



Management's Discussion and Analysis

for the three and nine months ended December 31, 2006 and 2005

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") covers the interim consolidated financial statements for Westport Innovations Inc. ("we", "us", "Westport") for the three and nine months ended December 31, 2006 and provides an update to our annual MD&A for the fiscal year ended March 31, 2006. This information is intended to assist readers in analysing our financial results and should be read in conjunction with the audited annual consolidated financial statements, including the accompanying notes, for the fiscal year ended March 31, 2006 and our annual MD&A dated June 13, 2006.

Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All financial information is reported in Canadian dollars unless otherwise noted.

This MD&A contains forward-looking statements, including statements regarding the future success of our business and technology strategies and future market opportunities. 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 activities, performance or achievements expressed in or implied by these forward looking statements. These risks include risks related to our revenue growth, operating results, industry and products as well as other factors discussed below and elsewhere in this report. 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.

Additional information relating to Westport, including our Annual Information Form, is available on SEDAR at www.sedar.com.

This management discussion and analysis is dated January 31, 2007.

FINANCIAL OVERVIEW

Consolidated revenues for the three months ended December 31, 2006 were \$16.8 million, up 95% from \$8.6 million in the same period of the prior fiscal year, on shipments of 629 spark-ignited engines compared to 245 engines shipped in the comparable period. Increased revenues reflected strong Cummins Westport ("CWI") sales activities in North America and Asia, with more than a third of the engines shipped and all of the production kits and components in the quarter destined for China and customers in Southeast Asia.

Consolidated loss for the three months ended December 31, 2006 and 2005 was \$5.8 million, or \$0.08 per share, and \$3.6 million, or \$0.05 per share, respectively, with CWI contributing \$0.4 million, up \$0.2 million from the prior year, after taking into account Cummins' 50% share of profits. The \$2.2 million increase in consolidated net loss was primarily the result of increased gross research and development spending (\$0.4 million) and a decrease in government funding (\$2.2 million) offset by higher revenues and gross margins (\$1.7 million). Sales and marketing in the quarter also increased by \$0.5 million year over year. Interest and amortization on the convertible notes issued to funds managed by Perseus LLC amounted to \$0.4 million.

For the nine months ended December 31, 2006, our consolidated loss was \$13.0 million, or \$0.17 per share with CWI, after taking into account's Cummins' 50% share of CWI's net income, contributing income of \$1.9 million, up \$0.8 million from the same period from the prior year. For the nine months ended December 31, 2006 and 2005, revenues were \$41.2 million and \$31.4 million respectively on shipments of 1384 and 939 engine units, resulting in a \$3.5 million increase in gross margins from

\$10.7 million to \$14.2 million. Research and development costs for the nine months ended December 31, 2006 are up \$5.3 million from the same period in the prior year primarily because of lower government funding of \$4.7 million. The work phase of our agreement with Technology Partnerships Canada ("TPC") was originally scheduled to end March 31, 2006. We are currently in discussions with TPC to extend the work phase of our agreement. However, as formal approval has not yet been obtained, we have not recognized funding claims of approximately \$1.5 million and have accrued minimum royalty payments of approximately \$1.0 million. These amounts will be reversed if and when our extension is approved by TPC.

In the nine months ended December 31, 2006, we also recognized a \$3.9 million gain on the sale of 45% of Westport Research Inc ("WRI"), previously a wholly owned subsidiary. Partially offsetting this gain is interest and amortization on accretion of long-term debt to Perseus LLC of \$0.9 million. Details of both transactions are described below and in the Capital Requirements, Resources and Liquidity section of this MD&A. Depreciation and amortization of capital assets decreased by \$1.2 million year over year. For the nine months ended December 31, 2005, our consolidated loss was \$13.1 million, or \$0.18 per share.

BUSINESS OVERVIEW

Westport's business operations and strategy are substantially unchanged from March 31, 2006. We are engaged in the research, development and marketing of high performance, low-emissions engine and fuel systems which use gaseous fuels such as natural gas, propane or hydrogen. Our strategy is to develop our technologies and products in cooperation with the world's leading engine and vehicle manufacturers and fuel infrastructure providers and to target markets where there are lifecycle cost advantages arising from favourable fuel pricing differentials between natural gas and diesel and/or where there are government incentives or mandates for lower emissions. We have identified the United States, Asia and Australia as primary target markets.

