

FINANCIAL REPORT TO SHAREHOLDERS

WestportTM
Here and Now.

For the three and six months
ended
June 30, 2015 and 2014

Q2 2015

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") for Westport Innovations Inc. ("Westport", the "Company", "we", "us", "our") for the three and six ended June 30, 2015 provides an update to our annual amended MD&A dated July 23, 2015 for the fiscal year ended December 31, 2014. This information is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2014. Our interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated July 29, 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, including tabular amounts, is reported in millions of 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 Operations:

During the first quarter of 2015, Westport realigned the structure of the Company's internal organization. The realignment combines, our historical operating segments, Westport Applied Technologies, Westport On-Road Systems and Westport Off-Road Systems into a single operating segment, Westport Operations. This change reflects the manner in which operating decisions and assessing business performance is currently managed by the Chief Operating Decision Makers (the CEO and the COO "CODMs"). As Westport narrows its focus within certain business units, including its investments in joint ventures, and defers certain products and related programs, the CODMs manage the combined businesses as a whole. Therefore, the Westport Operations segment provides more meaningful information to users of Westport's financial statements. Prior-period amounts have been adjusted retrospectively to reflect these operating segment changes.

Westport Operations designs, manufactures and sells compressed natural gas ("CNG"), liquefied natural gas ("LNG"), and liquefied petroleum gas ("LPG") components and systems to over 20 global OEMs, including Fiat, Volkswagen, Tata Motors, the GAZ Group, Chrysler, General Motors, Ford Motor Company ("Ford"), PACCAR Inc., Volvo Car Group, Hyundai and Kia and to aftermarket customers in over 79 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 made either directly to OEMs or through one of their many global distributors. Westport Operations has a strong customer base in Europe and North America and is growing in Asia, South America, and Africa.

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; Westport iCE PACK™ for spark-ignited ("SI") engines, LNG tender products for the rail market and Westport™ industrial engines sold to Clark Material Handling and Cummins Western Canada for forklift and oilfield applications.

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 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 associated revenue will be recognized under Westport Operations.

Cummins Westport Inc. Joint Venture

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. Joint Venture

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 May 5, 2015, the Company announced plans to offer 2016 Ford F-150 trucks for use with the compressed natural gas (CNG) Westport WiNG™ Power System. Designed to transport passengers and cargo, the 2016 Ford F-150 offers a 5.0-liter gaseous prep engine with improved emissions compared to gasoline. The Ford F-150 pickup truck is available with a 17 gasoline gallon equivalent (GGE) or 23 GGE tank.

On May 5, 2015, CWI unveiled the ISB6.7 G, a 6.7 litre medium-duty, factory built, dedicated natural gas engine for school bus, shuttle bus, medium duty truck and vocational applications. The new ISB6.7 G is currently in field trials with full production expected to commence in mid 2016. The ISB6.7 G will operate exclusively on natural gas (CNG or LNG) utilizing Cummins Westport's proprietary spark-ignited, stoichiometric combustion with cooled exhaust gas recirculation (SEGR) technology, first introduced with the 8.9 litre ISL G.

On May 6, 2015, CWI announced it will begin field tests this year in California in transit buses with a spark ignited natural gas engine capable of producing Near Zero NOx emissions well before the 2023 California Near Zero NOx schedule for Low NOx vehicles. CWI believes its proprietary Stoichiometric EGR Spark Ignited (SESI) natural gas engine technology as released on its ISL G and ISX12 G engines is ideally suited to continue to provide an economic and efficient solution to California air quality improvement initiatives. While commercial availability will be announced at a later date, the Near Zero NOx technology in the ISLG engine will be made available as a first fit engine with transit and refuse OEMs and as an engine replacement for existing ISL G vehicles resulting in an immediate NOx emission reduction well before the 2023 Near Zero NOx goals set in California

On July 7, 2015, the Company announced it will offer dedicated, liquid propane systems for 2016 Ford 5.0L F-150 trucks. This new liquid propane system will be offered in addition to Westport's compressed natural gas (CNG) package for 2016 Ford F-150 trucks. Both fuel options are part of the Westport WiNG™ Power System and are expected to be certified to EPA and CARB standards.

SELECTED FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the three and six months ended June 30, 2015, and June 30, 2014:

Selected Consolidated Statements of Operations Data

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
<i>(expressed in millions of United States dollars, except for per share amounts and shares outstanding)</i>				
Total revenue	\$ 27.8	\$ 37.9	\$ 55.9	\$ 77.8
Gross margin (1)	9.7	13.6	15.2	25.9
GM %	34.9%	35.9%	27.2%	33.3%
Net loss	(20.5)	(35.4)	(37.7)	(59.2)
Net loss per share – basic and fully diluted (2)	(0.32)	(0.56)	(0.59)	(0.94)
Weighted average shares outstanding	64,117,665	63,110,446	63,985,492	63,005,649

- (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.
- (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.

The following table sets forth a summary of our financial position as at June 30, 2015 and December 31, 2014:

Selected Balance Sheet Data

	June 30, 2015	December 31, 2014
Cash and short-term investments	\$ 60.6	\$ 94.0
Total assets	277.8	337.7
Long-term debt	71.7	78.5

SELECTED FINANCIAL INFORMATION (continued):

The following tables set forth a summary of the financial results of our joint ventures for the three and six months ended June 30, 2015, and June 30, 2014:

Selected CWI Statements of Operations Data

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Total revenue	\$ 93.1	\$ 79.6	\$ 166.1	\$ 159.6
Gross margin	24.7	10.4	51.3	18.0
<i>GM %</i>	26.5%	13.1%	30.9%	11.3%
Income before income taxes	11.6	0.2	26.3	(2.0)
Income attributable to the Company	3.4	0.4	9.3	(0.4)

Selected WWI Statements of Operations Data

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Total revenue	\$ 41.9	\$ 133.1	\$ 97.8	\$ 246.4
Gross margin	5.7	8.8	11.4	15.1
<i>GM %</i>	13.6%	6.6%	11.7%	6.1%
Income before income taxes	0.5	2.3	1.5	4.0
Income attributable to the Company	0.1	0.7	0.4	1.2

RESULTS FROM OPERATIONS

Revenue

Total segments revenues for the three months ended June 30, 2015 including 100% of CWI and WWI revenue, decreased \$87.7 million, or 35% from \$250.5 million in 2014 to \$162.8 million in 2015.

Total segments revenues for the six months ended June 30, 2015 including 100% of CWI and WWI revenue, decreased \$164.0 million, or 34% from \$483.8 million in 2014 to \$319.8 million in 2015.

The following table summarizes revenues by segment for the three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014:

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2015	2014	\$	%	2015	2014	\$	%
Westport Operations	24.6	35.7	(11.1)	(31)%	52.1	74.7	(22.6)	(30)%
Corporate and Technology Investments	3.2	2.1	1.1	52 %	3.8	3.1	0.7	23 %
CWI	93.1	79.6	13.5	17 %	166.1	159.6	6.5	4 %
WWI	41.9	133.1	(91.2)	(69)%	97.8	246.4	(148.6)	(60)%
Total segment revenues	162.8	250.5	(87.7)	(35)%	319.8	483.8	(164.0)	(34)%
Less: Equity investees' revenues	135.0	212.7	(77.7)	(37)%	263.9	406.0	(142.1)	(35)%
Total consolidated revenues	27.8	37.9	(10.1)	(27)%	55.9	77.8	(21.9)	(28)%

Westport Operations revenue for the three months ended June 30, 2015 decreased \$11.1 million, or 31% to \$24.6 million from \$35.7 million for the three months ended June 30, 2014. Westport Operations has been impacted significantly by the decline in the price of oil and the strengthening of the US dollar. Revenue from European operations, including recent acquisitions decreased by €1.2 million while revenue from North American operations decreased by approximately \$5.6 million. A further decrease of \$4.1 million in revenue was driven by unfavorable impacts of foreign currency translation from the Euro to the US dollar equivalent.

For the six months ended June 30, 2015 revenue decreased \$22.6 million, or 30% to \$52.1 million from \$74.7 million for the six months ended June 30, 2014. Revenue from European operations, including recent acquisitions, decreased by €2.5 million while revenue from North American operations decreased by \$14.8 million. The decrease in revenue from North American operations was driven by decreases in Westport's Ford qualified vehicle modifier ("QVM") business of \$6.0 million, decreased sales of Westport iCE PACK of \$3.3 million, and a decrease in engineering service contracts of \$5.2 million. A further decrease of approximately \$8.0 million in revenue was driven by unfavorable impacts of foreign currency translation from the Euro to the US dollar equivalent.

