

Consolidated Financial Statements
(Expressed in Canadian dollars)

WESTPORT INNOVATIONS INC.

Three months ended June 30, 2006 and 2005

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

| | June 30, 2006 | March 31, 2006 |
|--------------------------------------------------------------|------------------|-------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 195,300 | \$ 1,045,752 |
| Short-term investments | 8,560,220 | 6,786,182 |
| Accounts receivable (note 6) | 6,105,748 | 6,136,760 |
| Inventory | 560,231 | 852,945 |
| Prepaid expenses | 628,362 | 721,583 |
| | 16,049,861 | 15,543,222 |
| Long-term investments | 9,133,876 | 9,133,876 |
| Equipment, furniture and leasehold improvements | 34,035,497 | 33,840,134 |
| Accumulated depreciation | (30,162,696) | (29,879,961) |
| | 3,872,801 | 3,960,173 |
| Intellectual property | 4,321,394 | 4,321,394 |
| Accumulated amortization | (3,494,045) | (3,458,171) |
| | 827,349 | 863,223 |
| Deferred financing costs | 428,001 | - |
| | \$ 30,311,888 | \$ 29,500,494 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 3,670,735 | \$ 3,270,553 |
| Deferred revenue | 973,634 | 1,425,328 |
| Demand instalment loan | 2,206,676 | 2,506,935 |
| Current portion of other long-term obligations | 170,256 | 169,227 |
| Current portion of warranty liability | 2,969,273 | 3,117,881 |
| Current portion of financial instruments (note 2) | 4,083,115 | 4,100,060 |
| | 14,073,689 | 14,589,984 |
| Long-term debt (note 3) | 3,026,592 | - |
| Other long-term obligations | 783,571 | 844,990 |
| Warranty liability | 2,472,944 | 2,652,221 |
| Joint Venture Partner's share of net assets of joint venture | 2,425,880 | 1,661,664 |
| Shareholders' equity: | | |
| Share capital: | | |
| Authorised: | | |
| Unlimited common shares, no par value | | |
| Unlimited preferred shares in series, no par value | | |
| Issued: | | |
| 74,949,385 (2006 – 74,391,779) common shares | 231,990,192 | 231,180,069 |
| Other equity instruments (note 5) | 4,655,611 | 2,359,483 |
| Additional paid in capital | 4,861,352 | 4,770,252 |
| Deficit | (233,977,943) | (228,558,169) |
| | 7,529,212 | 9,751,635 |
| | \$ 30,311,888 | \$ 29,500,494 |

Subsequent events (notes 2(b), 3 and 9)

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

| | Three months ended | |
|---------------------------------------------------------------------|--------------------|------------------|
| | June 30 | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| Product revenue | \$ 7,643,553 | \$ 7,006,265 |
| Parts revenue | 2,978,034 | 3,507,517 |
| | 10,621,587 | 10,513,782 |
| Cost of revenue and expenses: | | |
| Cost of revenue | 6,584,777 | 7,804,192 |
| Research and development (notes 5 and 6) | 5,997,601 | 4,927,170 |
| General and administrative (note 5) | 1,415,309 | 1,541,931 |
| Sales and marketing (note 5) | 1,004,790 | 1,298,160 |
| Foreign exchange (gain) loss | (81,432) | 80,473 |
| Depreciation and amortization | 324,991 | 1,074,398 |
| Bank charges and interest (note 3) | 104,162 | 49,468 |
| | 15,350,198 | 16,775,792 |
| Loss before undernoted | (4,728,611) | (6,262,010) |
| Interest, investment and other income | 73,053 | 115,862 |
| Joint Venture Partner's share of income from joint venture (note 7) | (764,216) | (66,435) |
| Loss for the period | (5,419,774) | (6,212,583) |
| Deficit, beginning of period | (228,558,169) | (211,698,004) |
| Deficit, end of period | \$ (233,977,943) | \$ (217,910,587) |
| Basic and diluted loss per share | \$ 0.07 | \$ 0.08 |
| Weighted average common shares outstanding | 74,635,499 | 74,036,488 |

