expenses increased \$6.2 million 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 year.

On-Road Systems SG&A expenses decreased \$12.0 million 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 SG&A expenses decreased \$11.2 million due to cost reduction in sales and marketing primarily driven by decreases in headcount.

Corporate and Technology Investments SG&A expenses increased \$7.6 million due to increase in headcount to support new programs and global market development initiatives and severance recorded during the year.

The following table presents details of SG&A expense by segment for the year ended December 31, 2013 compared to the year ended December 31, 2012:

Selling, General and Administrative

(expressed in millions of U.S. dollars)

	Years ended December 31,		Change	
	2013	2012	\$	%
Applied Technologies	\$ 14.3	\$ 12.4	\$ 1.9	15 %
On-Road Systems	20.8	20.3	0.5	2 %
Off-Road Systems	12.4	10.7	1.7	16 %
Corporate and Technology Investments	27.7	31.5	(3.8)	(12)%
Total selling, general and administrative	\$ 75.2	\$ 74.9	\$ 0.3	— %

Applied Technologies SG&A expenses increased \$1.9 million due to increase in salaries and benefits, costs related to our Australian facility and sales and marketing activities.

On-Road Systems SG&A expenses increased \$0.5 million due to higher facilities and office expenses related to our Detroit and Kentucky facilities, sales and marketing associated with the F-250/F-350 bi-fuel Super Duty trucks and increased costs from recording expenses relating to BAF and ServoTech since the acquisition occurred on June 28, 2013.

Off-Road Systems SG&A expenses increased \$1.7 million related to increased business development activities and management of the Off-Road programs.

Corporate and Technology Investments SG&A expenses decreased \$3.8 million primarily due to reduction in headcount and related expenses and professional service fees incurred in the prior year period.

Foreign exchange gains and losses reflected net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly composed of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. In addition, the Company has foreign exchange exposure on Euro denominated monetary assets and liabilities where the functional currency of the subsidiary is not the Euro. For the year ended December 31, 2014, we recognized a net foreign exchange gain of \$3.4 million with the decline in the Canadian dollar relative to the U.S. dollar. A majority of the foreign exchange gain for the year ended December 31, 2014 is unrealized.

For the year ended December 31, 2013, we recognized a net foreign exchange gain of \$15.2 million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange loss of \$1.2 million for the year ended December 31, 2012.

Depreciation and amortization for the year ended December 31, 2014 was \$18.7 million compared to \$16.3 million for the year ended December 31, 2013 and \$11.4 million for the year ended December 31, 2012. The increases primarily related to depreciation of property and equipment purchases.

Income from investments accounted for by the equity method primarily relates to our 50% interest in CWI and our 35% interest in WWI and our increase in equity income results primarily from higher revenues and gross margins for CWI and WWI in the current year compared to the prior year.

(expressed in millions of U.S. dollars)

	Years ended December 31,		
	2014	2013	2012
CWI - 50% interest	\$ 8.1	\$ 9.4	\$ 13.2
WWI - 35% interest	6.0	4.3	2.9
Other	0.1	(0.3)	0.1
Income from investment accounted for by the equity method	<u>\$ 14.2</u>	<u>\$ 13.4</u>	<u>\$ 16.2</u>

Interest on long-term debt and amortization of discount expense primarily relates to our interest expense on CDN\$ and Euro denominated debentures.

(expressed in millions of U.S. dollars)

	Years ended December 31,		
	2014	2013	2012
Canadian debentures - 9% per annum	\$ 3.7	\$ 3.1	\$ 3.3
Senior financing facilities	1.6	1.0	1.3
Amortization of discount and non cash interest expense	0.5	0.7	0.8
Total Interest on long-term debt	<u>\$ 5.8</u>	<u>\$ 4.8</u>	<u>\$ 5.4</u>

Interest on long-term debt for the year ended December 31, 2014 of \$5.8 million is higher compared to the year ended December 31, 2013 due to additional interest of senior financing facilities as a result of increased borrowings.

Interest on long-term debt for the year ended December 31, 2013 of \$4.8 million is lower compared to the year ended December 31, 2012 due to lower amortization of discount and non cash interest expense.

Income tax recovery for the year ended December 31, 2014 was \$0.6 million compared to an income tax expense of \$0.9 million for the year ended December 31, 2013 and an income tax expense of \$1.7 million for year ended December 31, 2012.

The decrease for the year ended December 31, 2014 primarily relates to lower distributable earnings from our investment in CWI and a recovery of the deferred income tax liability relating to the intangible and goodwill impairment charges. The decrease in income tax expense for the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily relates to lower distributable earnings from our investment in CWI and a recovery of the deferred income tax liability relating to the goodwill impairment charge.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at December 31, 2014, our cash, cash equivalents and short-term investment position was \$94.0 million, a decrease of \$116.6 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. We invest primarily in short-term paper issued by Schedule 1 Canadian banks, R1 high rated corporations and governments.

The Company has sustained net losses over the past several years and as at December 31, 2014 have an accumulated deficit of \$765.0 million. As at December 31, 2014 the Company has cash and cash equivalents of \$93.3 million. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing or raise cash through the sale of assets while in pursuit of operating profitability. Over the past year, the Company has taken immediate actions to right-size the business structure and reduce expenses through activities including staff reductions and deferral of non-core development programs. Management believes these factors will contribute toward achieving profitability, though further expense reductions may be required. However, there can be no assurance that the Company will be successful in achieving its objectives. Management believes that the cash balances available as of December 31, 2014, combined with cost cutting measures in place and its ability to find new sources of financing or raise cash through the sale of assets subsequent to the balance sheet date, provides sufficient funds for the Company to meet its obligations beyond the next 12 months. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI dividends (typically declared and paid quarterly) and borrowings under our credit facility to fund our committed milestones and obligations for our current programs. We will also continue to seek third party and government funding on commercially acceptable terms to offset costs of our investments; however, there are no guarantees that we will be successful in obtaining third party funding on acceptable terms or at all.

For the year ended December 31, 2014, our cash used in operations was \$106.8 million. Changes in non-cash working capital resulted in an decrease of \$6.0 million. The \$6.0 million change in working capital was impacted by a decrease in accounts receivable of \$11.6 million offset by increases in warranty liability of \$5.8 million, deferred revenue of \$5.1 million, accounts payable and accrued liabilities of \$4.7 million, inventory of \$1.4 million and prepaid expenses of \$0.6 million. Cash used in investing activities included the purchase of fixed assets of \$10.2 million, acquisitions net of acquired cash of \$3.1 million due to the Prins acquisition, offset by maturity of short-term investments of \$31.4 million, and \$3.2 million in dividends received from joint ventures. Cash used in financing activities included net principal payments of long term debt of \$9.5 million, and financing costs incurred for the issuance of additional debenture notes of \$2.0 million offset by additional issuance of debentures notes of \$17.8 million.

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

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

	Carrying amount	Contractual cash flows	< 1 year	1 - 3 years	4-5 years	> 5 years
Accounts payable and accrued liabilities	55,502	55,502	55,502	—	—	—
Unsecured subordinated debentures (1)	46,491	68,613	4,950	63,663	—	—
Senior financing (2)	15,910	16,565	6,314	8,353	779	1,120
Senior revolving financing (3)	12,101	12,743	315	12,429	—	—
Other bank financing (4)	2,646	3,135	1,050	478	121	1,485
Capital lease obligations	1,394	1,490	626	665	200	—
Operating lease commitments	—	57,867	3,946	10,868	9,929	33,125
Royalty payments (5)	1,294	15,927	1,164	2,327	2,327	10,108
	<u>135,338</u>	<u>231,842</u>	<u>73,867</u>	<u>98,783</u>	<u>13,356</u>	<u>45,838</u>

(1) Includes interest at 9%.

(2) Includes interest at rates disclosed in note 13(b) of the annual financial statements in effect at at December 31, 2014.

(3) Includes interest at rates disclosed in note 13(c) of the annual financial statements in effect at December 31, 2014.

(4) Includes interest at rates disclosed in note 13(d) in effect at December 31, 2014.

(5) From fiscal 2011 to 2015 inclusive, the Company is obligated to pay annual royalties equal to the greater of \$1.2 million (CDN\$1.4 million) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds \$12.7 million (CDN\$13.5 million) in any aforementioned fiscal year, up to a maximum of \$26.5 million (CDN\$28.2 million). The Company has assumed the minimum required payments.

Capital lease obligations and operating lease 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 4.93%. Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment.

Senior financing

Senior financing consists of three arrangements with a combined \$15.9 million in principal outstanding.

The Emer S.p.A ("Emer") senior financing agreement with outstanding principal of \$9.4 million bears interest at the 6-month Euribor plus 2.5% (2.7% as at December 31, 2014) and is recorded at amortized cost using the effective interest rate method. Interest is paid semi-annually. The Company has pledged its interest in Emer as a general guarantee for its senior financing. The senior financing matures in 2017.

The outstanding principal for the Prins senior financing as of December 31, 2014 is \$3.6 million. A total of \$7.5 million Prins senior financing was assumed on the acquisition of Prins. Principal of \$3.9 million was repaid on December 2, 2014. The senior financing agreement bears interest at the 3-month Euribor plus 3.5% (3.6% as at December 31, 2014). Interest is paid quarterly. The Company has pledged its interest in Prins as a general guarantee for its senior financing. The senior financing matures in 2016.

The Prins senior mortgage loan was assumed on the acquisition of Prins. The senior mortgage loan bears interest at 3-month Euribor plus 1% (1.1% as at December 31, 2014). Interest is paid quarterly. The Company has pledged its interest in Prins's building as a general guarantee for its senior mortgage loan. The senior mortgage loan matures in 2020.

The three senior financing agreements will be repaid in accordance with note 13(b) of the annual financial statements.

Senior revolving financing

The Emer senior revolving facility of \$12.1 million bears interest at the 6-month Euribor plus 2.5% (2.6% as at December 31, 2014) and will be repaid through two principal payments of \$6 million (€5 million) million on March 31, 2016 and October 2, 2017.

Subordinated Debenture Notes

On September 23, 2011, the Company raised \$33.7 million (CDN\$36.0 million) through the issuance of debentures (the "Initial Debentures"). The Initial Debentures were unsecured and subordinated to senior indebtedness, matured on September 22, 2014, and bore interest at 9% per annum, were 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.

On June 27, 2014, the Company raised \$17.8 million (CDN\$19.0 million) through the issuance of debentures 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 totaling \$51.5 million (CDN\$55.0 million) are composed of the Additional Debentures \$17.8 million (CDN\$19.0 million) and the Amended Initial Debentures \$33.7 million (CDN\$36.0 million). 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 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\$10.0 million of the aggregate principal amount of the New Debentures remain outstanding.

The Company has performed the assessment of embedded derivatives within the New Debentures and concluded that there is an embedded derivative that requires bifurcation related to the extension option from the New Debentures. The extension option was deemed not clearly and closely related to the New Debentures and is separately accounted for as a standalone derivative. The Company recorded this embedded derivative as a non-current liability on its consolidated balance sheet. At issuance on June 27, 2014, the embedded derivative's fair value was determined to be \$1.2 million (CDN\$1.3 million), which was recorded as a reduction to the carrying value of the New Debentures. 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 \$0.1 million of the embedded derivative discount for the year ended December 31, 2014 (2013 \$Nil). The embedded derivative is subsequently adjusted to fair value at each reporting date, with the associated fair value loss (gain) recorded in interest and other income (loss). The fair value adjustment recorded for the year ended December 31, 2014 was \$1.1 million (2013 \$Nil). The derivative liability is included in other long term liabilities on the consolidated balance sheets. The Company determined the fair value of the embedded derivative using the Interest Rate Option Pricing Method which incorporated the Black-Karasinski model.

Royalty Payments

Royalty payments include annual royalties payable to Industry Canada's Industrial Technologies Office ("ITO") as outlined in "Government Funding" below.