Corporate and Technology Investments revenue for the three and six months ended June 30, 2015 increased \$1.1 million, or 52% from \$2.1 million to \$3.2 million and to \$3.8 million from \$3.1 million for the six months ended. The increase in revenue was driven by meeting a milestone during the second quarter ended with one of our OEM partners.

CWI revenue for the three months ended June 30, 2015 increased 13.5 million, or 17% from \$79.6 million to \$93.1 million. CWI product revenue for the three months ended June 30, 2015 increased \$14.6 million, or 22%, to \$80.4 million on sales of 2,947 units compared to \$65.8 million and 2,479 units for the three months ended June 30, 2014, which was primarily attributed to higher sales in North America. CWI parts revenue for the three months ended June 30, 2015 decreased \$1.0 million to \$12.7 million compared with \$13.7 million for the three months ended June 30, 2014 which was primarily attributed to changes in product mix.

For the six months ended June 30, 2015 revenue increased \$6.5 million, or 4% from \$159.6 million to \$166.1 million. CWI product revenue for the six months ended June 30, 2015 increased \$9.1 million, or 7%, to \$141.4 million on sales of 5,225 units compared to \$132.3 million and 4,959 units for the six months ended June 30, 2014, which was primarily attributed to higher sales in North America. CWI parts revenue for the six months ended June 30, 2015 decreased \$2.7 million to \$24.7 million compared with \$27.4 million for the six months ended June 30, 2014 which was primarily attributed to changes in product mix.

WWI revenue for the three months ended June 30, 2015 decreased \$91.2 million, or 69%, from \$133.1 million to \$41.9 million. WWI shipped 3,491 units in 2015 compared with 11,071 units for the three months ended June 30, 2014. For the six months ended June 30, 2015 revenue decreased \$148.6 million, or 60%, from \$246.4 million to \$97.8 million. WWI shipped 7,876 units in 2015 compared with 20,198 units for the six months ended June 30, 2014. WWI results are in-line with general market conditions in China and in-line with diesel truck sales. Truck demand remains subdued, as demonstrated by the decrease of recent monthly commercial vehicle sales in China year-over-year, according to China Association of Automotive Manufactures ("CAAM").

Gross Margin for the 3 months ended June 30, 2015 and 2014

Total segments gross margin for the three months ended June 30, including 100% share of CWI and WWI increased \$7.4 million from \$32.8 million in 2014 to \$40.2 million in 2015.

The following table presents gross margin by segment for the three months ended June 30, 2015 compared to the three months ended June 30, 2014:

	Three months ended June 30, 2015		Three months ended June 30, 2014		Change	
		% of Revenue		% of Revenue	\$	%
Westport Operations	\$ 6.5	26.4 %	\$ 11.5	32.2%	\$ (5.0)	(43)%
Corporate and Technology Investments	3.2	100.0 %	2.1	100.0%	1.1	52 %
CWI	24.7	26.5 %	10.4	13.1%	14.3	138 %
WWI	5.7	13.6 %	8.8	6.6%	(3.1)	(35)%
Total segment gross margin	\$ 40.2	24.7 %	\$ 32.8	13.1%	\$ 7.4	23 %
Less: equity investees' GM	30.4	(22.5)%	19.2	9.0%	11.2	58 %
Total consolidated gross margin	\$ 9.7	34.9 %	\$ 13.6	35.9%	\$ (3.9)	(29)%

Westport Operations gross margin decreased \$5.0 million to \$6.5 million, or 26.4% of revenue, for the three months ended June 30, 2015 compared to \$11.5 million, or 32.2% of revenue for the three months ended June 30, 2014. The decrease in gross margin percentage is due to lower revenues and changes in product mix.

CWI gross margin increased \$14.3 million to \$24.7 million, or 26.5% of revenue, from \$10.4 million or 13.1% of revenue. CWI product margin and product gross margin percentage for the three months ended June 30, 2015 were \$20.3 million and 25.3%, respectively, compared to \$6.0 million and 9.2%, respectively, for the three months ended June 30, 2014. This increase in CWI gross margin percentage was due to a favorable decrease of \$12.0 million in net warranty adjustments and net extended coverage claims compared to the three months ended June 30, 2014. Reliability of the ISL G engine has continued to improve as a result of both hardware and calibration changes. CWI parts gross margin percentage was 34.3% for the three months ended June 30, 2015 compared to 31.8% for the three months ended June 30, 2014. The increase in parts gross margin is primarily due to a change in product mix.

WWI gross margin decreased \$3.1 million to \$5.7 million, from \$8.8 million. The decrease in gross margin relates to a decrease in the number of engines sold. Gross margin as a percentage of revenue increased from 6.6% to 13.6% as a result of changes in product mix and product pricing.

Gross Margin for the 6 months ended June 30, 2015 and 2014

Total segments gross margin for the six months ended June 30, 2015 including 100% share of CWI and WWI increased \$18.8 million from \$59.0 million in 2014 to \$77.8 million in 2015.

The following table presents gross margin by segment for the six months ended June 30, 2015 compared to the six months ended June 30, 2014:

	Six months ended June 30,		Six months ended June 30,		Change	
	2015	% of Revenue	2014	% of Revenue	\$	%
Westport Operations	\$ 11.4	21.9 %	\$ 22.8	30.5%	\$ (11.4)	(50)%
Corporate and Technology Investments	3.8	100.0 %	3.1	100.0%	0.7	23 %
CWI	51.3	30.9 %	18.0	11.3%	33.3	185 %
WWI	11.4	11.7 %	15.1	6.1%	(3.7)	(24)%
Total segment gross margin	\$ 77.8	24.3 %	\$ 59.0	12.2%	\$ 18.8	32 %
Less: equity investees' GM	62.7	(23.8)%	33.1	8.2%	29.5	89 %
Total consolidated gross margin	\$ 15.2	27.2 %	\$ 25.9	33.3%	\$ (10.7)	(41)%

Westport Operations gross margin decreased \$11.4 million to \$11.4 million, or 21.9% of revenue, for the six months ended June 30, 2015 compared to \$22.8 million, or 30.5% of revenue for the six months ended June 30, 2014. The decrease in gross margin percentage is due to inventory obsolescence charges of \$2.3 million in the first half of 2015 compared to \$nil in the first half of 2014. Gross margin would have been 26.3% of revenue without the obsolescence charges. Gross margin also decreased due to lower revenue and changes in product mix.

CWI gross margin increased \$33.3 million to \$51.3 million, or 30.9% of revenue, from 18.0 million or 11.3% of revenue. CWI product margin and product gross margin percentage for the six months ended June 30, 2015 were \$42.8 million and 30.3%, respectively, compared to \$8.7 million and 6.6%, respectively, for the six months ended June 30, 2014. This increase in CWI gross margin percentage was due to a favorable decrease of \$32.5 million in net warranty adjustments and net extended coverage claims compared to the six months ended June 30, 2014. Reliability of the ISL G engine has continued to improve as a result of both hardware and calibration changes. CWI parts gross margin percentage was 34.3% for the six months ended June 30, 2015 compared to 34.0% for the six months ended June 30, 2014.

WWI gross margin decreased \$3.7 million to \$11.4 million, from \$15.1 million. The decrease in gross margin relates to a decrease in the number of the engines sold. Gross margin as a percentage of revenue increased from 6.1% to 11.7% as a result of changes in product mix and product pricing.

Research and Development

The following table presents details of research and development (“R&D”) expense by segment for the three and six months ended June 30, 2015 compared to three and six months ended June 30, 2014:

	Three months				Six months			
	ended June 30,		Change		ended June 30,		Change	
	2015	2014	\$	%	2015	2014	\$	%
Westport Operations	\$ 3.0	\$ 4.8	\$ (1.8)	(38)%	\$ 6.3	\$ 11.3	\$ (5.0)	(44)%
Corporate and Technology Investments	9.8	13.9	(4.1)	(29)%	19.9	28.4	(8.5)	(30)%
Total research and development	<u>\$ 12.8</u>	<u>\$ 18.7</u>	<u>\$ (5.9)</u>	<u>(32)%</u>	<u>\$ 26.2</u>	<u>\$ 39.7</u>	<u>\$ (13.5)</u>	<u>(34)%</u>

Westport Operations research and development expenses for the three and six months ended June 30, 2015 decreased \$1.8 million and \$5.0 million, respectively, compared to the same periods last year due to reduction in program expenses, decreased headcount, and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Corporate and Technology Investments research and development expenses for the three and six months ended June 30, 2015 decreased \$4.1 million and \$8.5 million, respectively, compared to the same periods last year due to reduction in program expenses and prioritizing of investment programs, decreased headcount and favorable impacts of foreign currency translation from the Canadian to the US dollar equivalent.