To date, we have cooperated on fuel system development programs with a number of automotive companies including Isuzu, Ford, BMW, MAN and Cummins and are in various stages of negotiations to develop and commercialize our technologies with Weichai Power Co. Ltd and others. We have one commercial joint venture, CWI, with Cummins Inc, a global power leader in engines, power generation and other related technologies. CWI leverages existing Cummins manufacturing facilities in North America, China and India to sell and market spark-ignited natural gas engines worldwide. CWI has also entered into agreements with Cummins India Limited ("CIL") and Dongfeng Cummins Engine Company ("DCEC") to provide them with a kit of selected B-Gas International parts with manufacturing and final assembly done locally in India and in China, respectively. As at December 31, 2006, we also held an approximate 6% investment interest in Clean Energy Fuels Corp. ("Clean Energy"), North America's largest provider of natural gas fuel and service infrastructure for vehicles.

In the three and nine months ended December 31, 2006, we substantially completed our CNG-DI development contract with Isuzu's engineering division. Resources will be redeployed to LNG heavy-duty truck commercialization and also to our Australia heavy duty truck program, funding for which was announced in January, 2007 with Westport receiving an award of AUD1.4 million (approx. \$1.3 million) from the Australian Government's Alternative Fuels Conversion Programme to demonstrate and evaluate the use of LNG as a fuel for heavy-duty highway trucks in Australia

On July 21, 2006, we signed a Joint Venture Agreement with Beijing Tianhai Industry Co. Ltd ("BTIC"), a Chinese-Korean company with its headquarters and manufacturing facilities in Beijing, China. The joint venture, BTIC Westport Inc. ("BWI"), will leverage BTIC's manufacturing expertise and Westport's liquefied natural gas ("LNG") tank design to sell and market LNG tanks for natural gas fuelled vehicles globally. 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. BTIC and Westport will each contribute US\$0.4 million to the formation of the venture. Initiation of formal business operations is subject to customary government approvals. The

process for obtaining approval is underway. On July 24, 2006, we also announced the completion of a License and Supply Agreement with Cryostar SAS, a division of the BOC Group and a global leader in cryogenic pump products, for the development, manufacture and supply of cryogenic LNG fuel pumps, based on Westport's cryogenic technology. The off-engine LNG fuel system, consisting of the LNG fuel pump and LNG tank, is a critical component of the overall high pressure direct injection ("HPDI") vehicle solution. These agreements form an integral part of Westport's strategy to secure long-term business alliances that will ensure a reliable supply of leading-edge, top quality components for our LNG transportation solutions, including our HPDI heavy duty LNG truck program.

The work, or funding, phase of our Contribution Agreement with TPC ended March 31, 2006 pursuant to the existing terms and schedules in the agreement. However, we continue to work with TPC to extend the work phase of that agreement to fund continued development of our vehicle technologies on a retroactive basis from April 1, 2006. Discussions along these lines are proceeding and we continue to make progress claims to TPC. These progress claims have not been reflected in our results from operations and we have been accruing royalty payments in accordance with our existing agreement. If and when an extension of the work phase is approved and the royalty payment period deferred, the accounting would be reflected in the period in which the extension is agreed upon, reversing any deferred royalty payments and accruing eligible cost reimbursements from TPC. To date, we have accrued \$1.0 million in minimum royalty payments and have not reflected claims of approximately \$1.5 million.

Under our agreement with TPC, from fiscal 2007 to fiscal 2013 inclusive, we are obligated to pay annual royalties equal to the greater of \$1.35 million or 0.33% of our gross business revenues on March 31 of each year. Our first royalty payment is due on March 31, 2007. Our existing agreement also calls for us to provide TPC with common share purchase warrants having a total value of \$4 million. The number of warrants to be issued will be based on the value of each warrant, determined in accordance with the Black-Scholes option pricing model based upon an agreed strike price and the closing market price as of September 30, 2006. TPC has not requested nor have we issued these warrants as of the date of this MD&A. However, the aggregate value of these warrants of \$4 million has been fully recognized and included in the current portion of financial instruments.

In the first quarter of this fiscal year, we also announced two significant financial transactions, both of which are also described in the Capital Requirements, Resources and Liquidity section in this interim MD&A. On June 12, 2006, we agreed to issue up to \$22.1 million in 5-year secured, subordinated, convertible notes with a coupon rate of 8% to Perseus LLC of Washington, DC, a private equity fund management group. The notes were to be issued in two tranches of \$13.8 million and \$8.3 million, respectively. 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 received warrants with a four-year life 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.