Purchase Commitments

In 2014, the Company entered into several long-term fixed price contracts to purchase parts to produce certain products. These contracts represent firm purchase commitments which are evaluated for potential market value losses. The Company estimated a loss on these firm purchase commitments with reference to the estimated future sales price of these products and recognized a provision for inventory purchase commitments of \$4.1 million in 2014. The provision is recognized in other payables in accounts payable and accrued liabilities.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Government Funding

We are continually exploring strategic opportunities to work with governments to provide them with alternative fuel solutions. As a result of our government partnerships, we recognized \$0.9 million in government funding during the year ended December 31, 2014 compared with \$0.6 million for the year ended December 31, 2013 and \$0.8 million for the year ended December 31, 2012.

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

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

For the year ended December 31, 2014, royalties of \$1.5 million relating to ITO were paid and an additional \$1.5 million was accrued during the year. Cumulative royalties paid to date relating to ITO at December 31, 2014 total \$8.4 million.

SHARES OUTSTANDING

For the years ended December 31, 2014, December 31, 2013 and the year ended December 31, 2012, the weighted average number of shares used in calculating the loss per share was 63,130,022, 57,633,190 and 54,072,513, respectively. During the year ended December 31, 2014, we granted 5,792,162 RSUs and PSUs (together the "Share Units") including 297,189 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:

	December 31, 2014		March 9, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Common Shares outstanding	63,480,722		63,917,009	
Share options ⁽¹⁾				
Outstanding	32,223	17.64	32,223	17.64
Exercisable	32,223	17.64	32,223	17.64
Share Units ⁽¹⁾				
Outstanding ⁽²⁾	5,337,873	N/A	5,337,873	N/A
Exercisable	142,166	N/A	142,166	N/A

(weighted average exercise prices are presented in Canadian dollars)

(1) As at December 31, 2014, excludes 40,755 (March 9, 2015 - 40,755) of 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 December 31, 2014, includes 1,031,145 (March 9, 2015 - 1,031,145) PSUs with payout levels ranging between 0% and 200% upon achieving the required performance criteria over the measurement period. None of these PSUs are currently known to be issuable based on the prior achievement of the required 200% 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. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock-based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in Note 2 of our calendar year 2014 annual consolidated financial statements. Actual amounts may vary significantly from estimates used.

Variable Interest Entities

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

Warranty Liability

Estimated warranty costs are recognized at the time we sell our products and included in cost of revenue. We use historical failure rates and costs to repair product defects during the warranty period, together with information on known products to estimate the warranty liability. The ultimate amount payable and the timing will depend on actual failure rates and the actual cost to repair. We review our warranty provision quarterly and record adjustments to our assumptions based on the latest information available at that time. Since a number of our products are new in the market, historical data may not necessarily reflect actual costs to be incurred, and this exposes the Company to potentially significant fluctuations in liabilities and our statement of operations. New product launches require a greater use of judgment in developing estimates until claims experience becomes available. Product specific experience is typically available four or five quarters after product launch, with a clear experience trend not evident until eight to twelve quarters after launch. We generally record warranty expense for new products upon shipment using a factor based upon historical experience from previous engine generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. Adjustments to and estimated future direct warranty costs are accrued and charged to cost of revenue in the period when the related revenues are recognized while indirect warranty overhead salaries and related costs are charged to cost of revenue in the period incurred.

During the fourth quarter of 2013, a study of the historical data indicated that the cost to repair product defects continued to increase significantly primarily associated with our extended warranty contracts. As a result, the Company recognized a change in estimate in our base warranty liability and a loss on our extended warranty contracts representing the excess of the estimated cost to service these contracts over the amount of the deferred revenue recognized associated with the contracts.

Revenue Recognition

Product revenue

The Company's primary source of revenue is from the sale of kits, Westport LNG systems and parts, and Westport CNG and LPG fuel systems for OEMs in the light-duty automotive and industrial markets. Product revenue is recognized when contractual terms are agreed upon, the price is determinable, the products are shipped and title passes to the customer and collectability is assured.

Revenue from research and development

The Company also earns service revenue from research and development arrangements under which the Company provides contract services relating to developing natural gas engines or biogas engines for use in products and providing ongoing development services to assist with the development and commercialization of products. These contracts provide for the payment for services based on our achieving defined milestones or on the performance of work under product development programs. Revenues are recognized using the milestone method based on assessment of progress achieved against the defined milestones. Revenue may also be recognized using the proportionate performance method of accounting based on the performance of work under the research and development arrangement. There is a risk that a customer may ultimately disagree with our assessment of the progress achieved against milestones or that our estimates of the percentage of work completed could change. Should this occur, the revenues recognized in the period might require adjustment in a subsequent period. All costs incurred related to revenue earned from research and development arrangements are recorded as research and development expense as incurred.

Revenue from contracts

The Company earns revenue under certain contracts to provide engineering development services. These contracts provide for the payment for services based on the performance of work under product development programs. Revenues are recognized under these contracts based on the percentage of completion method of accounting. The components to measure of percentage of completion are complex and subject to many variables. Components may include estimated costs to complete a contract, estimated hours to completion or management's assessment of work to be performed. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined. There is a risk that the estimated percentage of completion of a contract may change, which may result in an adjustment to previously recognized revenues. All costs incurred related to revenue earned from contracts are recorded in cost of products sold.

Arrangements with customers may include multiple deliverables, including any combination of products, services, and licenses. In these arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. The Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (a) vendor-specific objective evidence of fair value (VSOE), (b) third-party evidence of selling price (TPE), and (c) best estimate of selling price (BESP), which are determined as follows:

VSOE-In limited circumstances are products sold separately in stand-alone arrangements. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service falls within a reasonably narrow pricing range, generally evidenced by the pricing rates of approximately 85% of such historical stand-alone transactions falling within plus or minus 10% of the median rate. In addition, the Company considers the geographies in which the products or services are sold, major product and service groups, customer classification, and other environmental or marketing variables in determining VSOE.

TPE-VSOE exists only when the Company sells the deliverable separately. When VSOE does not exist, the Company attempts to determine TPE based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy for many of its products differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality sold by other companies cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE.

BESP-The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. When both VSOE and TPE do not exist, the Company determines BESP by first collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. Second, the Company makes any reasonably required adjustments to the data based on market and Company-specific factors. Third, the Company stratifies the data points, when appropriate, based on customer, magnitude of the transaction and sales volume.

Once elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

Changes in cost estimates and the fair values of certain deliverables could negatively impact the Company's operating results. In addition, unforeseen conditions could arise over the contract term that may have a significant impact on the Company's operating results.

License revenue

Revenue from technology license fees is recognized over the duration of the licensing agreement. Amounts received in advance of the revenue recognition criteria being met are recorded as deferred revenue.

Inventories

The Company's inventories consist of the Company's fuel system products (finished goods), work-in-progress, purchased parts and assembled parts. Inventories are recorded at the lower of cost and net realizable value. Cost is determined based on the lower of weighted average cost and net realizable value. The cost of fuel system product inventories, assembled parts and work-in-progress includes materials, labour and production overhead including depreciation. The Company provides inventory write-downs based on excess and obsolete inventories determined primarily by future demand forecasts. In addition, the Company records a liability for firm, noncancelable, and unconditional purchase commitments with manufacturers for quantities in excess of the Company's future demand forecast consistent with its valuation of excess and obsolete inventory.

Property, Plant and Equipment and Intangible Assets

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

Based on the revenue and operating results and decline in the oil price, the Company concluded there were impairment indicators requiring the performance of a long-lived assets impairment test for customer contracts, technology and other intangibles as of November 30, 2014. Accordingly non-cash impairment charges aggregating to \$5.8 million were recorded during the year ended December 31, 2014 which reduced the carrying values of technology by \$0.1 million, customer contracts by \$4.7 million and other intangibles by \$1.0 million for the On-Road Systems segment.

During the year ended December 31, 2013, there was a significant decline in revenue from the lower than expected adoption rate of natural gas vehicles in our customer contracts. An impairment analysis of the intangibles balance indicated that the carrying value exceeded the fair value of customer contracts. Accordingly, an intangible impairment charge of \$1.7 million related to customer contracts in Sweden was recognized in the On-Road Systems segment. The fair value of customer contracts was determined using the present value of expected cash flows discounted at a rate equivalent to a market participant's weighted-average cost of capital.

Stock-Based Compensation

We account for stock-based compensation related to stock options, Performance Share Units ("PSUs") and Restricted Share Units ("RSUs") granted to employees and directors using the fair value method. The resulting compensation expense for stock options is calculated using the Black-Scholes valuation method net of estimated forfeitures and is recognized in results from operations over the period in which the related employee services are rendered. We account for performance shares by calculating the fair value using a Monte-Carlo simulation and RSUs by calculating the fair value based on the market price of the Company's common shares on the date of grant. The compensation expense is recorded in the period it is earned, which generally is the period over which the units vest.

Goodwill

We do not amortize goodwill but instead test it annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at November 30. We use a two-step test to identify the potential impairment and to measure the amount of impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired; otherwise, goodwill is impaired and the loss is measured by performing step two. Under step two, the impairment loss is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill.

We determine fair value using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies.

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. In the fourth quarter of 2014, the sustained downturn in the price of oil and significant loss of revenue from the lower than expected adoption rate of natural gas vehicles impacted our long-range planning and on November 30, 2014, our annual impairment test date, the estimated fair value of the On-Road systems reporting unit failed step 1 and we impaired goodwill and intangible assets by \$18.5 million and \$5.8 million, respectively. The fair value of our Applied Technologies reporting unit exceeded the carrying amount and therefore no impairment of goodwill. The percentage by which the fair value exceeded the carrying value was less than 10%.

The remaining goodwill of \$23.4 million relates to the Applied Technologies segment. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These assumptions could be adversely impacted by certain of the risks discussed in "Business Risks and Uncertainties." 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.

For the year ended December 31, 2013 an assessment of the carrying value of goodwill was conducted as of November 30, 2013. Based on the Company's assessment, it was determined that the carrying amount of goodwill exceeded the implied fair value of goodwill by \$35.0 million. A goodwill impairment loss of \$30.1 million and \$4.9 million was recorded in the Applied Technologies segment and the On-Road Systems segment, respectively, for the year ended December 31, 2013. In the Applied Technologies segment, the goodwill impairment charge was driven by the adverse economic climate in Europe and other geographic markets and lower than anticipated revenues. In the On-Road Systems segment, the goodwill impairment charge was driven by a significant loss of revenue from lower than expected adoption rate of natural gas vehicles.

For 2013 and 2014, the fair value of the reporting units was determined using the present value of expected future cash flows discounted at a rate equivalent to a market participant's weighted-average cost of capital. The estimates and assumptions regarding expected future cash flows and the appropriate discount rates are in part based upon historical experience, financial forecasts and industry trends and conditions.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

(a) Adoption of new accounting standards:

Income taxes:

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

(b) New accounting pronouncements:

Revenue:

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.

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

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis such that appropriate decisions can be made regarding public disclosures. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of management, including the CEO and CFO, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The CEO and CFO have concluded that as of December 31, 2014, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified therein and accumulated and reported to management to allow timely discussions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

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

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

Management, including the CEO and CFO, has evaluated the effectiveness of internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, in relation to criteria described in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). As allowed by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings and SEC guidance, management excluded from its assessment the 2014 acquisition of Prins, which accounted for less than 1% of total assets and less than 1% of total revenues as of and for the year ended December 31, 2014. Based on this evaluation, Management has determined that internal control over financial reporting was effective as of December 31, 2014.

Deloitte LLP, our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. Deloitte has also expressed an unmodified opinion on the effective operation of our internal control over financial reporting as of December 31, 2014.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

SUMMARY OF QUARTERLY RESULTS AND DISCUSSION OF THE QUARTER ENDED DECEMBER 31, 2014

Our revenues and operating results can vary significantly from quarter to quarter depending on the timing of product deliveries, product mix, product launch dates, research and development project cycles, timing of related government funding, 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, gains and losses from investing activities, recognition of tax benefits and other similar events.