Selling, General and Administrative

The following table presents details of Selling, General and Administrative (“SG&A”) expense by segment for the three and six months ended June 30, 2015 compared to three and six months ended June 30, 2014:

	Three months				Six months			
	ended June 30,		Change		ended June 30,		Change	
	2015	2014	\$	%	2015	2014	\$	%
Westport Operations	\$ 5.2	\$ 6.9	\$ (1.7)	(25)%	\$ 10.6	\$ 14.4	\$ (3.8)	(26)%
Corporate and Technology Investments	7.8	9.2	(1.4)	(15)%	15.3	20.0	(4.7)	(24)%
Total selling, general and administrative	<u>\$ 13.0</u>	<u>\$ 16.1</u>	<u>\$ (3.1)</u>	<u>(19)%</u>	<u>\$ 25.9</u>	<u>\$ 34.4</u>	<u>\$ (8.5)</u>	<u>(25)%</u>

Westport Operations SG&A expenses for the three months ended June 30, 2015 decreased \$1.7 million and \$3.8 million, respectively, compared to the same periods last year, due to decreased headcount and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Corporate and Technology Investments SG&A expenses for the three months ended June 30, 2015 decreased \$1.4 million and \$4.7 million due to decreased headcount and favorable impacts of foreign currency translation from the Canadian to the US dollar equivalent.

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 three and six months ended June 30, 2015, we recognized a net foreign exchange gain of \$1.2 million and a net foreign exchange gain of \$4.0 million, respectively, with the decline in the Canadian dollar relative to the U.S. dollar. For the three and six months ended June 30, 2014, we recognized a net foreign exchange loss of \$8.6 million and a net foreign exchange gain of \$0.4 million, respectively, with the movement in the Canadian dollar relative to the U.S. dollar. A majority of the foreign exchange gain for the three and six months ended June 30, 2015 is unrealized.

Depreciation and amortization for the three and six months ended June 30, 2015 was \$3.5 million and \$7.1 million compared to \$4.6 million and \$8.9 million for the three and six months ended June 30, 2014. The decrease primarily relates to favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

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 in the current year compared to the prior period.

	Three months		Six months	
	ended June 30,		ended June 30,	
	2015	2014	2015	2014
CWI - 50% interest income (loss)	\$ 3.4	\$ 0.4	\$ 9.3	\$ (0.4)
WWI - 35% interest income (loss)	0.1	0.7	0.4	1.2
Other	—	—	0.1	(0.1)
Income from investment accounted for by the equity method	<u>\$ 3.5</u>	<u>\$ 1.1</u>	<u>\$ 9.8</u>	<u>\$ 0.7</u>

(1) During the first quarter of 2015, the Company identified adjustments in CWI's estimated 2014 financial statement results, which primarily related to warranty accrual. The identified adjustments resulted in a cumulative \$1.2 million understatement of the Company's income from investments accounted for by the equity method for the year ended December 31, 2014. The Company corrected the amounts related to CWI in the first quarter of 2015, which had the net effect of increasing income from investments accounted for by the equity method by \$1.2 million for the six months ended June 30, 2015. The Company did not believe this adjustment was material to its consolidated financial statements for the year ended December 31, 2014 and, therefore, did not restate any prior period amounts. The Company does not believe the adjustment is material to the three and six months ended June 30, 2015 consolidated interim financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Canadian debentures - 9% per annum	\$ 1.0	\$ 0.8	\$ 2.0	\$ 1.5
Senior financing facilities	0.3	0.2	0.6	0.5
Amortization of discount and non cash interest expense	0.2	0.1	0.4	0.2
Total Interest on long-term debt	<u>\$ 1.5</u>	<u>\$ 1.1</u>	<u>\$ 3.0</u>	<u>\$ 2.2</u>

Interest on long-term debt for the three and six months ended June 30, 2015 was \$1.5 million and \$3.0 million, respectively, compared to interest on long-term debt expense of \$1.1 million and \$2.2 million, respectively, for the three and six months ended June 30, 2014 due to additional interest from Canadian debentures and senior financing facilities as a result of increased long term debt as of June 30, 2015 compared to June 30, 2014.

Income tax expense for the three and six months ended June 30, 2015 was \$0.6 million and \$1.1 million, respectively, compared to income tax expense of \$0.3 million and \$0.3 million, respectively, for the three and six months ended June 30, 2014.

The increase for the three and six months ended June 30, 2015 primarily relates to higher distributable earnings from our investment in CWI.

Impairment of property, plant and equipment

During the three and six months ended June 30, 2015, the Company recorded an impairment charge of \$3.4 million (three months ended June 30, 2014 - \$0). The impairment was recorded against Orca™ LNG trailers ("Orcas") which provide in-yard fleets convenient refueling in the absence of a permanent liquefied natural gas ("LNG") solution. The method used to determine fair value was recent sales of Orcas and the impairment charge was recorded in the Westport Operations segment.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at June 30, 2015, our cash, cash equivalents and short-term investment position was \$60.6 million, a decrease of \$33.4 million from \$94.0 million at December 31, 2014. 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 June 30, 2015 had an accumulated deficit of \$802.7 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. For the year ended December 31, 2014, the Company right-sized the business structure and reduced expenses through activities including staff reductions and deferral of non-core development programs. As a result of these actions and favourable foreign exchange movements research and development, sales and general and administrative expenses have decreased \$22.0 million from \$74.1 million to \$52.1 million for the six months ended June 30, 2015.

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 six months ended June 30, 2015, our cash used in operations was \$39.2 million. Changes in non-cash working capital resulted in a use of \$9.8 million. The \$9.8 million change in working capital was impacted by increases in prepaid expenses of \$1.5 million and decreases in accounts payable and accrued liabilities of \$4.3 million and warranty liability of \$4.0 million. Cash used in investing activities included the purchase of fixed assets of \$1.7 million, offset by \$11.7 million in dividends received from joint ventures. Cash used in financing activities included principal payments of long term debt of \$2.7 million offset by issuance on long term debenture notes of \$2.3 million which was primarily from our European subsidiaries. CWI dividends of \$11.7 million have been received in the first half of 2015 compared to \$4.8 million in the first half of 2014.

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	\$ 49.2	\$ 49.2	\$ 49.2	\$ —	\$ —	\$ —
Subordinated debentures (1)	43.4	53.0	4.0	4.0	45.0	—
Senior financing (2)	12.2	12.6	5.9	5.2	0.7	0.8
Senior revolving financing (3)	11.2	11.6	11.4	0.2	—	—
Other bank financing	3.9	4.4	2.2	0.3	0.1	1.8
Capital lease obligations	1.0	1.1	0.5	0.6	0.1	—
Operating lease commitments (4)	—	53.6	4.6	10.0	8.2	30.7
	<u>\$ 120.9</u>	<u>\$ 185.5</u>	<u>\$ 77.8</u>	<u>\$ 20.3</u>	<u>\$ 54.1</u>	<u>\$ 33.3</u>

Contractual cash flows include both expected interest and principal repayments

(1) The subordinated debenture notes 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.

(2) Senior financing comprises the EMER senior financing agreement ("Emer senior financing"), the Prins Autogassystemen Holding B.V ("Prins") senior financing agreement ("Prins senior financing"), and the Prins senior mortgage loan ("Prins senior mortgage loan"). The senior financing agreements bear interest at 3 or 6-month Euribor plus a fixed percentage ranging from 1% to 3.5%.

(3) The senior revolving financing facility relates to EMER and bears interest at 6-month Euribor plus 2.5%. Interest is paid semi-annually.

The principal repayment schedule of the subordinated debenture notes, senior financing agreements, and senior revolving financing are as follows for the period ended June 30, 2015.