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

| | Three months ended | |
|---------------------------------------------------------------------|--------------------|----------------|
| | June 30 | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| Cash provided by (used in): | | |
| Operations: | | |
| Loss for the period | \$ (5,419,774) | \$ (6,212,583) |
| Items not involving cash: | | |
| Depreciation and amortization | 324,991 | 1,074,398 |
| Stock-based compensation expense (note 5) | 353,849 | 1,798,286 |
| Accretion of TPC warrants (note 2) | 285,714 | 285,714 |
| Change in deferred lease inducements | (41,019) | (30,913) |
| Joint Venture Partner's share of income from joint venture | 764,216 | 66,435 |
| Interest on long-term debt and amortization of discount | 46,860 | - |
| | (3,685,163) | (3,018,663) |
| Change in non-cash operating working capital: | | |
| Accounts receivable | 31,012 | (1,034,859) |
| Inventory | 292,714 | 166,784 |
| Prepaid expenses | 93,221 | 159,016 |
| Accounts payable and accrued liabilities | 400,182 | (1,721,372) |
| Deferred revenue | (451,694) | (100,102) |
| Warranty liability | (327,884) | 211,420 |
| | (3,647,612) | (5,337,776) |
| Investments: | | |
| Purchase of equipment, furniture and leasehold improvements | (201,748) | (84,762) |
| Short-term investments, net | (1,774,038) | 5,801,438 |
| | (1,975,786) | 5,716,676 |
| Financing: | | |
| Share issue costs | (2,423) | - |
| Repayment of demand instalment loan | (300,259) | (238,509) |
| Repayment of long term-debt and other long-term obligations | (19,371) | (39,019) |
| Issuance of convertible notes | 5,523,000 | - |
| Finance costs incurred | (428,001) | - |
| | 4,772,946 | (277,528) |
| Increase (decrease) in cash and cash equivalents | (850,452) | 101,372 |
| Cash and cash equivalents, beginning of period | 1,045,752 | 319,806 |
| Cash and cash equivalents, end of period | \$ 195,300 | \$ 421,178 |
| Supplementary information | | |
| Interest paid | \$ 45,212 | \$ 26,206 |
| Non-cash transactions: | | |
| Shares issued on exercise of performance share units | 509,889 | 600,939 |
| Issue of shares for settlement of financial instruments (note 2(b)) | 302,660 | - |

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in Canadian dollars)

Three months ended June 30, 2006 and 2005

1. Basis of presentation:

The unaudited consolidated balance sheet as at June 30, 2006 and the unaudited consolidated statements of operations and deficit and cash flows for the three months ended June 30, 2006 and 2005 have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The accompanying unaudited consolidated financial statements do not include all information and footnote disclosures required under Canadian generally accepted accounting principles for annual financial statements. These financial statements have been prepared, on a basis consistent with, and should be read in conjunction with, the consolidated financial statements and notes thereto for the fiscal year ended March 31, 2006.

These consolidated financial statements have been presented on a going concern basis, which assumes the realization of assets and the settlement of liabilities in the normal course of operations. To date, the Company has financed its operations primarily by equity financing and margins on the sale of products and parts. If the Company does not have sufficient funding from internal or external sources, it may be required to delay, reduce or eliminate certain research and development programs, and forego acquisition of certain equipment. The future operations of the Company are dependent upon its ability to produce, distribute and sell an economically viable product to attain profitable operations.

In the opinion of management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at June 30, 2006 and for all periods presented, have been included.

2. Financial instruments:

| | June 30, 2006 | March 31, 2006 |
|------------------------------------|------------------|-------------------|
| | (Unaudited) | |
| Value assigned to TPC warrants (a) | \$ 3,714,285 | \$ 3,428,571 |
| Shares to be issued (b) | 368,830 | 671,489 |
| Current portion | \$ 4,083,115 | \$ 4,100,060 |
| | \$ - | \$ - |

a) TPC warrants:

Under the terms of the agreement with TPC (Technology Partnerships Canada), warrants with a fair value of \$4,000,000 based on the Black-Scholes pricing model will be issued on September 30, 2006. The value of the warrants is being recognised on a straight-line basis to September 30, 2006. For the three months ended June 30, 2006, accretion totaling \$285,714 (2005 – \$285,714) has been included in research and development expenses.

b) Shares to be issued:

Under the terms of the agreement with GVH Entwicklungsgesellschaft für Verbrennungsmotoren und Energietechnik mbH ("GVH") the Company has an obligation to pay GVH \$671,489 through the issuance of shares as part of the milestone payments. On April 30, 2006, the Company issued \$302,660 in common shares to GVH. Subsequent to June 30, 2006, the Company issued the remaining balance in common shares to GVH.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in Canadian dollars)

Three months ended June 30, 2006 and 2005

3. Long-term debt:

On June 12, 2006, the Company agreed to issue up to \$22.1 million in 5 year secured, subordinated convertible notes with a coupon rate of 8% to Perseus, L.L.C. ("Perseus") of Washington, DC, a private equity fund management group. The notes are to be issued in two tranches of \$13.8 million and \$8.3 million, respectively with the first tranche having been completed. Starting December 31, 2006, interest will be payable semi-annually in arrears, on June 30 and December 31, in additional notes or shares for the first two years, at the Company's option. After the first two years, interest will be calculated at a rate of 8% on the outstanding principal amount only for the number of trading days in the period on which the share price is below \$3.00 and is payable semi-annually in cash, additional convertible notes or shares at the Company's option. The first tranche is convertible to common shares at a conversion price of \$1.30 at any time during the term of the notes and the second tranche is convertible to common shares at a conversion price equal to \$1.40. At the time of issuance of the note, the noteholder also receives warrants to acquire, at an exercise price equal to the conversion price of the accompanying notes, common shares of Westport equal to 25% of the number of common shares into which the notes are convertible. The term to expiry of the warrants is four years from the date of issuance and the warrants include a cashless exercise provision which would allow the noteholder to receive the number of common shares having a value equal to the net gain that would be realized by the noteholder had the warrant been exercised for cash and the related shares sold at the market price on the date the option is exercised. Any warrants under the cashless exercise provision converted will be cancelled.