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

Selected Consolidated Quarterly Operations Data (unaudited)

Three months ended	31- Mar-13	30- Jun-13	30- Sep-13	31- Dec-13	31- Mar-14	30- Jun-14	30- Sep-14	31- Dec-14
<i>(expressed in millions of United States dollars except for per share amounts)</i>								
Product revenue (1)	\$ 27.3	\$ 32.5	\$ 33.0	\$ 41.4	\$ 34.8	\$ 31.8	\$ 24.0	\$ 27.4
Service and other revenue	2.7	2.4	13.5	11.2	5.1	6.1	1.4	—
Total revenue	30.0	34.9	46.5	52.6	39.9	37.9	25.4	27.4
Cost of product and parts revenue	22.0	26.6	30.5	69.6	27.6	24.3	17.3	28.7
Gross margin	8.0	8.3	16.0	(17.0)	12.3	13.6	8.1	(1.3)
Gross margin percentage	26.7%	23.8%	34.4%	(32.3)%	30.8%	35.9%	31.9%	(4.7)%
Net loss for the period	\$ (31.8)	\$ (33.9)	\$ (30.2)	\$ (89.5)	\$ (23.9)	\$ (35.4)	\$ (25.5)	\$ (64.8)
Loss per share								
Basic and Diluted	\$ (0.57)	\$ (0.61)	\$ (0.53)	\$ (1.42)	\$ (0.38)	\$ (0.56)	\$ (0.40)	\$ (1.03)
Income from unconsolidated joint ventures:								
CWI net income attributable to the Company	0.8	3.3	2.5	2.8	(0.8)	0.4	0.9	7.6
WWI net income attributable to the Company	1.0	1.3	1.3	0.7	0.5	0.7	1.2	3.6

(1) In 2014, the Company combined the parts revenue with product revenue into a single line item in the consolidated statement of operations and comprehensive loss for all periods presented.

THREE MONTHS ENDED December 31, 2014 AND 2013

Our consolidated revenue for the three months ended December 31, 2014 was \$27.4 million, a decrease of \$19.1 million, or 36.3%, from \$52.6 million for the three months ended December 31, 2013. The decrease in revenue was primarily due to the discontinuation of the first generation Westport™ HPDI system in the prior quarter, timing of service revenue, competition from gasoline-fueled vehicles due to the decrease in petroleum-based fuel pricing, unfavourable impact of foreign currency translation from Euro to US dollar equivalent, and weakness in key markets such as Europe and the Americas.

Our consolidated net loss for the three months ended December 31, 2014 was \$64.8 million, or a loss of \$1.03 per diluted share, compared to a net loss of \$89.5 million, or a loss of \$1.42 per diluted share, for the three months ended December 31, 2013.

Included in our net loss for the three months ended December 31, 2014 are charges of \$18.5 million in goodwill impairment, \$5.5 million of intangible asset impairment, \$2.1 million in inventory obsolescence, \$4.1 million in provision for inventory purchase commitments, \$5.2 million on loss on disposal of assets, offset by \$11.4 million in income from investments accounted for by the equity method.

RELATED PARTY TRANSACTIONS

As part of our joint venture agreement, we engage in transactions with CWI.

As at December 31, 2014, net amounts due from CWI total \$2,538 (2012 - \$3,621). Amounts receivable relate to costs incurred by the Company on behalf of CWI. The amounts are generally reimbursed by CWI to the Company in the month following the month in which the payable is incurred. Cost reimbursements from CWI consisted of the following:

	Years ended December 31,		
	2014	2013	2012
Research and development	\$ 3	\$ 178	\$ 160
General and administrative	1,548	1,351	2,621
Sales and marketing	4,935	4,725	3,683
	<u>\$ 6,486</u>	<u>\$ 6,254</u>	<u>\$ 6,464</u>

During the year ended December 31, 2014, interest of \$nil (year ended December 31, 2013 - \$nil; year ended December 31, 2012 - \$114) was paid to CWI.

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

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, 2014 under the heading "Risk Factors" and is available on SEDAR at www.sedar.com.

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

WESTPORT INNOVATIONS INC.

For the years ended December 31, 2014, 2013 and
2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated financial statements of Westport Innovations Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2014, and consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity and cash flows for the year ended December 31, 2014 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Westport Innovations Inc. and subsidiaries as at December 31, 2014, and its financial performance and its cash flows for the year ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

(Signed) DELOITTE LLP

Chartered Accountants
Vancouver, Canada
March 9, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Westport Innovations Inc. and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Prins Autogassystemen Holding B.V., which was acquired on December 2, 2014 and whose financial statements constitute less than 1 % of both total assets and revenues, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Accordingly, our audit did not include the internal control over financial reporting at Prins Autogassystemen Holding B.V. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated March 9, 2015 expressed an unmodified opinion on those financial statements.

(Signed) DELOITTE LLP

Chartered Accountants
Vancouver, Canada
March 9, 2015



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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Westport Innovations Inc.

We have audited the accompanying consolidated financial statements of Westport Innovations Inc., which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Westport Innovations Inc. as at December 31, 2013 and its consolidated results of operations and its consolidated cash flows for the years ended December 31, 2013 and December 31, 2012, in accordance with US generally accepted accounting principles.

Chartered Accountants

February 25, 2014
Vancouver, Canada

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets

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

December 31, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 93,282	\$ 178,513
Short-term investments	723	32,091
Accounts receivable (note 5)	46,849	59,315
Inventories (note 6)	41,824	40,626
Prepaid expenses	4,641	6,072
Current portion of deferred income tax assets (note 19(b))	3,556	3,109
	<u>190,875</u>	<u>319,726</u>
Long-term investments (note 7)	33,324	22,128
Other assets	3,819	2,245
Property, plant and equipment (note 9)	58,134	67,349
Intangible assets (note 10)	27,920	38,344
Deferred income tax assets (note 19(b))	271	379
Goodwill (note 11)	23,352	41,500
	<u>\$ 337,695</u>	<u>\$ 491,671</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 12)	\$ 55,502	\$ 54,792
Current portion of deferred revenue	1,782	6,727
Current portion of deferred income tax liabilities (note 19(b))	398	468
Current portion of long-term debt (note 13)	18,955	53,025
Current portion of warranty liability (note 14)	9,696	9,955
	<u>86,333</u>	<u>124,967</u>
Warranty liability (note 14)	13,413	18,890
Long-term debt (note 13)	59,587	12,988
Deferred revenue	3,795	4,580
Deferred income tax liabilities (note 19(b))	4,954	4,903
Other long-term liabilities (note 15)	1,605	2,441
	<u>169,687</u>	<u>168,769</u>
Shareholders' equity:		
Share capital (note 17):		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
63,480,722 (2013 - 62,733,762) common shares	930,857	916,497
Other equity instruments	7,767	13,834
Additional paid in capital	9,837	8,205
Accumulated deficit	(764,960)	(615,342)
Accumulated other comprehensive income	(15,493)	(292)
	<u>168,008</u>	<u>322,902</u>
Commitments and contingencies (note 22)		
	<u>\$ 337,695</u>	<u>\$ 491,671</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Douglas R. King"

Director

"Jill Bodkin"

Director

WESTPORT INNOVATIONS INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	Years ended December 31,		
	2014	2013	2012
Product revenue	\$ 118,015	\$ 148,001	\$ 132,382
Service and other revenue (note 21)	12,554	16,031	23,244
	<u>130,569</u>	<u>164,032</u>	<u>155,626</u>
Cost of revenue and expenses:			
Cost of product revenue	97,923	148,690	102,486
Research and development (note 17(d) and 18)	76,580	91,132	73,198
General and administrative (note 17(d))	40,319	46,475	44,811
Sales and marketing (note 17(d))	25,489	28,707	30,112
Foreign exchange (gain) loss	(3,434)	(15,168)	1,185
Depreciation and amortization (note 9 and 10)	18,666	16,288	11,395
Bank charges, interest and other	703	595	737
Impairment of long lived assets	5,238	4,838	—
Provision for inventory purchase commitments (note 12 and 22(b))	4,106	—	—
Intangible impairment (note 10)	5,823	1,721	—
Goodwill impairment (note 11)	18,543	34,964	—
	<u>289,956</u>	<u>358,242</u>	<u>263,924</u>
Loss from operations	(159,387)	(194,210)	(108,298)
Income from investments accounted for by the equity method	14,222	13,444	16,190
Interest on long-term debt and amortization of discount	(5,849)	(4,789)	(5,354)
Interest and other income	817	1,018	426
Loss before income taxes	<u>(150,197)</u>	<u>(184,537)</u>	<u>(97,036)</u>
Income tax expense (recovery) (note 19):			
Current	606	1,414	2,147
Deferred	(1,185)	(541)	(409)
	<u>(579)</u>	<u>873</u>	<u>1,738</u>
Net loss for the year	<u>\$ (149,618)</u>	<u>\$ (185,410)</u>	<u>\$ (98,774)</u>
Other comprehensive income (loss):			
Cumulative translation adjustment	(15,201)	(17,308)	3,745
Comprehensive loss	<u>\$ (164,819)</u>	<u>\$ (202,718)</u>	<u>\$ (95,029)</u>
Loss per share:			
Basic and diluted	<u>\$ (2.37)</u>	<u>\$ (3.22)</u>	<u>\$ (1.83)</u>
Weighted average common shares outstanding:			
Basic and diluted	<u>63,130,022</u>	<u>57,633,190</u>	<u>54,072,513</u>

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Shareholders' Equity

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

	Common shares outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity
January 1, 2012	48,455,601	\$ 459,866	\$ 6,112	\$ 4,499	\$ (331,158)	\$ 13,271	152,590
Issue of common shares on exercise of stock options	93,044	1,492	—	(523)	—	—	969
Issue of common shares on exercise of share units	420,446	6,597	(6,597)	—	—	—	—
Issue of common shares on public offering	6,325,000	273,556	—	—	—	—	273,556
Share issue costs	—	(8,126)	—	—	—	—	(8,126)
Stock-based compensation	—	—	9,713	2,408	—	—	12,121
Net loss for the year	—	—	—	—	(98,774)	—	(98,774)
Other comprehensive loss	—	—	—	—	—	3,745	3,745
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	111,986	1,147	—	(406)	—	—	741
Issue of common shares on exercise of share units	609,200	10,599	(10,599)	—	—	—	—
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
Issue of common shares on public offering	6,000,000	152,340	—	—	—	—	152,340
Share issue costs	—	(5,065)	—	—	—	—	(5,065)
Stock-based compensation	—	—	11,920	2,227	—	—	14,147
Net loss for the year	—	—	—	—	(185,410)	—	(185,410)
Other comprehensive loss	—	—	—	—	—	(17,308)	(17,308)
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	43,071	374	—	(132)	—	—	242
Issue of common shares on exercise of share units	608,975	10,701	(10,701)	—	—	—	—
Issue of common shares in connection with acquisition	94,914	3,285	(3,285)	—	—	—	—
Stock-based compensation	—	—	7,919	1,764	—	—	9,683
Net loss for the year	—	—	—	—	(149,618)	—	(149,618)
Other comprehensive loss	—	—	—	—	—	(15,201)	(15,201)
December 31, 2014	63,480,722	\$ 930,857	\$ 7,767	\$ 9,837	\$ (764,960)	\$ (15,493)	\$ 168,008

See accompanying notes to consolidated financial statements.

Westport Innovations Inc.