	Subordinated debenture notes	Emer Senior Financing	Prins Senior Financing	Prins Senior Mortgage Loan	Senior revolving financing	Total
2015	\$ —	\$ 3.8	\$ 1.0	\$ 0.3	\$ —	\$ 5.1
2016	—	2.0	1.8	0.3	5.6	9.7
2017	43.3	1.0	—	0.3	5.5	50.3
2018	—	—	—	0.3	—	0.3
2019 and thereafter	—	—	—	1.3	—	1.2
	<u>\$ 43.3</u>	<u>\$ 6.8</u>	<u>\$ 2.8</u>	<u>\$ 2.5</u>	<u>\$ 11.1</u>	<u>\$ 66.6</u>

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

SHARES OUTSTANDING

For the three months ended June 30, 2015 and June 30, 2014, the weighted average number of shares used in calculating the loss per share was 64,117,665, and 63,110,446, respectively. During the three months ended June 30, 2015, we granted 2,683,277 RSUs and 2,660,000 PSUs (together the "Share Units"). The Common Shares, and Share Units outstanding and exercisable as at the following dates are shown below:

	June 30, 2015		July 29, 2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Common Shares outstanding	64,172,920		64,176,263	
Share Units ⁽¹⁾				
Outstanding ⁽²⁾⁽³⁾	10,109,157	N/A	10,105,814	N/A
Exercisable	125,643	N/A	125,643	N/A

(weighted average exercise prices are presented in Canadian dollars)

(1) As at June 30, 2015, excludes 73,453 (July 29, 2015 - 73,453) of phantom share units, which when vested, are exercisable in exchange for a cash payment and do not result in the issuance of common shares.

(2) As at June 30, 2015, includes 3,613,305 (July 29, 2015 - 3,613,305) PSUs with payout levels ranging between 0% and 300% 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 300% conversion ratio as at the date hereof, however such awards have not yet vested.

(3) Vesting of the 2,660,000 PSUs granted in in 2015 is conditional upon shareholders of Westport approving an increase in the number of awards available for issuance pursuant to the Westport Omnibus Plan.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our interim consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. The Company's accounting policies are described in Note 2 of our fiscal year ended December 31, 2014 annual consolidated financial statements. There have been no changes in accounting policies applied to the June 30, 2015 financial statements. We have identified several policies as critical to the measurement of our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as a variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock-based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in Note 2 of our fiscal year ended December 31, 2014 annual consolidated financial statements and our 2014 Annual Management and Discussion Analysis. Actual amounts may vary significantly from estimates used.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

(a) 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, 2017. Early adoption would be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within the annual periods). 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

During the six months ended June 30, 2015, there were no changes to our internal control over financial reporting that materially affected or are reasonably likely to materially affect, our internal controls over financial reporting. However, as described in the December 31, 2014 annual amended MD&A, management concluded that the review control over the unaudited financial information of CWI, which is used in the Company's accounting and disclosures for the Company's investment in CWI, was not designed with sufficient precision to prevent or detect a potential material error in CWI's financial information. Accordingly, a reasonable possibility exists that a material misstatement in the Company's financial statements related to the investment in CWI will not be prevented or detected on a timely basis. We are in the process of developing enhanced control procedures designed to address the material weakness. The enhancements to the design of the control include the following:

- Increased coordination with CWI with respect to the timing of their annual audit in order to receive audited financial statements from CWI as the basis of the Company's accounting and disclosure for the investment in CWI, if possible.
- We are not certain that the CWI audit may be completed in time for our filing requirements. If this is not possible, we will improve the design of our review control with a formalized evaluation for areas requiring investigation and follow up with enhanced tracking of those issues and how they are concluded upon on a timely basis. This may involve meeting with the auditors and management of CWI to discuss the status of the annual audit, obtain an understanding for the risk areas, and any potential errors identified or open issues prior to the completion of our review.

The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

SUMMARY OF QUARTERLY RESULTS AND DISCUSSION OF THE QUARTER ENDED JUNE 30, 2015

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

Three months ended	30- Sep-13	31- Dec-13	31- Mar-14	30- Jun-14	30- Sep-14	31- Dec-14	31- Mar-15	30- Jun-15
<i>(expressed in millions of United States dollars except for per share amounts)</i>								
Product revenue (1)	\$ 33.0	\$ 41.4	\$ 34.8	\$ 31.8	\$ 24.0	\$ 27.4	\$ 27.0	\$ 24.6
Service and other revenue	13.5	11.2	5.1	6.1	1.4	—	1.0	3.3
Total revenue	46.5	52.6	39.9	37.9	25.4	27.4	28.0	27.8
Cost of product and parts revenue	30.5	69.6	27.6	24.3	17.3	28.7	22.6	18.1
Gross margin	\$ 16.0	\$(17.0)	\$ 12.3	\$ 13.6	\$ 8.1	\$ (1.3)	\$ 5.4	\$ 9.7
Gross margin percentage	34.4%	(32.3)%	30.8%	35.9%	31.9%	(4.7)%	19.3%	34.9%
Net loss for the period	\$ (30.2)	\$(89.5)	\$ (23.9)	\$ (35.4)	\$ (25.5)	\$(64.8)	\$ (17.2)	\$ (20.5)
EBITDA (2)	(24.5)	(84.2)	(18.8)	(28.8)	(20.8)	(57.5)	(11.7)	(14.8)
Adjusted EBITDA (3)	(19.5)	(23.2)	(22.1)	(16.9)	(22.0)	(23.0)	(9.2)	(7.7)
Loss per share								
Basic and Diluted	(0.5)	(1.4)	(0.4)	(0.6)	(0.4)	—	(0.3)	(0.3)
Income from unconsolidated joint ventures:								
CWI net income attributable to the Company	2.5	2.8	(0.8)	0.4	0.9	7.6	5.9	3.4
WWI net income attributable to the Company	\$ 1.3	\$ 0.7	\$ 0.5	\$ 0.7	\$ 1.2	\$ 3.6	\$ 0.3	\$ 0.1

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

(2) The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have a standardized meaning according to U.S. GAAP. See non-GAAP measures for more information.

(3) The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Westport defines Adjusted EBITDA as EBITDA adjusted for amortization of stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other unusual adjustments. See non-GAAP measures for more information.

Non-GAAP Measures:

We use certain non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed in U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

EBITDA

The term EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. The Company defines EBITDA as loss before income taxes adjusted for interest expense (net) and depreciation and amortization.

Management believes that EBITDA is an important indicator commonly reported and widely used by investors and analysts as an indicator of the Company's operating performance and ability. The intent is to provide additional useful information to investors and analysts and such measures do not have any standardized meaning under U.S. GAAP. These measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. Other issuers may define EBITDA differently.

Three months ended	30-Sep-13	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14	31-Mar-15	30-June-15
Loss before income taxes	\$ (29.9)	\$ (89.5)	\$ (23.9)	\$ (35.1)	\$ (26.2)	\$ (65.1)	\$ (16.7)	\$ (19.9)
Interest Expense, net (1)	1.1	0.7	0.8	1.7	0.7	2.5	1.4	1.6
Depreciation	4.3	4.6	4.3	4.6	4.7	5.1	3.6	3.5
EBITDA	<u>\$ (24.5)</u>	<u>\$ (84.2)</u>	<u>\$ (18.8)</u>	<u>\$ (28.8)</u>	<u>\$ (20.8)</u>	<u>\$ (57.5)</u>	<u>\$ (11.7)</u>	<u>\$ (14.8)</u>

(1) Interest expense, net is defined as the aggregate of bank charges, interest, and other, interest on long term-debt and amortization of discount.

EBITDA decreased \$3.1 million in the three months ended June 30, 2015 to a loss of \$14.8 million from a loss of \$11.7 million for the three months ended March 31, 2015 primarily as a result of non cash impairment charges of \$3.4 million.

Non-GAAP Measures continued:

Adjusted EBITDA

The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP.

Adjusted EBITDA is used by management to review operational progress of its business units and investment programs over successive periods and as a long-term indicator of operational performance since it ties closely to the unit's ability to generate sustained cash flows.

Westport defines Adjusted EBITDA as EBITDA adjusted for stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other unusual adjustments. Adjusted EBITDA has limitations as an analytical tool, and when assessing Westport's operating performance, investors should not consider Adjusted EBITDA in isolation, or as a substitute for net loss or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Among other things, Adjusted EBITDA does not reflect Westport's actual cash expenditures. Other companies may calculate similar measures differently than Westport, limiting their usefulness as comparative tools. Westport compensates for these limitations by relying primarily on its U.S. GAAP results.