On June 12, 2006, we issued \$5.5 million of the above referenced first tranche convertible notes and 1,062,115 warrants. On July 14, 2006, we received the balance of the first tranche subscription amount and issued an additional \$8.3 million in convertible notes and 1,593,173 warrants. On January 16, 2007, we received the second tranche proceeds and issued \$8.3 million in convertible notes and 1,479,375 warrants.

On June 13, 2006, we entered into an agreement with Matco Capital Ltd. ("Matco") to reorganize Westport Research Inc., a wholly owned subsidiary of Westport. As part of the reorganization, we substantially transferred all of the assets, liabilities and operations of WRI to another wholly owned Westport company, Westport Power Inc., which carries on the business previously carried on by WRI. On closing and post-reorganization, we sold 45% of WRI to Matco for \$4.2 million in cash consideration and recognized a gain of \$3.9 million after related expenses. In addition, Matco facilitated access to a limited recourse credit facility for \$9.7 million secured only by a pledge by us of 4% of the total shares in WRI and other Matco collateral. Under the terms of our original investment agreement with Matco, the full amount was only drawable under the credit facility if a previously

identified transaction was completed before December 31, 2006. However, as this transaction is no longer available, drawings under this credit facility are limited to \$7.3 million. As of December 31, 2006, we had drawn the full amount available to us under this credit facility of \$7.3 million. We paid interest of prime plus 1% on amounts drawn until December 31, 2006, after which time Matco is responsible to bear such interest costs. Repayments on amounts drawn will be made only from the proceeds from the sale of the remaining 55% of WRI. Westport and Matco continue to source and pursue other opportunities to maximize the value of our respective interests in WRI.

We believe these two financing transactions, providing us with over \$33 million in cash, provide us with the required capital to fund the commercialization of our technologies and establish our key markets in North America, Asia and Australia.

CRITICAL ACCOUNTING POLICIES

Financial statement preparation requires that we use estimates and assumptions that affect the reported amount of assets and liabilities as well as revenues and expenses. We have identified several policies as critical to the understanding of our business operations. The application of these and other policies are described in note 2 to our Fiscal 2006 audited annual consolidated financial statements with our critical accounting policies highlighted in our Fiscal 2006 annual MD&A.

We consider our accounting for CWI as a variable interest entity to be a critical accounting policy as CWI has a significant impact on our consolidated financial statements. We also consider the valuations of long-term investments, equipment, furniture and leasehold improvements, intellectual property, and inventory, and estimates of warranty liability to be critical accounting policies as they are subject to significant estimates and assumptions regarding valuation, future cashflows generated from existing assets, product quality and future warranty claims. Actual results may vary from these estimates. Our critical accounting policies are unchanged from March 31, 2006.

CHANGES IN ACCOUNTING POLICY

The accounting policies used in the unaudited consolidated interim financial statements for the three and nine months ended December 31, 2006 are primarily unchanged from the year ended March 31, 2006. However, certain of our accounting policies and practices currently primarily reference CWI, our commercial venture. As we prepare to launch commercial HPDI product, our policies have and will broaden to include non-CWI inventory, warranty and revenues. Our inventory as of December 31, 2006 consists primarily of parts and work-in-process for our HPDI systems. We value that inventory at the lower of cost and net realizable value on a weighted average basis.

On January 27, 2005, the Canadian Institute of Chartered Accountants (the "CICA") issued CICA Handbook *Section 1530 Comprehensive Income* and *Section 3855 Financial Instruments – Recognition and Measurements*. These standards will be effective for us from April 1, 2007. We have not yet determined the impact of implementing these new standards as the impact will be depend on the nature of our contracts, their outstanding positions and their fair values at the time of transition.

RESULTS FROM OPERATIONS

Product revenue for the three months ended December 31, 2006 was \$13.6 million, up \$8.5 million from \$5.1 million this quarter last year, on 629 engine units shipped compared to 245 units shipped in the prior year. Increased revenues reflected strong CWI sales activities in North America and Asia, with more than a third of the engines shipped in the quarter destined for China and southeast Asia. For the nine months ended December 31, 2006 and 2005, product revenues were \$31.5 million and

\$21.2 million respectively on shipments of 1384 and 939 units. In addition to shipments, product and customer mix and foreign exchange also impact product revenue, which can be volatile from quarter to quarter. For the nine months ended December 31, 2006, product revenue also includes approximately \$1.3 million of B-Gas production kits and components to China and India for local assembly and sales and \$1.4 million in non-CWI revenues. Non-CWI revenue related primarily to prototype vehicle work performed by Westport for Isuzu and other OEM partners.