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Years ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Loss for the period	\$ (149,618)	\$ (185,410)	\$ (98,774)
Items not involving cash:			
Depreciation and amortization	18,666	16,288	11,395
Stock-based compensation expense	9,683	14,283	12,468
Unrealized foreign exchange gain	(3,434)	(15,168)	1,185
Deferred income tax (recovery) expense	(1,185)	(541)	(409)
Income from investments accounted for by the equity method	(14,222)	(13,444)	(16,190)
Amortization of long-term debt	2,139	1,643	2,094
Impairment of long lived assets	5,238	4,838	—
Inventory write-downs to net realizable value	2,102	4,925	—
Provision for inventory purchase commitments	4,106	—	—
Intangible impairment	5,823	1,721	—
Goodwill impairment	18,543	34,964	—
Change in fair value of derivative liability and bad debt expense	1,338	(37)	340
Changes in non-cash operating working capital:			
Accounts receivable	11,629	(12,289)	6,733
Inventories	(1,367)	5,179	(7,920)
Prepaid expenses	(556)	513	179
Accounts payable and accrued liabilities	(4,749)	(2,064)	(742)
Deferred revenue	(5,096)	5,208	3,115
Warranty liability	(5,797)	22,602	1,979
	<u>(106,757)</u>	<u>(116,789)</u>	<u>(84,547)</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment	(10,249)	(26,450)	(30,363)
Purchase of intangible assets	—	—	(989)
Maturity (purchase) of short-term investments, net	31,369	(5,771)	(22,520)
Repayment of loan receivable	—	—	2,494
Increase loan payable	—	—	2,450
Repayment of loan payable	—	—	(21,840)
Acquisitions, net of acquired cash (note 4)	(3,053)	1,178	(1,125)
Dividends received from joint ventures	3,200	8,287	22,600
	<u>21,267</u>	<u>(22,756)</u>	<u>(49,293)</u>
Cash flows from financing activities:			
Increase in operating lines of credit	—	—	4,245
Repayment of long term facilities	(9,540)	(13,678)	(9,843)
Issuance of long term debenture notes	17,797	—	—
Finance costs incurred	(2,033)	—	—
Proceeds from stock options exercised	242	741	969
Shares issued for cash	—	152,340	273,556
Share issuance costs	—	(5,065)	(8,126)
	<u>6,466</u>	<u>134,338</u>	<u>260,801</u>
Effect of foreign exchange on cash and cash equivalents	(6,207)	(5,238)	(1,288)
(Decrease) increase in cash and cash equivalents	(85,231)	(10,445)	125,673
Cash and cash equivalents, beginning of period	178,513	188,958	63,285
Cash and cash equivalents, end of period	<u>\$ 93,282</u>	<u>\$ 178,513</u>	<u>\$ 188,958</u>

See accompanying notes to consolidated financial statements.

Westport Innovations Inc.

Consolidated Statements of Cash Flows (continued)

(Expressed in thousands of United States dollars)

	Years ended December 31,		
	2014	2013	2012
Supplementary information:			
Interest paid	\$ 4,702	\$ 3,911	\$ 3,532
Taxes paid, net of refunds	871	1,321	1,982
Non-cash transactions:			
Shares issued on exercise of performance share units	10,701	10,599	6,597
Common shares issued in connection with acquisitions (note 4b)	3,285	24,091	—
See accompanying notes to consolidated financial statements.			

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

1. Company organization and operations:

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

The Company is a provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Its technology and products enable light (<5.9 litre), medium (5.9 to 10 litre), heavy-duty (11 to 16 litre) and high horsepower (>16 litre) petroleum-based fuel engines to use primarily natural gas, giving users a cleaner, more plentiful and generally less expensive alternative fuel.

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

2. Significant accounting policies:

(a) Basis of presentation:

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

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

The Company has sustained net losses over the past several years and as at December 31, 2014 have an accumulated deficit of \$765.0 million. As at December 31, 2014 the Company has cash and cash equivalents of \$93.3 million. The Company’s ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing or raise cash through the sale of assets while in pursuit of operating profitability. Over the past year, the Company has taken immediate actions to right-size the business structure and reduce expenses through activities including staff reductions and deferral of non-core development programs. Management believes these factors will contribute toward achieving profitability, though further expense reductions may be required. However, there can be no assurance that the Company will be successful in achieving its objectives. Management believes that the cash balances available as of December 31, 2014, combined with cost cutting measures in place and its ability to find new sources of financing or raise cash through the sale of assets subsequent to the balance sheet date, provides sufficient funds for the Company to meet its obligations beyond the next 12 months. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

(b) Foreign currency translation:

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.

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

2. Significant accounting policies (continued):

(a) Foreign currency translation (continued):

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

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

	Period end exchange rate as at:		Average for the year ended:	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Canadian dollar	0.86	0.94	0.91	0.97
Australian dollar	0.82	0.89	0.90	0.97
Euro	1.21	1.38	1.33	1.33
RMB	0.16	0.17	0.16	0.16
Swedish Krona	0.13	0.16	0.15	0.15

(c) Cash and cash equivalents:

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

(d) Short-term investments:

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

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

2. Significant accounting policies (continued):

(e) Accounts receivable, net:

Accounts receivable are measured at amortized cost. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectibility of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectibility. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

(f) Inventories:

The Company's inventories consist of the Company's fuel system products (finished goods), work-in-progress, purchased parts and assembled parts. Inventories are recorded at the lower of cost and net realizable value. Cost is determined based on the lower of weighted average cost and net realizable value. The cost of fuel system product inventories, assembled parts and work-in-progress includes materials, labour and production overhead including depreciation. The Company provides inventory write-downs based on excess and obsolete inventories determined primarily by future demand forecasts. In addition, the Company records a liability for firm, noncancelable, and unconditional purchase commitments with manufacturers for quantities in excess of the Company's future demand forecast consistent with its valuation of excess and obsolete inventory.

(g) Property, plant and equipment:

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

Assets	Basis	Rate
Buildings	Straight-line	15 years
Computer equipment and software	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Machinery and equipment	Straight-line	8 – 10 years
Leasehold improvements	Straight-line	Lease term

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

2. Significant accounting policies (continued):

(h) Long-term investments:

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

(i) Financial liabilities:

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

(j) Research and development costs:

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

(k) Government assistance:

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

(l) Intangible assets:

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

(m) Impairment of long-lived assets:

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

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

2. Significant accounting policies (continued):

(n) Goodwill impairment:

Goodwill is recorded at the time of purchase for the excess of the amount of the purchase price over the fair values of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized and instead is tested at least annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at November 30. Future adverse changes in market conditions or poor operating results of underlying assets could result in an inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge.

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

Fair value is determined using widely accepted valuation techniques, which may include discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies.

(o) Warranty liability:

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

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

2. Significant accounting policies (continued):

(p) Extended warranty:

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

(q) Revenue recognition:

Product revenue

The Company's primary source of revenue is from the sale of kits, Westport LNG systems and parts, and Westport CNG and LPG fuel systems for OEMs in the light-duty automotive and industrial markets. Product revenue is recognized when contractual terms are agreed upon, the price is fixed or determinable, the products are shipped and title passes to the customer and collectability is reasonably assured.

Revenue from research and development

The Company also earns service revenue from research and development arrangements under which the Company provides contract services relating to developing natural gas engines or biogas engines for use in products and providing ongoing development services to assist with the development and commercialization of products. These contracts provide for the payment for services based on our achieving defined milestones or on the performance of work under product development programs. Revenues are recognized using the milestone method based on assessment of progress achieved against the defined milestones. Revenue may also be recognized using the proportionate performance method of accounting based on the performance of work under the research and development arrangement. There is a risk that a customer may ultimately disagree with our assessment of the progress achieved against milestones or that our estimates of the percentage of work completed could change. Should this occur, the revenues recognized in the period might require adjustment in a subsequent period. All costs incurred related to revenue earned from research and development arrangements are recorded as research and development expense as incurred.

Revenue from contracts

The Company earns revenue under certain contracts to provide engineering development services. These contracts provide for the payment for services based on the performance of work under product development programs. Revenues are recognized under these contracts based on the percentage of completion method of accounting. The components to measure percentage of completion are complex and subject to many variables. Components may include estimated costs to complete a contract, estimated hours to completion or management's assessment of work to be performed. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined. There is a risk that the estimated percentage of completion of a contract may change, which may result in an adjustment to previously recognized revenues. All costs incurred related to revenue earned from contracts are recorded in cost of products sold.

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

2. Significant accounting policies (continued):

(q) Revenue recognition (continued):

Arrangements with customers may include multiple deliverables, including any combination of products, services, and licenses. In these arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. The Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (a) vendor-specific objective evidence of fair value (VSOE), (b) third-party evidence of selling price (TPE), and (c) best estimate of selling price (BESP), which are determined as follows:

VSOE-In limited circumstances are products sold separately in stand-alone arrangements. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service falls within a reasonably narrow pricing range, generally evidenced by the pricing rates of approximately 85% of such historical stand-alone transactions falling within plus or minus 10% of the median rate. In addition, the Company considers the geographies in which the products or services are sold, major product and service groups, customer classification, and other environmental or marketing variables in determining VSOE.

TPE-VSOE exists only when the Company sells the deliverable separately. When VSOE does not exist, the Company attempts to determine TPE based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy for many of its products differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality sold by other companies cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE.

BESP-The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. When both VSOE and TPE do not exist, the Company determines BESP by first collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. Second, the Company makes any reasonably required adjustments to the data based on market and Company-specific factors. Third, the Company stratifies the data points, when appropriate, based on customer, magnitude of the transaction and sales volume.

Once elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

Changes in cost estimates and the fair values of certain deliverables could negatively impact the Company's operating results. In addition, unforeseen conditions could arise over the contract term that may have a significant impact on the Company's operating results.

License revenue

Revenue from technology license fees is recognized over the duration of the licensing agreement. Amounts received in advance of the revenue recognition criteria being met are recorded as deferred revenue.

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

2. Significant accounting policies (continued):

(r) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the accounting basis and tax basis of the assets and liabilities and for loss carry-forwards, tax credits and other tax attributes, using the enacted tax rates in effect for the years in which the differences are expected to reverse. The effect of a change in tax rates on the deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date .

The Company recognizes deferred income tax assets to the extent the assets are more-likely-than-not to be realized. In making such a determination the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If it is determined that, based on all available evidence, it is more-likely-than-not that some or all of the deferred income tax assets will not be realized, a valuation allowance is provided to reduce the deferred income tax assets.

The Company uses a two-step process to recognize and measure the income tax benefit of uncertain tax positions taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is recognized if it is more-likely-than-not that the position will be sustained upon examination by a tax authority based solely on the technical merits of the position. A tax benefit that meets the more-likely-than-not recognition threshold is measured as the largest amount that is greater than 50% likely to be realized upon settlement with the tax authority. To the extent a full benefit is not expected to be realized, an income tax liability is established. Any change in judgment related to the expected resolution of an uncertain tax position is recognized in the year of such a change.

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

3. Accounting Changes

(a) Adoption of new accounting standards:

Income taxes:

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

(b) New accounting pronouncements:

Revenue:

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.

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.

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

4. Business Combinations

(a) Acquisition of Prins Autogassystemen Holding B.V.

On December 2, 2014 ("the acquisition date"), the Company acquired 100% of the outstanding shares of Prins Autogassystemen Holding B.V. ("Prins") for a base purchase price of EUR 12,200 (\$15,017). The Company paid cash of EUR 2,500 (\$3,112) and assumed debt of EUR 9,700 (\$11,905). The results of Prins's consolidated operations have been included since December 2, 2014. Prins is a world leader in the development of alternative fuel systems and provides cost-effective and innovative solutions for a wide range of engine types.

The Company recognized \$342 of acquisition related costs in General and Administrative expense under the Corporate and Technology Investments segment during the year ended December 31, 2014.

The estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

Consideration allocated to:

Other tangible assets, including cash of \$61	\$ 13,138
Property, plant and equipment	3,824
Intangible assets subject to amortization over 5 years	3,024
Goodwill	3,221
Total assets acquired	<u>\$ 23,207</u>

Less:

Current liabilities	7,211
Deferred income tax liabilities	979
Debt assumed (note 13b and c)	11,905
	<u>\$ 20,095</u>

Total net assets acquired	<u>\$ 3,112</u>
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Consideration:

Paid to sellers	<u>\$ 3,112</u>
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Westport Innovations Inc.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2014, 2013 and 2012

4. Business Combinations (continued):

Intangible Assets

The fair value of intangible assets is \$3,024 and is assigned to customer relationships. The intangible assets will be amortized over their estimated useful life of 5 years.

Inventory

The fair value of \$4,975 assigned to inventory was based on estimated selling prices and selling costs associated with the inventory.

Goodwill

Of the total consideration paid, \$3,221 has been allocated to goodwill. The entire goodwill recognized is assigned to the Applied Technologies and is not deductible for tax purposes.

Land and Building

The fair value of \$3,824 assigned to land and building was based on valuations of similar buildings in the area and will be amortized over its estimated useful life of 15 years.

The consolidated financial statements reflect consolidated revenue and net loss for Prins of \$1,196 and \$(301), respectively, from December 2, 2014 to December 31, 2014.