Three months ended	30-Sep-13	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14	31-Mar-15	30-June-15
EBITDA	\$ (24.5)	\$ (84.2)	\$ (18.8)	\$ (28.8)	\$ (20.8)	\$ (57.5)	\$ (11.7)	\$ (14.8)
Stock based compensation	3.7	3.3	4.7	3.3	1	—	3.4	4.7
Unrealized foreign exchange (gain) loss	1.3	(10.1)	(8.9)	8.6	(2.2)	(0.9)	(2.9)	(1.2)
Non-cash and other unusual adjustments (1)	—	67.8	0.9	—	—	35.4	2.0	3.6
	<u>\$ (19.5)</u>	<u>\$ (23.2)</u>	<u>\$ (22.1)</u>	<u>\$ (16.9)</u>	<u>\$ (22.0)</u>	<u>\$ (23.0)</u>	<u>\$ (9.2)</u>	<u>\$ (7.7)</u>

(1) Non-cash and other unusual adjustments include impairment of long lived assets, provision for inventory purchase commitments, intangible impairment, goodwill impairment, and one time inventory obsolescence charges. The three month ended December 31, 2014 figure included other unusual adjustments related to the discontinuation of the first generation of Westport HPDI systems.

Adjusted EBITDA increased \$1.5 million in the three months ended June 30, 2015 to a loss of \$7.7 million from a loss of \$9.2 million for the three months ended June 30, 2015 primarily as a result of reduced research and development, general and administrative and sales and marketing expenses.

RELATED PARTY TRANSACTIONS

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

As at June 30, 2015, net amounts due from CWI total \$0.3 million (December 31, 2014 - \$2.5 million). 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:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Research and development	\$ —	\$ —	\$ —	\$ —
General and administrative	0.3	0.5	0.5	0.9
Sales and marketing	0.9	1.5	2.4	2.7
	<u>\$ 1.2</u>	<u>\$ 2.0</u>	<u>\$ 2.9</u>	<u>\$ 3.6</u>

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.

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

WESTPORT INNOVATIONS INC.

For the three and six months ended June 30, 2015 and 2014

WESTPORT INNOVATIONS INC.

Condensed Consolidated Balance Sheets (unaudited)

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

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 59,937	\$ 93,282
Short-term investments	709	723
Accounts receivable (note 3)	43,849	46,849
Inventories (note 4)	37,517	41,824
Prepaid expenses	5,983	4,641
Current portion of deferred income tax assets	2,924	3,556
	<u>150,919</u>	<u>190,875</u>
Long-term investments (note 5)	29,815	33,324
Other assets	2,980	3,819
Property, plant and equipment (note 7)	47,771	58,134
Intangible assets (note 8)	24,348	27,920
Deferred income tax assets	251	271
Goodwill (note 9)	<u>21,671</u>	<u>23,352</u>
	<u>277,755</u>	<u>337,695</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	49,191	55,502
Current portion of deferred revenue	1,951	1,782
Current portion of deferred income tax liabilities	185	398
Current portion of long-term debt (note 11)	19,272	18,955
Current portion of warranty liability (note 12)	8,266	9,696
	<u>78,865</u>	<u>86,333</u>
Warranty liability (note 12)	10,172	13,413
Long-term debt (note 11)	52,389	59,587
Deferred revenue	2,594	3,795
Deferred income tax liabilities	4,276	4,954
Other long-term liabilities	<u>1,398</u>	<u>1,605</u>
	<u>149,694</u>	<u>169,687</u>
Shareholders' equity:		
Share capital (note 13):		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
64,172,920 (2014 - 63,480,722) common shares	935,966	930,857
Other equity instruments	11,225	7,767
Additional paid in capital	9,837	9,837
Accumulated deficit	(802,653)	(764,960)
Accumulated other comprehensive income	<u>(26,314)</u>	<u>(15,493)</u>
	<u>128,061</u>	<u>168,008</u>
Commitments and contingencies (note 15)		
	<u>\$ 277,755</u>	<u>\$ 337,695</u>

See accompanying notes to the condensed consolidated financial statements.

Approved on behalf of the Board:

"Douglas R. King"

Director

"Jill Bodkin"

Director

WESTPORT INNOVATIONS INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss (unaudited)

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

	Three months ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Product revenue	\$ 24,557	\$ 31,723	\$ 51,534	\$ 66,505
Service and other revenue	3,289	6,139	4,334	11,284
	<u>27,846</u>	<u>37,862</u>	<u>55,868</u>	<u>77,789</u>
Cost of revenue and expenses:				
Cost of product revenue	18,109	24,261	40,707	51,917
Research and development	12,761	18,698	26,237	39,702
General and administrative	8,610	9,536	17,001	20,712
Sales and marketing	4,416	6,587	8,873	13,663
Foreign exchange (gain)	(1,174)	8,566	(4,049)	(365)
Depreciation and amortization	3,535	4,585	7,082	8,916
Bank charges, interest and other	123	116	191	222
Impairment	3,419	—	3,419	325
	<u>49,799</u>	<u>72,349</u>	<u>99,461</u>	<u>135,092</u>
Loss from operations	<u>(21,953)</u>	<u>(34,487)</u>	<u>(43,593)</u>	<u>(57,303)</u>
Income from investments accounted for by the equity method	3,529	1,041	9,841	685
Interest on long-term debt and amortization of discount	(1,486)	(1,102)	(2,958)	(2,203)
Interest and other income	42	(498)	111	(67)
Loss before income taxes	<u>(19,868)</u>	<u>(35,046)</u>	<u>(36,599)</u>	<u>(58,888)</u>
Income tax expense	621	312	1,094	336
Net loss for the period	<u>\$ (20,489)</u>	<u>\$ (35,358)</u>	<u>\$ (37,693)</u>	<u>\$ (59,224)</u>
Other comprehensive (loss):				
Cumulative translation adjustment	528	9,268	(10,821)	(2,125)
Comprehensive loss	<u>\$ (19,961)</u>	<u>\$ (26,090)</u>	<u>\$ (48,514)</u>	<u>\$ (61,349)</u>
Loss per share:				
Basic and diluted	<u>\$ (0.32)</u>	<u>\$ (0.56)</u>	<u>\$ (0.59)</u>	<u>\$ (0.94)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>64,117,665</u>	<u>63,110,446</u>	<u>63,985,492</u>	<u>63,005,649</u>

See accompanying notes to the condensed consolidated financial statements.

WESTPORT INNOVATIONS INC.

Condensed Consolidated Statements of Shareholders' Equity (unaudited)

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

Three and six months ended June 30, 2015 and June 30, 2014

	Common shares outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity
December 31, 2013	62,733,762	\$ 916,497	\$ 13,834	\$ 8,205	\$ (615,342)	\$ (292)	\$ 322,902
Issue of common shares on exercise of stock options	4,358	49	—	(17)	—	—	32
Issue of common shares on exercise of share units	293,659	6,709	(6,709)	—	—	—	—
Issuance of common shares in connection with acquisition	94,914	3,182	(3,182)	—	—	—	—
Stock-based compensation	—	—	6,422	885	—	—	7,307
Net loss for the year	—	—	—	—	(59,224)	—	(59,224)
Other comprehensive loss	—	—	—	—	—	(2,125)	(2,125)
June 30, 2014	63,126,693	\$ 926,437	\$ 10,365	\$ 9,073	\$ (674,566)	\$ (2,417)	\$ 268,892
December 31, 2014	63,480,722	930,857	7,767	9,837	(764,960)	(15,493)	168,008
Issue of common shares on exercise of share units	367,125	3,947	(3,947)	—	—	—	—
Issue of common shares in connection with acquisition	325,073	1,162	—	—	—	—	1,162
Stock-based compensation	—	—	7,405	—	—	—	7,405
Net loss for the year	—	—	—	—	(37,693)	—	(37,693)
Other comprehensive loss	—	—	—	—	—	(10,821)	(10,821)
June 30, 2015	64,172,920	\$ 935,966	\$ 11,225	\$ 9,837	\$ (802,653)	\$ (26,314)	\$ 128,061

See accompanying notes to the condensed consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Cash Flows (unaudited)