On June 12, 2006, the Company issued \$5,523,000 of the first tranche of notes and 1,062,115 warrants. On issuance of the convertible notes and warrants, \$2,051,421 was assigned to the conversion option, \$491,847 to the warrants and the remaining amount of \$2,979,732 to the convertible notes. The amount assigned to the convertible note will be accreted using the effective interest rate method over the term to maturity.

As at June 30, 2006, the carrying value of the convertible notes was \$3,026,592 including accrued interest of \$21,789.

Subsequent to June 30, 2006, on July 14, 2006, the Company issued the remaining \$8,284,500 of the first tranche of notes and 1,593,173 warrants. On July 20, 2006, at the Company's Annual General Meeting, shareholders approved the second tranche of notes, issue of which is contingent on certain business milestones being met.

4. Share options:

| (Unaudited) | Three months ended June 30, 2006 | | Three months ended June 30, 2005 | |
|--------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| | Share options | Weighted average exercise price | Share options | Weighted average exercise price |
| Outstanding, beginning of year | 4,968,563 | \$ 2.05 | 2,402,415 | \$ 3.98 |
| Granted | 27,859 | 1.05 | 2,860,077 | 1.51 |
| Exercised | - | - | - | - |
| Cancelled | (69,775) | (3.14) | (158,384) | 7.93 |
| Outstanding, end of year | 4,926,647 | \$ 2.03 | 5,104,108 | \$ 1.66 |
| Exercisable, end of year | 1,511,625 | \$ 3.18 | 1,939,750 | \$ 3.97 |

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in Canadian dollars)

Three months ended June 30, 2006 and 2005

4. Share options (continued):

The fair value of options granted for purposes of stock-based compensation has been determined using the Black-Scholes option pricing formula using the following weighted average assumptions: expected dividend yield – nil% (2005 – nil%); expected stock price volatility – 60.54% (2005 – 66.96%); risk free interest rate – 5.01% (2005 – 3.87%); expected life of options – 6 years (2005 – 5 years). The average fair value of options granted for the three months ended June 30, 2006 was \$0.65 (2005 – \$0.89). During the three months ended June 30, 2006, the Company granted a total of 2,859 share options to its employees of which all vested immediately and 25,000 share options to contractors of which half vested immediately and the other half will vest upon completion of contract. The stock price on the grant date was \$1.05. During the three months ended June 30, 2006, the Company recognized \$91,100 (2005 – \$1,567,496) of stock-based compensation associated with stock options granted in the current and previous periods that have vested during the current period.

5. Other equity instruments:

| | June 30, 2006 | March 31, 2006 |
|----------------------------|---------------------|---------------------|
| | (Unaudited) | |
| Performance Share Units | \$ 2,112,343 | \$ 2,359,483 |
| Conversion option (note 3) | 2,051,421 | - |
| Warrants (note 3) | 491,847 | - |
| | \$ 4,655,611 | \$ 2,359,483 |

During the three months ended June 30, 2006, the Company granted 315,716 Units (2005 – 816,919). 263,682 Units were exercised during the three months ended June 30, 2006 and as at June 30, 2006 there are 1,483,159 Units outstanding. During the three months ended June 30, 2006, the Company's stock-based compensation expense related to the granting of Units totaled \$262,749 (2005 – \$230,790).

The stock-based compensation associated with the 2003 Unit Plan and the stock option plan (note 4), is included in operating expenses as follows:

| | Three months ended June 30 | |
|----------------------------|-------------------------------|---------------------|
| | 2006 | 2005 |
| | (Unaudited) | |
| Research and development | \$ 31,575 | \$ 1,295,209 |
| General and administrative | 306,661 | 333,774 |
| Sales and marketing | 15,613 | 169,303 |
| | \$ 353,849 | \$ 1,798,286 |

As at June 30, 2006, 1,083,160 PSU's are exercisable.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in Canadian dollars)