Pro forma results

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

	Years ended December 31,	
	2014	2013
Revenue		
Revenue for the period	\$ 130,569	\$ 164,032
Add: BAF - see (note 4(b))	—	7,249
Add: Prins	30,993	30,885
Pro forma revenue for the period	\$ 161,562	\$ 202,166
Net Loss		
Net loss for the period	\$ (149,618)	\$ (185,410)
Add: BAF - see (note 4(b))		(4,038)
Add: Prins	91	9,164
Pro forma net loss for the period	\$ (149,527)	\$ (180,284)

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Prins to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2013, together with the consequential tax effects.

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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4. Business Combinations (continued):

(b) Acquisition of BAF Technologies, Inc. ("BAF"):

On June 28, 2013 ("the acquisition date"), the Company acquired 100% of the outstanding common shares of BAF and its subsidiary, ServoTech Engineering, Inc. ("ServoTech") from Clean Energy Fuels Corp. ("Clean Energy"). The results of BAF's consolidated operations have been included since July 1, 2013 in these consolidated financial statements in the On-Road Systems segment. BAF is a natural gas vehicle business that supports customers with vehicle conversions under Ford's Qualified Vehicle Modifier ("QVM") program. ServoTech is an engineering company that provides a total engineering solution from initial concept phase to prototype hardware and validation.

Pursuant to the Stock Purchase Agreement, the acquisition was settled with 816,460 of the Company's common shares. The number of shares transferred was determined using the 10-day volume weighted average price (VWAP) per share prior to and including the acquisition date (\$30.62 per share). Of the 816,460 common shares, 718,485 shares, with a fair value of \$24,091, were issued on the acquisition date and 97,975 shares ("Holdback shares"), with a fair value of \$3,285, were issued. The fair value of the shares transferred or to be transferred was determined by the closing share price on the acquisition date (\$33.53 per share).

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

The products and services received pursuant to the Marketing Agreement have been accounted for as a separate transaction from the business combination and the Company has determined the fair value of these products and services to be \$2,678. The fair value has been allocated to the products and services and will be recognized when the goods are received and services performed. The fair value of the products and services of the Marketing Agreement was determined using Level 1 and Level 2 inputs.

The excess of the consideration payable of \$5,000 and the fair value of the goods and services to be received separate from the business combination of \$2,322 has been included as purchase consideration for the acquisition of BAF.

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4. Business Combinations (continued):

(b) Acquisition of BAF (continued):

The following table summarizes management's final fair market valuation of the assets acquired and liabilities assumed at the acquisition date based on the results of a valuation report issued by a third-party valuation firm.

Consideration allocated to:

Other tangible assets, including cash of \$1,178	\$ 9,116
Property, plant and equipment	905
Intangible assets subject to amortization over 3 to 10 years	7,729
Goodwill	18,542

Total assets acquired	36,292
Less: total liabilities	<u>(6,594)</u>

Total net assets acquired	<u><u>\$ 29,698</u></u>
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Consideration:

Payable to Clean Energy	\$ 2,322
Common shares issued	24,091
Common shares to be issued	<u>3,285</u>
	<u><u>\$ 29,698</u></u>

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4. Business Combinations (continued):

(b) Acquisition of BAF (continued):

The Company recognized \$493 of acquisition related costs in General and Administrative expense under the Corporate and Technology Investments segment during the year ended December 31, 2013.

Intangible Assets

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

	Assigned fair value	Weighted average amortization period
Customer relationships	\$ 6,350	8 years
Core technology	160	10 years
Other intangibles	1,219	3 years
Total	<u>\$ 7,729</u>	<u>7 years</u>

Inventory

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

Deferred Income taxes

The Company recognized a deferred income tax liability of \$296 relating to the difference in book and tax bases of acquired assets.

Goodwill

Of the total consideration paid, \$18,542 has been allocated to goodwill. The entire goodwill amount recognized is assigned to the On-Road Systems segment. The goodwill recognized is attributable primarily realizing expected synergies that are specific to the Company's business. The goodwill is not deductible for tax purposes.

The consolidated financial statements reflect consolidated revenue and net loss for BAF of \$17,097 and \$3,512, respectively, from June 28, 2013 to December 31, 2013.

Pro forma results

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

	Years ended December 31,	
	2013	2012
Revenue	\$ 171,281	\$ 181,972
Net loss	\$ (189,448)	\$ (100,946)

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

Westport Innovations Inc.

Notes to Consolidated Financial Statements

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5. Accounts Receivable:

	December 31, 2014	December 31, 2013
Customer trade receivable	\$ 43,256	\$ 54,017
Government funding receivable	38	483
Due from joint venture (note 20)	2,538	3,621
Other receivables	3,269	2,689
Income tax receivable	499	77
Allowance for doubtful accounts	(2,751)	(1,572)
	<u>\$ 46,849</u>	<u>\$ 59,315</u>

6. Inventories:

	December 31, 2014	December 31, 2013
Purchased parts	\$ 28,227	\$ 23,228
Work-in-process	4,879	10,770
Finished goods	8,718	6,628
	<u>\$ 41,824</u>	<u>\$ 40,626</u>

During the year ended December 31, 2014, the Company recorded write-downs to net realizable value of approximately \$2,102 (year ended December 31, 2013 - \$4,925; year ended December 31, 2012 - \$233).

7. Long-term investments:

	December 31, 2014	December 31, 2013
Weichai Westport Inc. (a)	\$ 18,791	\$ 14,534
Cummins Westport Inc. (b)	13,196	7,191
Other equity accounted for investees	1,337	403
	<u>\$ 33,324</u>	<u>\$ 22,128</u>

Westport Innovations Inc.

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

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7. Long-term investments (continued):

(a) Weichai Westport Inc.:

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

For the year ended December 31, 2014, the Company recognized its share of WWI’s income of \$6,027 (year ended December 31, 2013 - \$4,264; year ended December 31, 2012 - \$2,881), as income from investment accounted for by the equity method.

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

	December 31, 2014	December 31, 2013
Current assets:		
Cash and short-term investments	\$ 11,734	\$ 4,696
Accounts receivable	72,121	31,967
Inventory	83,594	80,412
Other current assets	1,249	176
Long-term assets		
Property, plant and equipment	5,736	7,021
Deferred income tax assets	7,781	6,874
Total assets	<u>\$ 182,215</u>	<u>\$ 131,146</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 128,838	\$ 93,016
Total liabilities	<u>\$ 128,838</u>	<u>\$ 93,016</u>

	Years ended December 31,		
	2014	2013	2012
Product revenue	<u>\$ 618,465</u>	<u>\$ 466,580</u>	<u>\$ 272,086</u>
Cost of revenue and expenses:			
Cost of product revenue	565,943	429,238	247,299
Operating expenses	32,227	22,846	15,022
	<u>598,170</u>	<u>452,084</u>	<u>262,321</u>
Income before income taxes	20,295	14,496	9,765
Income tax expense	3,076	2,315	1,536
Income for the period	<u>\$ 17,219</u>	<u>\$ 12,181</u>	<u>\$ 8,229</u>

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7. Long-term investments (continued):

(b) Cummins Westport Inc.:

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

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

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

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

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

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.

For the year ended December 31, 2014, the Company recognized its share of CWI's income of \$8,136 (year ended December 31, 2013 - \$9,433; year ended December 31, 2012 - \$13,232), as income from investment accounted for by the equity method.

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Notes to Consolidated Financial Statements

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7. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

Assets, liabilities, revenue and expenses of CWI are as follows:

	December 31, 2014	December 31, 2013
Current assets:		
Cash and short-term investments	\$ 107,415	\$ 73,736
Accounts receivable	12,741	4,645
Current portion of deferred income tax assets	21,967	13,958
Other current assets	116	210
Long-term assets:		
Property, plant and equipment	1,294	1,096
Deferred income tax assets	29,408	21,698
Total assets	<u>\$ 172,941</u>	<u>\$ 115,343</u>
Current liabilities:		
Current portion of warranty liability	\$ 48,818	\$ 18,395
Current portion of deferred revenue	8,029	5,478
Accounts payable and accrued liabilities	6,419	7,772
	<u>63,266</u>	<u>31,645</u>
Long-term liabilities:		
Warranty liability	43,983	49,174
Deferred revenue	34,345	17,815
Other long-term liabilities	2,771	2,400
	<u>81,099</u>	<u>69,389</u>
Total liabilities	<u>\$ 144,365</u>	<u>\$ 101,034</u>

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Notes to Consolidated Financial Statements

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7. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

	Years ended December 31,		
	2014	2013	2012
Product revenue	\$ 283,551	\$ 261,012	\$ 161,741
Parts revenue	53,683	49,639	36,274
	<u>337,234</u>	<u>310,651</u>	<u>198,015</u>
Cost of revenue and expenses:			
Cost of product and parts revenue	270,832	246,403	136,575
Research and development	21,131	21,522	12,114
General and administrative	1,202	1,348	1,417
Sales and marketing	22,514	17,839	12,541
Foreign exchange (gain) loss	34	(7)	(18)
Bank charges, interest and other	805	607	472
	<u>316,518</u>	<u>287,712</u>	<u>163,101</u>
Income from operations	20,716	22,939	34,914
Interest and investment income	260	117	530
Income before income taxes	<u>20,976</u>	<u>23,056</u>	<u>35,444</u>
Income tax expense (recovery):			
Current	21,514	24,600	16,362
Deferred	(15,719)	(18,566)	(6,517)
	<u>5,795</u>	<u>6,034</u>	<u>9,845</u>
Income for the period	<u>\$ 15,181</u>	<u>\$ 17,022</u>	<u>\$ 25,599</u>

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8. Variable interest entities:

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

Prior to February 20, 2012, the Company and Cummins shared equally in the profits and losses of CWI. Under the new Joint Venture Agreement, profits and losses are shared equally up to an established revenue baseline, and then any excess profits will be allocated 75% to the Company and 25% to Cummins. The Company has not historically provided and does not intend to provide financial or other support to CWI that the Company is not contractually required to provide.

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

	Balance at December 31, 2014		Balance at December 31, 2013	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	\$ 13,196	\$ 13,196	\$ 7,191	\$ 7,191
Accounts receivable	2,538	2,538	3,621	3,621

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9. Property, plant and equipment:

December 31, 2014	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 3,015	\$ —	\$ 3,015
Computer equipment and software	9,277	7,063	2,214
Furniture and fixtures	6,194	1,798	4,396
Machinery and equipment	81,933	36,135	45,798
Leasehold improvements	12,460	9,749	2,711
	<u>\$ 112,879</u>	<u>\$ 54,745</u>	<u>\$ 58,134</u>

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
	<u>\$ 117,411</u>	<u>\$ 50,062</u>	<u>\$ 67,349</u>

As at December 31, 2014, equipment with a cost of \$16,572 (December 31, 2013 - \$18,788) and a net book value of \$1,714 (December 31, 2013 - \$5,465) is held under capital lease.

Depreciation expense for the year ended December 31, 2014 was \$14,106 (year ended December 31, 2013 - \$12,246; year ended December 31, 2012 - \$8,131).

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10. Intangible assets:

December 31, 2014	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 18,425	\$ 3,445	\$ 14,980
Technology (1)	6,449	3,142	3,307
Customer contracts (1)	13,762	4,163	9,599
Other intangibles (1)	62	28	34
Total	<u>\$ 38,698</u>	<u>\$ 10,778</u>	<u>\$ 27,920</u>

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 (2)	18,447	3,886	14,561
Other intangibles	1,262	225	1,037
Total	<u>\$ 48,151</u>	<u>\$ 9,807</u>	<u>\$ 38,344</u>

(1) 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 and decline in the oil price, the Company concluded there were impairment indicators requiring the performance of a long-lived assets impairment test for customer contracts, technology and other intangibles as of November 30, 2014. Accordingly non-cash impairment charges aggregating to \$5,823 were recorded during the year ended December 31, 2014 which reduced the carrying values of technology by \$115, customer contracts by \$4,705 and other intangibles by \$1,003 for the On-Road Systems segment.

(2) During the year ended December 31, 2013, there was a significant decline in revenue from the lower than expected adoption rate of natural gas vehicles in our customer contracts. An impairment analysis of the intangibles balance indicated that the carrying value exceeded the fair value of customer contracts. Accordingly, an intangible impairment charge of \$1,721 related to customer contracts in Sweden was recognized in the On-Road Systems segment. The fair value of customer contracts was determined using the present value of expected cash flows discounted at a rate equivalent to a market participant's weighted-average cost of capital.