(Expressed in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Cash flows from operating activities:				
Loss for the period	\$ (20,489)	\$ (35,358)	\$ (37,693)	\$ (59,224)
Items not involving cash:				
Depreciation and amortization	3,535	4,585	7,082	8,916
Stock-based compensation expense	4,681	3,323	7,928	8,056
Unrealized foreign exchange loss (gain)	(1,174)	8,566	(4,049)	(365)
Deferred income tax (recovery) expense	12	87	319	(182)
Income from investments accounted for by the equity method	(3,529)	(1,041)	(9,841)	(685)
Amortization of long-term debt	367	499	763	876
Impairment	3,419	—	3,419	325
Inventory write-downs to net realizable value	323	—	2,318	—
Change in fair value of derivative liability and bad debt expense	20	164	370	700
Changes in non-cash operating working capital:				
Accounts receivable	(1,843)	(7,711)	402	(445)
Inventories	1,396	(867)	275	2,371
Prepaid expenses	(482)	(2,014)	(1,537)	(4,459)
Accounts payable and accrued liabilities	1,013	5,628	(4,320)	(428)
Deferred revenue	(495)	(2,140)	(651)	(4,108)
Warranty liability	(3,483)	(2,658)	(4,026)	(3,378)
	<u>(16,729)</u>	<u>(28,937)</u>	<u>(39,241)</u>	<u>(52,030)</u>
Cash flows from investing activities:				
Purchase of property, plant and equipment	(727)	(1,536)	(1,705)	(4,813)
Maturity of short-term investments	—	7,715	—	9,626
Dividends received from joint ventures	4,761	—	11,748	2,626
	<u>4,034</u>	<u>6,179</u>	<u>10,043</u>	<u>7,439</u>
Cash flows from financing activities:				
Repayment of long term facilities	(710)	(1,449)	(2,747)	(2,226)
Issuance of long term debt	469	17,797	2,342	17,797
Financing costs incurred	—	(2,023)	—	(2,001)
	<u>(241)</u>	<u>14,325</u>	<u>(405)</u>	<u>13,570</u>
Effect of foreign exchange on cash and cash equivalents	2,262	1,351	(3,742)	313
(Decrease) increase in cash and cash equivalents	<u>(10,674)</u>	<u>(7,082)</u>	<u>(33,345)</u>	<u>(30,708)</u>
Cash and cash equivalents, beginning of period	70,611	154,887	93,282	178,513
Cash and cash equivalents, end of period	<u>\$ 59,937</u>	<u>\$ 147,805</u>	<u>\$ 59,937</u>	<u>\$ 147,805</u>

See accompanying notes to the condensed consolidated financial statements.

WESTPORT INNOVATIONS INC.

Condensed Consolidated Statements of Cash Flows (continued) (unaudited)

(Expressed in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Supplementary information:				
Interest paid	\$ 147	\$ 104	\$ 2,352	\$ 1,878
Taxes paid, net of refunds	294	1	774	144
Non-cash transactions:				
Shares issued on exercise of performance share units	717	3,038	3,947	6,709

See accompanying notes to the condensed consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

1. Basis of preparation:

The unaudited condensed consolidated balance sheet as at June 30, 2015, and the unaudited condensed consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the three and six months ended June 30, 2015 and 2014 have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

These unaudited interim condensed consolidated financial statements do not include all note disclosures required on an annual basis, and therefore, should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended December 31, 2014 filed with the appropriate securities regulatory authorities.

In the opinion of management, all adjustments, which include reclassifications and normal recurring adjustments necessary to present fairly the condensed consolidated balance sheet, condensed consolidated results of operations and comprehensive loss, condensed consolidated statements of shareholders' equity and condensed consolidated cash flows as at June 30, 2015 and for all periods presented, have been recorded. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results for Westport Innovations Inc.'s ("the Company") full year.

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

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

	Period end exchange rate as at:		Average for the three months ended June 30,		Average for the six months ended June 30,	
	June 30, 2015	December 31, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Canadian dollar	0.80	0.86	0.81	0.92	0.81	0.91
Australian dollar	0.77	0.82	0.78	0.93	0.78	0.91
Euro	1.11	1.21	1.11	1.37	1.12	1.37
RMB	0.16	0.16	0.16	0.16	0.16	0.16
Swedish Krona	0.12	0.13	0.12	0.15	0.12	0.15

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

2. Accounting Changes

(a) 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, 2017. Early adoption would be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within the annual periods). 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 Condensed Consolidated Financial Statements (unaudited)

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

3. Accounts Receivable:

	June 30, 2015	December 31, 2014
Customer trade receivable	\$ 42,408	\$ 43,256
Due from joint venture (note 14)	304	2,538
Other receivables	3,472	3,307
Income tax receivable	489	499
Allowance for doubtful accounts	(2,824)	(2,751)
	<u>\$ 43,849</u>	<u>\$ 46,849</u>

4. Inventories:

	June 30, 2015	December 31, 2014
Purchased parts	\$ 25,171	\$ 28,227
Work-in-process	6,466	4,879
Finished goods	5,880	8,718
	<u>\$ 37,517</u>	<u>\$ 41,824</u>

During the three and six months ended June 30, 2015, the Company recognized write-downs to net realizable value of approximately \$323 (three months ended June 30, 2014 - \$0) and \$2,318 (six months ended June 30, 2014 - \$0)

5. Long-term investments:

	June 30, 2015	December 31, 2014
Weichai Westport Inc. (a)	\$ 17,931	\$ 18,791
Cummins Westport Inc. (b)	10,601	13,196
Other equity accounted for investees	1,283	1,337
	<u>\$ 29,815</u>	<u>\$ 33,324</u>

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

5. Long-term investments (continued):

(a) Weichai Westport Inc.:

The Company has a 35% equity interest in Weichai Westport Inc. ("WWI"), a joint venture with Weichai Holding Group Co. Ltd. and Hong Kong Peterson (CNG) Equipment Ltd. For the three and six months ended June 30, 2015, the Company recognized its share of WWI's income of \$149 (three months ended June 30, 2014 - income of \$688) and income of \$444 (six months ended June 30, 2014 and income of \$1,196), as income from investment accounted for by the equity method.

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

	June 30, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	\$ 36,224	\$ 11,734
Accounts receivable	38,878	72,121
Inventory	60,258	83,594
Other current assets	981	1,249
Long-term assets		
Property, plant and equipment	7,157	5,736
Deferred income tax assets	7,780	7,781
Total assets	\$ 151,278	\$ 182,215
Current liabilities:		
Accounts payable and accrued liabilities	\$ 96,137	\$ 128,838
Total liabilities	\$ 96,137	\$ 128,838

	Three months ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Product revenue	\$ 41,906	\$ 133,072	\$ 97,784	\$ 246,431
Cost of revenue and expenses:				
Cost of product revenue	36,167	124,249	86,354	231,299
Operating expenses	5,206	6,511	9,930	11,109
	41,373	130,760	96,284	242,408
Income before income taxes	533	2,312	1,500	4,023
Income tax expense	80	346	231	604
Income for the period	\$ 453	\$ 1,966	\$ 1,269	\$ 3,419

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

5. Long-term investments (continued):

(b) Cummins Westport Inc.:

The Company and Cummins Inc. ("Cummins") each own 50% of the common shares of CWI. For the three and six months ended June 30, 2015, the Company recognized its share of CWI's income of \$3,390 (three months ended June 30, 2014 - income of \$400) and \$9,337 (six months ended June 30, 2014 - loss of \$434), as income from investment accounted for by the equity method. During the first quarter of 2015, the Company identified adjustments in CWI's estimated 2014 financial results, which primarily related to warranty accrual. The identified adjustments resulted in a cumulative \$1,184 understatement of the Company's income from investments accounted for by the equity method for the year ended December 31, 2014. The Company corrected the amounts related to CWI in the first quarter of 2015, which had the net effect of increasing income from investments accounted for by the equity method by \$1,184 for the six months ended June 30, 2015. The Company did not believe this adjustment was material to its consolidated financial statements for the year ended December 31, 2014 and, therefore, did not restate any prior period amounts. The Company does not believe the adjustment is material to the three and six months ended June 30, 2015 consolidated interim financial statements.