Three months ended June 30, 2006 and 2005

6. Research and development expenses:

Research and development expenses are recorded net of program funding received or receivable. For the three months ended June 30, 2006 and 2005, the following research and development expenses had been incurred and program funding received or receivable:

| | Three months ended June 30 | |
|-----------------------------------|-------------------------------|--------------|
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| Research and development expenses | \$ 6,774,725 | \$ 6,935,589 |
| Program funding | (777,124) | (2,008,419) |
| Research and development | \$ 5,997,601 | \$ 4,927,170 |

In the three months ended June 30, 2006 program funding is comprised mainly of funding from the Hydrogen Early Adopters (h2EA) Program, Sustainable Development Technology Canada and National Renewable Energy Laboratory. In the three months ended June 30, 2005 program funding was comprised mainly of funding from TPC, National Renewable Energy Laboratory and South Coast Air Quality Management District. At June 30, 2006, \$2,651,501 (March 31, 2006 - \$2,769,155) of funding earned by the Company based on the terms of various funding agreements has not yet been received and is included in accounts receivable.

7. Investment in Cummins Westport Inc.:

The consolidated financial statements include the assets, liabilities, revenue and expenses of CWI as at and for the periods presented as follows in the table below. From January 1, 2005 forward, Cummins shares equally in the profits and losses of CWI. However, the Company has determined that CWI is a variable interest entity and that the Company is the primary beneficiary as the Company's variable interests in CWI, comprising of its equity, debt and royalty interests, will absorb more than 50% of the expected losses of CWI and that CWI's business activities are more integral to those of the Company. Accordingly, the Company continues to consolidate CWI with Cummins' share of CWI's income and losses included as "Joint Venture Partner's share of income from joint venture".

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in Canadian dollars)

Three months ended June 30, 2006 and 2005

7. Investment in Cummins Westport Inc. (continued):

| | June 30, 2006 | March 31, 2006 |
|------------------------------------------------------------|-------------------------------|-------------------|
| | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 732 | \$ 146,656 |
| Accounts receivable | 2,317,139 | 2,766,068 |
| Inventory | 560,231 | 852,945 |
| Prepaid expenses | 152,489 | 219,659 |
| | 3,030,591 | 3,985,328 |
| Equipment, furniture and leasehold improvements | 173,852 | 60,249 |
| | \$ 3,204,443 | \$ 4,045,577 |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 455,314 | \$ 511,196 |
| Deferred revenue | 929,794 | 1,383,363 |
| Current portion of warranty liability | 2,969,273 | 3,117,881 |
| | \$ 4,354,381 | \$ 5,012,440 |
| Long-term liabilities: | | |
| Warranty liability | \$ 2,472,945 | \$ 2,652,221 |
| | | |
| | Three months ended June 30 | |
| | 2006 | 2005 |
| | (Unaudited) (Unaudited) | |
| Product revenue | \$ 7,217,566 | \$ 6,684,601 |
| Parts revenue | 2,978,034 | 3,507,517 |
| | 10,195,600 | 10,192,118 |
| Cost of revenue and expenses: | | |
| Cost of revenue | 6,158,791 | 7,482,528 |
| Research and development | 1,664,338 | 1,241,033 |
| General and administrative | 284,845 | 475,825 |
| Sales and marketing | 736,502 | 781,595 |
| | 8,844,476 | 9,980,981 |
| Income before undernoted | 1,351,124 | 211,137 |
| Effect of foreign currency translation | 177,308 | (78,267) |
| Income for the period | \$ 1,528,432 | \$ 132,870 |
| Joint Venture partner's share of income from joint venture | (764,216) | (66,435) |
| Company's share of income from joint venture | \$ 764,216 | \$ 66,435 |

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in Canadian dollars)

Three months ended June 30, 2006 and 2005

8. Segmented information:

The Company currently operates in one operating segment which involves the research and development and the related commercialization of engines and fuel systems operating on gaseous fuels. The majority of the Company's equipment, furniture and leasehold improvements are located in Canada. For the three months ended June 30, 2006, 72% (2005 – 75%) of the Company's revenue was from sales in North America, 6% (2005 – 9%) from sales in China, and 22% (2005 – 16%) from sales elsewhere.

9. Subsequent events:

On July 21, 2006, the Company and Beijing Tianhai Industry Co. Ltd. ("BTIC") of Beijing, China formed BTIC Westport Inc. ("BTIC Westport") to market liquefied natural gas ("LNG") fuel tanks for vehicles. Through the 50:50 joint venture agreement and related license and supply agreements, BTIC and Westport will share equally in the profits on products developed and sold by the joint venture. The LNG tanks will be designed by the Company and produced in BTIC's new Beijing cryogenic facility. BTIC Westport will be headquartered in Beijing, China. BTIC Westport will sell tanks for installation on any vehicle, regardless of the natural gas engine manufacturer. BTIC and Westport will each contribute US\$400,000 to the formation of the venture. Initiation of formal business operations is subject to customary government approvals.