During the year ended December 31, 2014, amortization of \$4,560 (December 31, 2013 - \$4,042; year ended December 31, 2012 - \$3,264) was recognized in the statement of operations.

The expected amortization of intangible assets for fiscal 2015 to 2019 is \$3,345 per year.

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11. Goodwill:

A continuity of goodwill is as follows:

	December 31, 2014	December 31, 2013
Balance, beginning of period:	\$ 41,500	\$ 56,879
Acquisition of Prins (note 4(a))	3,221	—
Acquisition of BAF (note 4(b))	—	18,542
Impairment losses	(18,543)	(34,964)
Impact of foreign exchange changes	(2,826)	1,043
Balance, end of period	<u>\$ 23,352</u>	<u>\$ 41,500</u>

An assessment of the carrying value of goodwill was conducted as of November 30, 2014. Based on the Company's assessment, it was determined that the carrying amount of goodwill exceeded the implied fair value of goodwill by \$18,543 in the On-Road Systems segment for the year ended December 31, 2014. The goodwill impairment charge was driven by the significant decline in the price of oil and a significant loss of revenue from the lower than expected adoption rate of natural gas vehicles.

The remaining goodwill of \$23,352 relates to the Applied Technologies segment. The fair value of the segment exceeded the carrying amount of goodwill.

For the year ended December 31, 2013 an assessment of the carrying value of goodwill was conducted as of November 30, 2013. Based on the Company's assessment, it was determined that the carrying amount of goodwill exceeded the implied fair value of goodwill by \$34,964. A goodwill impairment loss of \$30,067 and \$4,897 was recorded in the Applied Technologies segment and the On-Road Systems segment, respectively, for the year ended December 31, 2013. In the Applied Technologies segment, the goodwill impairment charge was driven by the adverse economic climate in Europe and other geographic markets and lower than anticipated revenues. In the On-Road Systems segment, the goodwill impairment charge was driven by a significant loss of revenue from lower than expected adoption rate of natural gas vehicles.

For 2013 and 2014, the fair value of the reporting units was determined using the present value of expected future cash flows discounted at a rate equivalent to a market participant's weighted-average cost of capital. The estimates and assumptions regarding expected future cash flows and the appropriate discount rates are in part based upon historical experience, financial forecasts and industry trends and conditions.

12. Accounts payable and accrued liabilities:

	December 31, 2014	December 31, 2013
Trade accounts payable	\$ 41,796	\$ 42,872
Accrued payroll	5,270	7,937
Accrued interest	1,237	893
Income taxes payable	580	709
Other payables (note 22b)	6,619	2,381
	<u>\$ 55,502</u>	<u>\$ 54,792</u>

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13. Long-term debt:

	December 31, 2014	December 31, 2013
Subordinated debenture notes (a)	\$ 46,491	\$ 33,847
Senior financing (b)	15,910	15,941
Senior revolving financing (c)	12,101	13,779
Other bank financing (d)	2,646	403
Capital lease obligations (e)	1,394	2,043
	<u>78,542</u>	<u>66,013</u>
Current portion	(18,955)	(53,025)
	<u>\$ 59,587</u>	<u>\$ 12,988</u>

(a) 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, matured on September 22, 2014, and bore 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 were 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 were redeemable 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 totaling \$51,517 (CDN \$55,000) are 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 as a non-current liability on its consolidated balance sheet. At issuance on June 27, 2014, the embedded derivative's fair value was determined to be \$1,169 (CDN\$1,249), which was recorded as a reduction to the carrying value of the New Debentures. 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 year ended December 31, 2014 (2013 \$Nil). The embedded derivative is subsequently adjusted to fair value at each reporting date, with the associated fair value loss (gain) recorded in interest and other income (loss). The fair value adjustment recorded for the year ended December 31, 2014 was \$(1,082) (2013 \$Nil). The derivative liability is included in other long term liabilities on the consolidated balance sheets. The Company determined the fair value of the embedded derivative using the Interest Rate Option Pricing Method which incorporated the Black-Karasinski model.

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13. Long-term debt (continued):

(b)

	December 31, 2014	December 31, 2013
Emer Senior Financing (1)	\$ 9,376	\$ 15,941
Prins Senior Financing (2)	3,630	—
Prins Senior Mortgage Loan (3)	2,904	—
	<u>\$ 15,910</u>	<u>\$ 15,941</u>

(1) The Emer S.p.A ("Emer") senior financing agreement bears interest at the 6-month Euribor plus 2.5% (2.7% as at December 31, 2014) and is recorded at amortized cost using the effective interest rate method. Interest is paid semi-annually. The Company has pledged its interest in Emer as a general guarantee for its senior financing. The senior financing matures in 2017.

(2) A total of \$7,521 Prins senior financing was assumed on the acquisition of Prins (note 4a). Principal of \$3,891 was repaid on December 2, 2014. The senior financing agreement bears interest at the 3-month Euribor plus 3.5% (3.6% as at December 31, 2014). Interest is paid quarterly. The Company has pledged its interest in Prins as a general guarantee for its senior financing. The senior financing matures in 2016.

(3) The Prins senior mortgage loan was assumed on the acquisition of Prins (note 4a). The senior mortgage loan bears interest at 3-month Euribor plus 1% (1.1% as at December 31, 2014). Interest is paid quarterly. The Company has pledged its interest in Prins's building as a general guarantee for its senior mortgage loan. The senior mortgage loan matures in 2020.

The principal repayment schedule of the senior financings are as follows for the years ended December 31:

	Emer Senior Financing	Prins Senior Financing	Prins Senior Mortgage Loan	Total
2015	\$ 4,020	\$ 1,633	\$ 363	\$ 6,016
2016	4,239	1,997	363	6,599
2017	1,117	—	363	1,480
2018	—	—	363	363
2019 and thereafter	—	—	1,452	1,452
	<u>\$ 9,376</u>	<u>\$ 3,630</u>	<u>\$ 2,904</u>	<u>\$ 15,910</u>

(c) The senior revolving financing facility bears interest at the 6-month Euribor plus 2.5% (2.6% as at December 31, 2014) and will be repaid through two principal payments of \$6,050 (€5,000) on March 31, 2016 and October 2, 2017. Interest is paid semi-annually. The Company has pledged its interest in Emer as a general guarantee for its senior revolving financing.

Throughout the entire term of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2014, the Company is in compliance with all covenants under the financing arrangements.

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13. Long-term debt (continued):

(d)

	December 31, 2014	December 31, 2013
Emer other financing (1)	\$ 1,129	\$ 247
Prins other financing (2)	1,424	—
Other financing	93	156
	<u>\$ 2,646</u>	<u>\$ 403</u>

(1) Emer other financing consists of various unsecured bank financing arrangements that carry rates of interest ranging from 1.01% to 2.90% (2013 - 1.01% to 8.00%) and are payable on maturity dates ranging from June 23, 2015 to June 23, 2017.

(2) Prins other bank financing consists of a credit facility for maximum borrowings of €2,000. The credit facility bears interest at the 3 month Euribor + 3.5% (3.6% as of December 31, 2014). The credit facility is governed by an accounts receivable list requirement limiting such borrowings to 60% of accepted accounts receivable.

(e) The Company has capital lease obligations that have initial terms of three to five years at interest rates ranging from 3.07% to 4.93% (2013 - 3.07% to 7.32%). The capital lease obligations require the following minimum annual principal payments during the respective fiscal years:

2015	\$ 522
2016	328
2017	327
2018	191
2019	26
	<u>\$ 1,394</u>

(f) The Company has a credit facility for maximum borrowings of CDN\$30,000. The credit facility is governed by a margin requirement limiting such borrowings to a calculated amount based on cash and investments held with the creditor. Borrowings may be drawn in the form of direct borrowings, letters of credit, foreign exchange forward contracts and overdraft loans. Outstanding amounts on direct borrowings and overdraft loans drawn under this credit facility bear interest at the prime rate, and letters of credit bear interest at 0.75% (2013 - 0.75%) per annum. As at December 31, 2014 and 2013, no amounts of this credit facility were drawn.

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14. Warranty liability:

A continuity of the warranty liability is as follows:

	Years ended December 31,		
	2014	2013	2012
Balance, beginning of period	\$ 28,845	\$ 6,380	\$ 4,401
Warranty assumed on acquisition	1,952	582	—
Warranty claims	(10,709)	(5,397)	(3,099)
Warranty accruals	2,734	4,153	5,303
Change in estimate	—	22,837	—
Impact of foreign exchange changes	287	290	(225)
Balance, end of period	\$ 23,109	\$ 28,845	\$ 6,380
Less: Current portion	(9,696)	(9,955)	(2,072)
Long-term portion	\$ 13,413	\$ 18,890	\$ 4,308

During the fourth quarter of 2013, a study of the historical data indicated that the cost to repair product defects continued to increase significantly primarily associated with our extended warranty contracts. As a result, the Company recognized a change in estimate in our base warranty liability and a loss on our extended warranty contracts representing the excess of the estimated cost to service these contracts over the amount of the deferred revenue recognized associated with the contracts. The warranty liability was reviewed in the fourth quarter of 2014, and no change in estimate was required.

15. Other long-term liabilities:

	December 31, 2014	December 31, 2013
Severance indemnity (a)	\$ 1,519	\$ 1,547
Contingent consideration payable related to AFV acquisition (b)	1,240	878
Derivative Liability (note 13a)	86	—
Deferred lease inducements	—	16
	\$ 2,845	\$ 2,441
Current portion (included in accounts payable and accrued liabilities, other payables)	(1,240)	—
	\$ 1,605	\$ 2,441

(a) Italian law requires companies to make a mandatory termination payment to employees. It is paid, as a lump sum, when the employment ends for any reason such as retirement, resignation or layoff. The severance indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. There is no vesting period or funding requirement associated with the liability. The liability recorded in the consolidated balance sheet is the amount that the employee would be entitled to if the employee terminates immediately. This liability for severance indemnities relates primarily to the Company's employees in Italy.

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15. Other long-term liabilities continued:

(b) The total purchase price to acquire AFV also includes earn-out payments payable in the Company's shares and tied to revenue and production milestones to be achieved no later than December 31, 2014. This contingent consideration has a fair value of \$407 as at December 31, 2014 (December 31, 2013 - \$427).

The Company recorded compensation expense relating to two employees of AFV who receive earn-out payments in the Company's shares that are tied to revenue and production milestones to be achieved no later than December 31, 2014 and contingent upon continuing employments. This contingent consideration has a fair value of \$833 as at December 31, 2014 (December 31, 2013 - \$451).

Subsequent to year end 325,073 shares were issued in connection with the earn-out payments described above at \$4.51CDN per share.

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16. Government assistance:

From time to time, the Company enters into agreements for financial assistance with government agencies. During the years ended December 31, 2014, 2013 and 2012, government assistance of \$892, \$640 and \$842 was received or receivable by the Company, respectively, which has been recorded as a reduction of the related research and development expenditures (Note 18).

Under the terms of an agreement with the Industry Canada's Industrial Technologies Office ("ITO"), from April 1, 2008 to March 31, 2015, inclusively, the Company is obligated to pay annual royalties equal to the greater of \$1,164 (CDN\$1,350) or 0.33% of the Company's annual revenue provided that gross revenue exceeds \$11,638 (CDN\$13,500) in any of the aforementioned fiscal years. The royalty payment period may be extended until the earlier of March 31, 2018 or until cumulative royalties total \$24,389 (CDN\$28,200). For the year ended December 31, 2014, \$1,481 (December 31, 2013 - \$1,164) in royalties have been paid or are payable of which \$1,470 (December 31, 2013 - \$1,269) remains accrued in accounts payable and accrued liabilities as at December 31, 2014. As at December 31, 2014, cumulative royalties of CDN\$8,364 have been paid.

The Company is also obligated to pay royalties to the Government of Canada's Department of Natural Resources equal to 1% of future revenue from engines for power generators until the earlier of ten years from the project completion date (August 30, 2004) or when cumulative royalties total CDN\$1,000. As at December 31, 2014, there has been no revenue from the sales of engines for power generators; therefore, no royalty payments have been paid or are payable.