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

	June 30, 2015	December 31, 2014 (1)
Current assets:		
Cash and short-term investments	\$ 109,123	\$ 107,415
Accounts receivable	5,275	11,846
Current portion of deferred income tax assets	21,968	21,507
Other current assets	58	116
Long-term assets:		
Property, plant and equipment	1,273	1,294
Deferred income tax assets	28,703	28,851
Total assets	<u>\$ 166,400</u>	<u>\$ 171,029</u>
Current liabilities:		
Current portion of warranty liability	\$ 48,126	\$ 48,422
Current portion of deferred revenue	10,718	8,029
Accounts payable and accrued liabilities	9,332	8,297
	<u>68,176</u>	<u>64,748</u>
Long-term liabilities:		
Warranty liability	37,463	40,882
Deferred revenue	36,900	34,345
Other long-term liabilities	2,771	2,771
	<u>77,134</u>	<u>77,998</u>
Total liabilities	<u>\$ 145,310</u>	<u>\$ 142,746</u>

(1) The Company has adjusted the December 31, 2014 information, as previously presented in our 2014 Annual Financial Statement Notes, to reflect the finalized audited financial information of CWI.

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

5. Long-term investments (continued):

(b) Cummins Westport Inc. (continued):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Product revenue	\$ 80,371	\$ 65,809	\$ 141,359	\$ 132,259
Parts revenue	12,701	13,746	24,713	27,365
	<u>93,072</u>	<u>79,555</u>	<u>166,072</u>	<u>159,624</u>
Cost of revenue and expenses:				
Cost of product and parts revenue	68,375	69,152	114,815	141,603
Research and development	7,682	5,532	14,252	10,286
General and administrative	310	402	532	676
Sales and marketing	5,009	4,115	9,960	8,796
Foreign exchange loss	2	(8)	32	2
Bank charges, interest and other	191	217	359	440
	<u>81,569</u>	<u>79,410</u>	<u>139,950</u>	<u>161,803</u>
Income from operations	11,503	145	26,122	(2,179)
Interest and investment income	81	62	226	130
Income before income taxes	<u>11,584</u>	<u>207</u>	<u>26,348</u>	<u>(2,049)</u>
Income tax expense (recovery):	4,803	(593)	10,046	(1,181)
Income (loss) for the period	<u>\$ 6,781</u>	<u>\$ 800</u>	<u>\$ 16,302</u>	<u>\$ (868)</u>

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

6. Variable interest entities:

Cummins and Westport each own 50% of the common shares of CWI and have equal representation on the Board of Directors. No one shareholder has the unilateral power to govern CWI. The Board of Directors has power over the operating decisions and to direct other activities of CWI that most significantly impact CWI's economic performance as set forth in the governing documents. As decision-making at the Board of Directors' level requires unanimous approval, this power is shared.

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 June 30, 2015		Balance at December 31, 2014	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	\$ 10,600	\$ 10,600	\$ 13,196	\$ 13,196
Accounts receivable	304	304	2,538	2,538

7. Property, plant and equipment:

June 30, 2015	Cost	Accumulated depreciation	Net book value
Land and buildings	\$ 2,776	\$ 87	\$ 2,689
Computer equipment and software	8,832	7,293	1,539
Furniture and fixtures	5,977	2,107	3,870
Machinery and equipment	74,411	36,972	37,439
Leasehold improvements	11,793	9,559	2,234
	<u>\$ 103,789</u>	<u>\$ 56,018</u>	<u>\$ 47,771</u>
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>

During the three and six months ended June 30, 2015, the Company recorded an impairment charge of \$3,419 (three months ended June 30, 2014 - \$0). The impairment was recorded against OrcaTM LNG trailers ("Orcas") which provide in-yard fleets convenient refueling in the absence of a permanent liquefied natural gas ("LNG") solution. The method used to determine fair value was recent sales of Orcas and the impairment charge was recorded in the Westport Operations segment.

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

8. Intangible Assets:

June 30, 2015	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 17,448	\$ 3,765	\$ 13,683
Technology	4,972	2,471	2,501
Customer contracts	12,366	4,373	7,993
Other intangibles	265	94	171
Total	<u>\$ 35,051</u>	<u>\$ 10,703</u>	<u>\$ 24,348</u>

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

9. Goodwill:

A continuity of goodwill is as follows:

	June 30, 2015	December 31, 2014
Balance, beginning of period:	\$ 23,352	\$ 41,500
Acquisition of Prins	—	3,221
Impairment losses	—	(18,543)
Impact of foreign exchange changes	(1,681)	(2,826)
Balance, end of period	<u>\$ 21,671</u>	<u>\$ 23,352</u>

10. Accounts payable and accrued liabilities:

	June 30, 2015	December 31, 2014
Trade accounts payable	\$ 37,198	\$ 41,796
Accrued payroll	2,352	5,270
Accrued interest	1,165	1,237
Income taxes payable	685	580
Other payables	7,791	6,619
	<u>\$ 49,191</u>	<u>\$ 55,502</u>

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

11. Long-term debt:

	June 30, 2015	December 31, 2014
Subordinated debenture notes (1)	\$ 43,336	\$ 46,491
Senior financing (2)	12,130	15,910
Senior revolving financing (3)	11,138	12,101
Other bank financing	4,021	2,646
Capital lease obligations	1,036	1,394
	71,661	78,542
Current portion	(19,272)	(18,955)
	<u>\$ 52,389</u>	<u>\$ 59,587</u>

(1) The subordinated debenture notes 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.

(2) Senior financing comprises the Emer S.p.A ("Emer") senior financing agreement ("Emer senior financing"), the Prins Autogassystemen Holding B.V ("Prins") senior financing agreement ("Prins senior financing"), and the Prins senior mortgage loan ("Prins senior mortgage loan"). The senior financing agreements bear interest at 3 or 6-month Euribor plus a fixed percentage ranging from 1% to 3.5%.

(3) The senior revolving financing facility relates to EMER and bears interest at 6-month Euribor plus 2.5%. Interest is paid semi-annually.

The principal repayment schedule of the subordinated debenture notes, senior financing agreements, and senior revolving financing are as follows for the period ended June 30, 2015 are as follows:

	Subordinated debenture notes	Emer Senior Financing	Prins Senior Financing	Prins Senior Mortgage Loan	Senior revolving financing	Total
2015	\$ —	\$ 3,797	\$ 1,002	\$ 336	\$ —	\$ 5,135
2016	—	1,960	1,839	335	5,569	9,703
2017	43,336	1,022	—	335	5,569	50,262
2018	—	—	—	335	—	335
2019 and thereafter	—	—	—	1,169	—	1,169
	<u>\$ 43,336</u>	<u>\$ 6,779</u>	<u>\$ 2,841</u>	<u>\$ 2,510</u>	<u>\$ 11,138</u>	<u>\$ 66,604</u>

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

12. Warranty liability:

A continuity of the warranty liability is as follows:

	Three months ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	\$ 20,866	\$ 27,253	\$ 23,109	\$ 28,845
Warranty claims	(2,433)	(1,717)	(5,620)	(4,400)
Warranty accruals	107	452	286	1,242
Impact of foreign exchange changes	(102)	(973)	663	(672)
Balance, end of period	\$ 18,438	\$ 25,015	\$ 18,438	\$ 25,015
Less: Current portion	(8,266)	(8,958)	(8,266)	(8,958)
Long-term portion	\$ 10,172	\$ 16,057	\$ 10,172	\$ 16,057

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

During the six months ended June 30, 2015, the Company issued 692,198 common shares, net of cancellations, upon exercises of share units and in connection with earn out payments stipulated by the total purchase price to acquire AFV (six months ended June 30, 2014 – 298,017). The Company issues shares from treasury to satisfy stock option and share unit exercises.

(a) 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 six months ended June 30, 2015, the Company recognized \$7,928 (six months ended June 30, 2014 - \$6,422) 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 June 30, 2015, and June 30, 2014 are as follows:

	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Number of units	Weighted average grant date fair value (CDN \$)	Number of units	Weighted average grant date fair value (CDN \$)
Outstanding, beginning of period	5,337,873	\$ 10.27	1,200,591	\$ 23.68
Granted	5,343,277	6.82	1,547,231	19.29
Exercised/Vested	(367,125)	13.57	(237,318)	31.04
Forfeited/expired	(204,868)	10.39	(35,752)	29.05
Outstanding, end of period	10,109,157	\$ 7.87	2,474,752	\$ 20.17
Units outstanding and exercisable, end of period	125,643	\$ 13.20	208,764	\$ 11.10

WESTPORT INNOVATIONS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

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

During 2015, 5,343,277 (June 30, 2014 - 1,547,231) share units were granted to employees. This included 2,683,277 Restricted Share Units ("RSUs") (2014 - 490,684) and 2,660,000 Performance Share Units ("PSUs") (2014 - 1,056,547). Values of RSU awards are generally 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 other conditions tied to the payout of the PSU. The vesting of the 2,660,000 PSU's granted in 2015 is conditional upon Shareholders of Westport approving an increase in the number of awards available for issuance pursuant to the Westport Omnibus Plan. As a result these PSU's are being treated as a liability until this condition is met.