17. Share Capital, stock options and other stock-based plans

During the year ended December 31, 2014, the Company issued 652,046 common shares, net of cancellations, upon exercises of stock options and share units (year ended December 31, 2013 – 721,186 common shares; year ended December 31, 2012 – 513,490 common shares). The Company issues shares from treasury to satisfy stock option and share unit exercises.

On June 30, 2014 the Company issued 94,914 common shares at a price of \$33.53 per share (note 4(b)).

On October 1, 2013, the Company issued 6,000,000 common shares at a price of \$25.39 per share. Gross proceeds totaled \$152,340, and the Company incurred share issuance costs of \$5,065.

On June 28, 2013, the Company issued 718,485 common shares at a price of \$33.53 per share as part of the consideration paid to acquire BAF (note 4(b)).

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

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17. Share capital, stock options and other stock-based plans (continued):

At the Company's 2012 annual general meeting, the Company's shareholders ratified and approved the Westport Omnibus Plan and reserved 8,000,000 common shares under this plan. Under the Westport Omnibus Plan, stock options, Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") may be granted and are exercisable into common shares of the Company for no additional consideration. Any employee, contractor, director or executive officer of the Company is eligible to participate in the Westport Omnibus Plan.

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

(a) Stock options:

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

A summary of the status of the Company's stock option plan as of December 31, 2014, December 31, 2013 and December 31, 2012 and changes during the periods then ended are presented as follows:

	December 31, 2014		December 31, 2013		December 31, 2012	
	Number of shares	Weighted average exercise price (CDN \$)	Number of shares	Weighted average exercise price (CDN \$)	Number of shares	Weighted average exercise price (CDN \$)
Outstanding, beginning of period	816,450	\$ 30.20	996,047	\$ 27.78	328,027	\$ 8.96
Granted	—	—	—	—	770,727	33.77
Exercised	(43,071)	6.17	(111,986)	6.80	(93,044)	10.49
Forfeited/expired	(741,156)	33.82	(67,611)	33.72	(9,663)	33.36
Outstanding, end of period	32,223	\$ 17.64	816,450	\$ 30.20	996,047	\$ 27.78
Options exercisable, end of period	32,223	\$ 17.64	305,506	\$ 24.15	226,487	\$ 8.06

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17. Share capital, stock options and other stock-based plans (continued):

During the year ended December 31, 2014, the Company recognized \$1,764 (year ended December 31, 2013 - \$2,094; year ended December 31, 2012 - \$2,705) in stock-based compensation related to stock options.

No stock options were granted during the year ended December 31, 2014 or the year ended December 31, 2013.

The fair value of the options granted during the year ended December 31, 2012 was determined using the Black-Scholes option pricing formula simulation with the following weighted average assumptions: expected dividend yield - nil%, expected stock price volatility – 47.79%, risk free interest rate – 0.38%; expected life of options – 3 years. The weighted average grant date fair value was \$10.97 for options granted for the fiscal year ended December 31, 2012.

As at December 31, 2014, an immaterial amount of compensation cost related to stock option awards has yet to be recognized in results from operations and will be fully recognized in 2015.

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17. Share capital, stock options and other stock-based plans (continued):

(b) Share units:

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

During the year ended December 31, 2014, the Company recognized \$7,919 (year ended December 31, 2013 - \$12,189; year ended December 31, 2012 - \$9,763) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of December 31, 2014, December 31, 2013 and December 31, 2012 are as follows:

	December 31, 2014		December 31, 2013		December 31, 2012	
	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)
Outstanding, beginning of period	1,200,591	\$ 23.68	1,095,094	\$ 20.68	1,250,917	\$ 18.04
Granted	5,792,162	10.54	742,140	30.21	185,705	35.99
Exercised/Vested	(608,975)	19.52	(448,526)	24.44	(337,228)	19.34
Forfeited/expired	(1,045,905)	21.75	(188,117)	29.80	(4,300)	19.67
Outstanding, end of period	5,337,873	\$ 10.27	1,200,591	\$ 23.68	1,095,094	\$ 20.68
Units outstanding and exercisable, end of period	142,166	\$ 11.67	224,638	\$ 11.20	262,615	\$ 8.86

During 2014, 5,792,162 units (December 31, 2013 - 742,140) were granted to employees. This included 4,820,763 Restricted Share Units (RSUs (2013 - 352,485) and 971,399 Performance Share Units (PSUs) (2013 - 389,655). Values of RSU awards are determined based on the fair market value of the underlying Common Share on the date of grant. RSUs typically vest over a three year period so the actual value received by the individual depends on the share price on the day such RSUs are settled for Common Shares, not the date of grant. PSU awards do not have a certain number of Common Shares that will issue over time - it depends on future performance and the other conditions tied to the payout of the PSU. Values of PSU awards are determined based on the fair market value of the underlying Common Shares on the date of the grant (and generally assuming the issuance of one Common Share to be issued per PSU), calculated as the number of Common Shares issuable on settlement of the PSUs multiplied by a fair value as determined based on a Monte-Carlo simulation. During 2014, 963,575 PSUs (2013 - 54,876) were canceled or forfeited (2013 - 54,876).

As at December 31, 2014, \$30,102 of compensation cost related to Units awards has yet to be recognized in results from operations and will be recognized over a weighted average period of 2.42 years.

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17. Share capital, stock options and other stock-based plans (continued):

(c) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's stock option awards and share units at December 31, 2014 and 2013 are as follows:

	December 31, 2014 CDN\$	December 31, 2013 CDN\$
Stock options:		
Outstanding	\$ —	\$ 1,337
Exercisable	—	1,337
Exercised	364	2,667
Share units:		
Outstanding	\$ 23,433	\$ 24,960
Exercisable	624	4,670
Exercised	7,238	18,041

(d) Stock-based compensation:

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

	Years ended December 31,		
	2014	2013	2012
Research and development	\$ 1,749	\$ 2,195	\$ 2,251
General and administrative	5,884	10,201	6,752
Sales and marketing	2,050	1,887	3,465
	<u>\$ 9,683</u>	<u>\$ 14,283</u>	<u>\$ 12,468</u>

18. Research and development expenses:

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

	Years ended December 31,		
	2014	2013	2012
Research and development expenses	\$ 77,472	\$ 91,772	\$ 74,040
Government assistance (note 16)	(892)	(640)	(842)
Research and development	<u>\$ 76,580</u>	<u>\$ 91,132</u>	<u>\$ 73,198</u>

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19. Income taxes:

(a) The Company's income tax provision differs from that calculated by applying the combined enacted Canadian federal and provincial statutory income tax rate of 26% for the year ended December 31, 2014 (year ended December 31, 2013 – 26%; nine months ended December 31, 2012 – 25%) as follows:

	Years ended December 31,		
	2014	2013	2012
Loss before income taxes	\$ (150,197)	\$ (184,537)	\$ (97,036)
Expected income tax recovery	(39,051)	(47,979)	(24,259)
Increase (reduction) in income taxes resulting from:			
Non-deductible stock-based compensation	2,495	3,619	3,019
Other permanent differences	(446)	(2,562)	(2,158)
Withholding taxes	969	590	1,187
Change in enacted rates	—	—	62
Foreign tax rate differences, foreign exchange and other adjustments	7,409	3,858	(382)
Non-taxable income from equity investment	(3,739)	(2,851)	(3,308)
Change in valuation allowance	25,784	37,391	27,577
Goodwill impairment	4,748	8,807	—
Change in uncertain tax position	1,252	—	—
Income tax expense (recovery)	<u>\$ (579)</u>	<u>\$ 873</u>	<u>\$ 1,738</u>

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19. Income taxes (continued):

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

	December 31, 2014	December 31, 2013
Deferred income tax assets:		
Net loss carry forwards	\$ 129,258	\$ 108,083
Intangible assets	4,091	4,276
Property, plant and equipment	6,836	5,446
Financing and share issuance costs	1,533	2,696
Warranty liability	5,131	5,726
Deferred revenue	1,416	1,191
Inventory	2,336	2,017
Research and development	2,733	2,341
Other	7,262	6,410
Total gross deferred income tax assets	160,596	138,186
Valuation allowance	(152,207)	(126,424)
Total deferred income tax assets	8,389	11,762
Deferred income tax liabilities:		
Intangible assets	6,386	9,884
Property, plant and equipment	2,754	3,132
Other	774	650
Total deferred income tax liabilities	9,914	13,666
Total net deferred income tax liabilities	\$ 1,525	\$ 1,904
Allocated as follows:		
Current deferred income tax assets	3,556	3,109
Current deferred income tax liabilities	(398)	(468)
Long-term deferred income tax assets	271	379
Long-term deferred income tax liabilities	(4,954)	(4,903)
Total net deferred income tax liabilities	\$ (1,525)	\$ (1,883)

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

The deferred income tax assets have been reduced by the uncertain tax position presented in note 19(f).

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19. Income taxes (continued):

(b) (continued):

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

	Year ended December 31, 2014	Year ended December 31, 2013
Beginning balance	\$ 126,424	\$ 89,033
Additions	25,783	37,391
Reductions	—	—
Ending valuation allowance	<u>\$ 152,207</u>	<u>\$ 126,424</u>

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

	Income tax expense (recovery)			
	Net income (loss) before income taxes	Current	Deferred	Total
Year ended December 31, 2014:				
Canada	\$ (87,783)	165	301	\$ 466
United States	(49,577)	8	—	8
Italy	(3,834)	521	(1,463)	(942)
Other	(9,003)	(88)	(23)	(111)
	<u>\$ (150,197)</u>	<u>\$ 606</u>	<u>\$ (1,185)</u>	<u>\$ (579)</u>
Year ended December 31, 2013:				
Canada	\$ (99,188)	\$ 444	\$ 89	\$ 533
United States	(31,019)	56	(295)	(239)
Italy	(27,247)	836	(311)	525
Other	(27,083)	78	(24)	54
	<u>\$ (184,537)</u>	<u>\$ 1,414</u>	<u>\$ (541)</u>	<u>\$ 873</u>
Year ended December 31, 2012:				
Canada	\$ (93,688)	\$ 1,339	\$ 53	\$ 1,392
United States	(1,589)	(62)	—	(62)
Italy	(318)	775	25	800
Other	(1,441)	95	(487)	(392)
	<u>\$ (97,036)</u>	<u>\$ 2,147</u>	<u>\$ (409)</u>	<u>\$ 1,738</u>

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19. Income taxes (continued):

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

Expiring in:	2015	2016	2017	2018	2019	2020 and later	Total
Canada	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 387,553,717	\$87,553,717
Italy	—	—	—	—	—	6,429,576	6,429,576
United States	—	—	—	—	—	55,353,513	55,353,513
Sweden	—	—	—	—	—	13,710,864	13,710,864
Other	—	—	—	1,085,596	6,725,731	7,834,119	15,645,446
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,085,596</u>	<u>\$ 6,725,731</u>	<u>\$ 470,881,789</u>	<u>\$478,693,116</u>

(e) The Company has not recognized a deferred income tax liability for the undistributed earnings of certain foreign subsidiaries which are essentially investments in those foreign subsidiaries and are permanent in duration.

(f) The Company records uncertain tax positions in accordance with ASC No. 740, Income Taxes. As at December 31, 2014, the total amount of the Company's uncertain tax benefits was \$1,230 (year ended December 31, 2013 - nil). If recognized in future periods, the uncertain tax benefits would affect our effective tax rate. The Company files income tax returns in Canada, the U.S., Italy, and various other foreign jurisdictions. All taxation years remain open to examination by the Canada Revenue Agency, the 2009 to 2014 taxation years remain open to examination by the Internal Revenue Service and the Italian Revenue Agency, and various years remain open in the other foreign jurisdictions.

A reconciliation of the change in the reserves for uncertain tax positions from January 1, 2014 to December 31, 2014 is as follows:

Balance as of January 1, 2014	\$ —
Tax positions related to the current year:	
Additions	—
Reductions	—
	<u>\$ —</u>
Tax positions related to prior years:	
Additions	1,230
Reductions	—
Settlements	—
Lapses in statutes of limitations	—
Balance as of December 31, 2014	<u>\$ 1,230</u>

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20. Related party transactions:

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

As at December 31, 2014, net amounts due from CWI total \$2,538 (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. Cost reimbursements from CWI consisted of the following:

	Years ended December 31,		
	2014	2013	2012
Research and development	\$ 3	\$ 178	\$ 160
General and administrative	1,548	1,351	2,621
Sales and marketing	4,935	4,725	3,683
	<u>\$ 6,486</u>	<u>\$ 6,254</u>	<u>\$ 6,464</u>

During the year ended December 31, 2014, interest of \$nil (year ended December 31, 2013 - \$nil; year ended December 31, 2012 - \$114) was paid to CWI.

21. Service and other revenue:

Service and other revenue for the year ended December 31, 2014 consisted of a one-time license revenue of \$nil (year ended December 31, 2013 - \$nil; year ended December 31, 2012 - \$7,923) for the transfer of proprietary know-how, other fee payments of \$1,480 (year ended December 31, 2013 - \$1,484; year ended December 31, 2012 - \$1,414), and service revenue of \$11,074 (year ended December 31, 2013 - \$14,547; year ended December 31, 2012 - \$13,907) under existing development agreements. All costs associated with the development agreements were recorded as research and development expenses in the period incurred.

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

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22: Commitments and contingencies:

(a) Contractual Commitments

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

2015	\$	3,946
2016		4,978
2017		5,890
2018		4,969
2019		4,960
Thereafter		<u>33,125</u>
	\$	<u>57,868</u>

For the year ended December 31, 2014, the Company incurred operating lease expense of \$3,879 (year ended December 31, 2013 - \$5,675; year ended December 31, 2012 - \$4,492).

As at December 31, 2014, the Company's wholly owned subsidiary Emer has provided a total amount of guarantees to third parties of \$298, (December 31, 2013 - \$342), which include guarantees to its customers for the completion of specific supplies.

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

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

(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. In 2014, the Company entered into several long-term fixed price contracts to purchase parts to produce certain products. These contracts represent firm purchase commitments which are evaluated for potential market value losses. The Company estimated a loss on these firm purchase commitments with reference to the estimated future sales price of these products and recognized a provision for inventory purchase commitments of \$4,106 in 2014. The provision is recognized in other payables in accounts payable and accrued liabilities (note 12).

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23. Segmented information:

The financial information for the Company's business segments evaluated by the Company's chief operating decision maker ("CODM") includes the results of the CWI and WWI as if it were consolidated, which is consistent with the way Westport manages its business segments. As CWI and WWI are accounted for under the equity method of accounting, an adjustment is reflected in the tables below to reconcile the segment measures to the Company's consolidated measures.

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

- Applied Technologies, designs, produces, and sells compressed natural gas (CNG) 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 cannot be attributed to a particular segment and are incurred by all 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 note 2. The CODM evaluates segment performance based on the net operating income (loss), which is before income taxes and does not include depreciation and amortization, 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. The Company did not record any intersegment sales or transfers for the year ended December 31, 2014 and December 31, 2013.

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23. Segmented information (continued):

	Years ended December 31,		
	2014	2013	2012
Revenue:			
Applied Technologies	\$ 86,168	\$ 93,216	\$ 91,675
On-Road Systems	37,031	55,090	37,558
Off-Road Systems	3,789	3,309	3,149
Corporate and Technology Investments	3,581	12,417	23,244
CWI	337,234	310,651	198,015
WWI	618,465	466,580	272,086
Total segment revenues	1,086,268	941,263	625,727
Less: equity investees' revenue	(955,699)	(777,231)	(470,101)
Total consolidated revenues	\$ 130,569	\$ 164,032	\$ 155,626
Net consolidated operating income (loss) excluding depreciation and amortization, losses on impairments, write-downs and disposals, provision for inventory purchase commitments, foreign exchange loss (gain), bank charges and other:			
Applied Technologies	\$ (5,204)	\$ 6,635	\$ 9,820
On-Road Systems	(14,431)	(59,843)	(40,937)
Off-Road Systems	(2,744)	(14,218)	(13,653)
Corporate and Technology Investments	(87,363)	(83,546)	(50,211)
CWI	21,555	23,539	35,368
WWI	78,502	14,496	9,765
Total segment operating loss	(9,685)	(112,937)	(49,848)
Less: equity investees' operating income	(100,057)	(38,035)	(45,133)
Net consolidated operating loss excluding depreciation and amortization, losses on impairments, write-downs and disposals, provision for inventory purchase commitments, foreign exchange (gain) loss, bank charges and other:	(109,742)	(150,972)	(94,981)
Depreciation and amortization:			
Applied Technologies	8,012	7,838	7,905
On-Road Systems	5,561	3,186	1,028
Off-Road Systems	—	450	83
Corporate and Technology Investments	5,093	4,814	2,379
Provision for inventory purchase commitments (On-Road Systems)	4,106	—	—
Losses on impairments, write-downs and disposals			
Corporate and Technology Investments	3,458	31,564	—
On-Road Systems	26,146	9,959	—
	52,376	57,811	11,395
Net consolidated operating loss before foreign exchange (gain) loss, bank charges and other	(162,118)	(208,783)	(106,376)
Foreign exchange (gain) loss, bank charges and other	(2,731)	(14,573)	1,922
Loss from operations	(159,387)	(194,210)	(108,298)
Interest on long-term debt and other income (expenses), net	(5,032)	(3,771)	(4,928)
Income from investment accounted for by the equity method	14,222	13,444	16,190
Loss before income taxes	\$ (150,197)	\$ (184,537)	\$ (97,036)

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23. Segmented information (continued):

	Years ended December 31,		
	2014	2013	2012
Total additions to long-lived assets excluding business combinations:			
Applied Technologies	\$ 938	\$ 4,408	\$ 3,000
On-Road Systems	1,340	15,555	10,306
Off-Road Systems	—	908	1,481
Corporate and Technology Investments	7,971	5,579	16,565
	<u>\$ 10,249</u>	<u>\$ 26,450</u>	<u>\$ 31,352</u>

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide it by geographical regions. Product and service and other revenues are attributable to geographical regions based on location of the Company's customers 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		
	Years ended December 31,		
	2014	2013	2012
Americas (including United States)	40	42	38
Asia (including China)	12	11	9
Other (including Italy)	48	47	53

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

As at December 31, 2014, total goodwill of \$23,352 (December 31, 2013 - \$22,958) was allocated to Applied Technologies and \$nil (December 31, 2013 - \$18,542) to On-Road Systems segments.

As at December 31, 2014, total long-term investments of \$32,898 (December 31, 2013 - \$21,872) was allocated to the Corporate segment and \$426 (December 31, 2013 - \$256) was allocated to Applied Technologies.

Total assets are allocated as follows:

	December 31, 2014	December 31, 2013
Applied Technologies	\$ 151,428	\$ 144,803
On-Road Systems	130,461	111,323
Off-Road Systems	1,042	6,564
Corporate and Technology Investments and unallocated assets	54,764	228,981
CWI	172,941	115,343
WWI	182,215	131,146
	<u>692,851</u>	<u>738,160</u>
Less: equity investees' total assets	355,156	246,489
Total consolidated assets	<u>\$ 337,695</u>	<u>\$ 491,671</u>

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23. Segmented information (continued):

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

Long-lived assets information by geographic area:

	December 31, 2014	December 31, 2013
Italy	\$ 53,319	\$ 66,918
Netherlands	9,944	—
Canada	25,083	30,713
United States	20,320	47,322
Sweden	208	322
China	6,329	8,675
Australia	1,233	1,360
	116,436	155,310
Less: equity investees' long-lived assets	7,030	8,117
Total consolidated long-lived assets	\$ 109,406	\$ 147,193

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24. Financial instruments:

(a) Financial risk management:

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

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company has sustained losses and negative cash flows from operations since inception. At December 31, 2014, the Company has \$94,005 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at December 31, 2014:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	\$ 55,502	\$ 55,502	\$ 55,502	\$ —	\$ —	\$ —
Unsecured subordinated debentures (1)	46,491	68,613	4,950	63,663	—	—
Senior financing (2)	15,910	16,565	6,314	8,353	779	1,120
Senior revolving financing (3)	12,101	12,743	315	12,429	—	—
Other bank financing (4)	2,646	3,135	1,050	478	121	1,485
Capital lease obligations	1,394	1,490	626	665	200	—
Operating lease commitments	—	57,867	3,946	10,868	9,929	33,125
Royalty payments (5)	1,294	15,927	1,164	2,327	2,327	10,108
	<u>\$ 135,338</u>	<u>\$ 231,842</u>	<u>\$ 73,867</u>	<u>\$ 98,783</u>	<u>\$ 13,356</u>	<u>\$ 45,838</u>

(1) Includes interest at 9%.

(2) Includes interest at rates disclosed in note 13(b) in effect at December 31, 2014.

(3) Includes interest at rates disclosed in note 13(c) in effect at December 31, 2014.

(4) Includes interest at rates disclosed in note 13(d) in effect at December 31, 2014.

(5) From fiscal 2011 to 2015 inclusive, the Company is obligated to pay annual royalties equal to the greater of \$1,164 (CDN \$1,350) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds \$12,693 (CDN \$13,500) in any aforementioned fiscal year, up to a maximum of \$26,514 (CDN\$28,189). The Company has assumed the minimum required payments.

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24. Financial instruments (continued):

(c) Credit risk:

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

The Company is also exposed to credit risk with respect to uncertainties as to timing and amount of collectability of accounts receivable and loans receivable. As at December 31, 2014, 87% (December 31, 2013 - 88%) of accounts receivable relates to customer receivables, 1% (December 31, 2013 - 1%) relates to government grants receivable and 12% (December 31, 2013 - 11%) relates to amounts due from joint venture and indirect, income tax and value added taxes receivable. In order to minimize the risk of loss for customer receivables, the Company's extension of credit to customers involves review and approval by senior management as well as progress payments as contracts are executed. Most sales are invoiced with payment terms in the range of 30 days to 90 days. The Company reviews its customer receivable accounts and regularly recognizes an allowance for doubtful receivables as soon as the account is determined not to be fully collectible. Estimates for allowance for doubtful debts are determined by a customer-by-customer evaluation of collectability at each balance sheet reporting date, taking into consideration past due amounts and any available relevant information on the customers' liquidity and financial position.

The carrying amount of cash and cash equivalents, short-term investments and accounts receivable as at December 31, 2014 of \$140,854 (December 31, 2013 - \$269,919) represents the Company's maximum credit exposure.

(d) Foreign currency risk:

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

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24. Financial instruments (continued):

(d) Foreign currency risk (continued):

The Company's functional currency is the Canadian dollar. The U.S. dollar and the Euro carrying amount of financial instruments subject to exposure to foreign currency risk in the consolidated balance sheet at December 31, 2014 is as follows:

	U.S. dollars
Cash and cash equivalents	\$ 69,899
Short-term investments	500
Accounts receivable	14,304
Accounts payable	4,012
	Euros
Cash and cash equivalents	€ 9,190
Accounts receivable	38,916
Accounts payable	27,667

If foreign exchange rates on December 31, 2014 had changed by 25 basis points, with all other variables held constant, net loss for the year ended December 31, 2014 would have changed by \$201 and \$51 for US dollar denominated and Euro denominated financial instruments, respectively. The Company's exposure to currencies other than U.S. dollars and Euros is not material.

(e) Interest rate risk:

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

If interest rates for the year ended December 31, 2014 had increased or decreased by 50 basis points, with all other variables held constant, net loss for the year ended December 31, 2014 would have increased or decreased by \$52.

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24. Financial instruments (continued):

(f) Fair value of financial instruments:

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

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

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

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

The carrying value reported in the balance sheet for senior financing agreements (note 13(b and c)) approximates their fair values as at December 31, 2014, as the interest rates on the debt is floating and therefore approximates the market rates of interest. The Company's credit spread also has not substantially changed from the premiums currently paid.

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

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

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

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

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

As at December 31, 2014, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

25. Subsequent Events

Other than the shares issued in connection with the earn-out payments as described in note 15b there were no subsequent events that occurred after the balance sheet date through March 9, 2015, the date when the financial statements were issued.