As at June 30, 2015, \$52,875 of compensation cost related to Units awarded has yet to be recognized in results from operations and will be recognized over a weighted average period of 2.45 years.

(b) Aggregate intrinsic values:

The aggregate intrinsic value of the Company's stock option awards and share units at six months ended June 30, 2015 are as follows:

		June 30, 2015
		CDN\$
Share units:		
Outstanding	\$	57,034
Exercisable		746

(c) Stock-based compensation:

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Research and development	\$ 699	\$ 752	\$ 1,183	\$ 1,162
General and administrative	3,355	1,807	5,612	5,014
Sales and marketing	627	764	1,133	1,880
	<u>\$ 4,681</u>	<u>\$ 3,323</u>	<u>\$ 7,928</u>	<u>\$ 8,056</u>

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14. Related party transactions:

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

As at June 30, 2015, net amounts due from CWI total \$304 (2014 - \$2,538). 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:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Research and development	\$ —	\$ 1	\$ 18	\$ 3
General and administrative	303	481	451	911
Sales and marketing	932	1,467	2,381	2,743
	<u>\$ 1,235</u>	<u>\$ 1,949</u>	<u>\$ 2,850</u>	<u>\$ 3,657</u>

15. Commitments

(a) Contractual Commitments

Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment:

2015	\$ 4,623
2016	5,478
2017	4,503
2018	4,438
2019	3,778
Thereafter	30,767
	<u>\$ 53,587</u>

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.

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16. Segmented information:

During the first quarter of 2015, Westport realigned the structure of the company's internal organization. The realignment combines, our historical operating segments, Westport Applied Technologies, Westport On-Road Systems and Westport Off-Road Systems into a single operating segment, Westport Operations. This change reflects the manner in which operating decisions and assessing business performance is currently managed by the Chief Operating Decision Makers (the CEO and the COO "CODMs"). As Westport narrows its focus within certain business units, including its investments in joint ventures, and defers certain products and related programs, the CODMs manage the combined businesses as a whole. Therefore, the Westport Operations segment provides more meaningful information to users of Westport's financial statements. Prior-period amounts have been adjusted retrospectively to reflect these operating segment changes.

The financial information for the Company's business segments evaluated by the CODMs 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 four operating segments:

- Westport Operations designs manufactures and sells compressed natural gas, liquefied natural gas, and liquefied petroleum gas components and systems to over 20 global OEMs, and to aftermarket customers in over 60 countries.
- 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.

The accounting policies for the reportable segments are consistent with those described in the Company's annual consolidated financial statements for the year ended December 31, 2014. The CODM evaluates segment performance based on gross margin and on the net operating income (loss), which is before income taxes and does not include depreciation and amortization, impairment charges, foreign exchange gains and losses, bank charges, interest and other expenses, interest and other income, and gain on sale of long-term investments.

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16. Segmented information (continued):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue:				
Westport Operations	\$ 24,622	\$ 35,746	\$ 52,073	\$ 74,710
Corporate and technology investments	3,224	2,116	3,795	3,079
CWI	93,072	79,555	166,072	159,624
WWI	41,906	133,072	97,784	246,431
Total segment revenues	162,824	250,489	319,724	483,844
Less: equity investees' revenue	(134,978)	(212,627)	(263,856)	(406,055)
Total consolidated revenues	\$ 27,846	\$ 37,862	\$ 55,868	\$ 77,789
Net consolidated operating income (loss) excluding depreciation and amortization, losses on impairments, write-downs and disposals, foreign exchange loss (gain), bank charges and other:				
Westport Operations	\$ (1,371)	\$ (275)	\$ (5,269)	\$ (2,896)
Corporate and technology investments	(14,679)	(20,945)	(31,681)	(45,309)
CWI	11,505	354	26,112	(1,737)
WWI	1,500	2,312	480	4,023
Total segment operating loss	(3,045)	(18,554)	(10,358)	(45,919)
Less: equity investees' operating income	(13,005)	(2,666)	(26,592)	(2,286)
Net consolidated operating loss excluding depreciation and amortization, losses on impairments, write-downs and disposals, foreign exchange (gain) loss, bank charges and other:	(16,050)	(21,220)	(36,950)	(48,205)
Depreciation and amortization:				
Westport Operations	1,734	3,207	3,447	6,358
Corporate and technology investments	1,801	1,378	3,635	2,558
Losses on impairments, write-downs and disposals				
Westport Operations	3,419	—	3,419	325
	6,954	4,585	10,501	9,241
Net consolidated operating loss before foreign exchange (gain) loss, bank charges and other	(23,004)	(25,805)	(47,451)	(57,446)
Foreign exchange (gain) loss, bank charges and other	(1,051)	8,682	(3,858)	(143)
Loss before undernoted	(21,953)	(34,487)	(43,593)	(57,303)
Interest on long-term debt and other (expenses) income, net	(1,444)	(1,600)	(2,847)	(2,270)
Income (loss) from investment accounted for by the equity method	3,529	1,041	9,841	685
Loss before income taxes	\$ (19,868)	\$ (35,046)	\$ (36,599)	\$ (58,888)

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16. Segmented information (continued):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Total additions to long-lived assets excluding business combinations:				
Westport Operations	\$ 95	\$ 957	\$ 676	\$ 3,769
Corporate and technology investments	632	579	1,029	1,044
	<u>\$ 727</u>	<u>\$ 1,536</u>	<u>\$ 1,705</u>	<u>\$ 4,813</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			
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Americas (including United States)	34	44	34	46
Asia (including China)	12	13	10	11
Other (including Italy)	54	43	56	43

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

As at June 30, 2015, total goodwill of \$21,671 (December 31, 2014 - \$23,352) was allocated to Westport Operations.

As at June 30, 2015, long-term investments of \$29,381 (December 31, 2014 - \$32,898) was allocated to the Corporate segment and \$434 (December 31, 2014 - \$426) was allocated to Westport Operations.

Total assets are allocated as follows:

	June 30, 2015	December 31, 2014
Westport Operations	\$ 194,821	\$ 219,261
Corporate and technology investments	82,934	118,434
CWI	166,400	171,029
WWI	151,278	182,215
	<u>595,433</u>	<u>690,939</u>
Less: equity investees' total assets	317,678	353,244
Total consolidated assets	<u>\$ 277,755</u>	<u>\$ 337,695</u>

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16. Segmented information (continued):

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

Long-lived assets information by geographic area:

	June 30, 2015	December 31, 2014
Italy	\$ 47,338	\$ 53,319
Netherlands	8,793	9,944
Canada	21,625	25,083
United States	15,639	20,320
Sweden	144	208
China	7,646	6,329
Australia	1,035	1,233
	102,220	116,436
Less: equity investees' long-lived assets	8,430	7,030
Total consolidated long-lived assets	<u>\$ 93,790</u>	<u>\$ 109,406</u>

17. Financial Instruments

(a) 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 six months ended June 30, 2015, the Company has \$60,646 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at June 30, 2015:

	Carrying amount	Contractual cash flows	< 1 year	1-3 years	4-5 years	>5 years
Accounts payable and accrued liabilities	\$ 49,191	\$ 49,191	\$ 49,191	\$ —	\$ —	\$ —
Unsecured subordinated debentures (1)	43,336	52,952	3,963	3,963	45,026	—
Senior financing (1)	12,130	12,629	5,916	5,188	690	835
Senior revolving financing (1)	11,138	11,693	11,428	265	—	—
Other bank financing	4,021	4,354	2,168	276	121	1,789
Capital lease obligations	1,036	1,124	477	580	67	—
Operating lease commitments	—	53,587	4,623	9,981	8,216	30,767
	<u>\$ 120,852</u>	<u>\$ 185,530</u>	<u>\$ 77,766</u>	<u>\$ 20,253</u>	<u>\$ 54,120</u>	<u>\$ 33,391</u>

(1) Includes interest at rates disclosed in note 11.

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17. Financial instruments (continued):

(b) 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 11) 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 11) approximates their fair values as at June 30, 2015, 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 June 30, 2015, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.