Parts revenue for the three months ended December 31, 2006 was \$3.2 million, down \$0.3 million from the same period in the prior year. For the nine months ended December 31, 2006, parts revenue was \$9.6 million, down \$0.5 million from the prior year primarily because of the stronger Canadian dollar and mix. The Canadian dollar strengthened by approximately 6.5% compared to the same nine month period in the prior year.

Revenue				
<i>Expressed in thousands of Canadian dollars except for units</i>				
	Three months ended		Nine months ended	
	Dec 31		Dec 31	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Engine shipments (units)	629	245	1,384	939
Product revenue	13,568	5,147	31,538	21,248
Parts revenue	3,248	3,466	9,627	10,107
	<u>16,816</u>	<u>8,613</u>	<u>41,165</u>	<u>31,355</u>

Product Revenue by Geographic Region				
<i>As a percentage of revenue dollars</i>				
	Three months ended		Nine months ended	
	Dec 31		Dec 31	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
North America	61%	73%	65%	81%
Asia	31%	7%	19%	5%
Rest of the world	8%	20%	16%	14%

Cost of revenues for the three months ended December 31, 2006 was \$11.4 million reflecting the higher revenues in the quarter. Cost of revenue includes unit production cost and the associated warranty. For the three months ended December 31, 2005, cost of revenues were \$4.9 million, including a \$1.0 million reduction in CWI's warranty estimate resulting from actual claims experience being better than anticipated and engines coming off of warranty.

Estimated warranty costs are recognized at the time CWI sells its products and are included in cost of revenues. CWI uses historical failure rates, and costs to repair product defects during the warranty period, together with information on known products, to estimate the warranty liability. The ultimate amount payable and the timing will depend on actual failure rates and the actual cost to repair. CWI reviews its warranty provision quarterly and makes adjustments to its assumptions based on the latest information available at that time. Adjustments to the warranty provision are recorded in cost of revenues.

For the nine months ended December 31, 2006, cost of revenues increased by \$6.3 million to \$27 million from \$20.7 million in the same period in the prior year, reflecting a \$9.8 million increase in related revenues.

Gross margin for the three months ended December 31, 2006 increased to \$5.4 million from \$3.7 million on higher revenues and product mix. Gross margin percentage decreased to 32% from 43% primarily because of the positive \$1 million warranty adjustment taken in the three months ended December 31, 2005. For the nine months ended December 31, 2006, gross margin dollars increased by \$3.5 million to \$14.2 million from \$10.7 million primarily because of higher revenues, product mix and lower warranty accruals. Gross margin percentages were unchanged at 34%.

Research and development expenses, net of government grants, for the three and nine months ended December 31, 2006 increased \$2.6 million and \$5.4 million respectively to \$6.3 million and \$18.1 million compared to \$3.7 million and \$12.7 million for the same periods last year. The higher net expense for the nine months ended December 31, 2006 resulted primarily from the following:

- Expiration as of March 31, 2006 of the work phase and the start of the royalty phase of the TPC Contribution Agreement resulting in royalty accruals of approximately \$1.0 million and loss of TPC funding of approximately \$2.0 million compared to the same period in the prior year;
- Substantial completion of our US government funded 1.2 gram project and completion of our Canadian government funded 401 demonstration project (\$2.0 million); and
- Increased CWI research and development activities (\$1.8 million) related primarily to the ISLG engine which is being launched in the calendar year 2007.

These increases were offset by a decrease of \$1.5 million in stock based compensation for the nine months ended December 31, 2006.

We are in discussions with TPC to extend the work phase of our agreement as only \$15.9 million of the \$18.9 million in available funding had been claimed to March 31, 2006 and portions of the scope of work are still being completed.

General and administrative expenses in the three and nine months ended December 31, 2006 were \$1.4 million and \$4.3 million respectively compared to \$1.1 million and \$3.6 million for the same periods in the prior year primarily due to higher public company costs, including Investor Relations, and increased legal and finance support activities related to commercialization of our HPDI system.

Sales and marketing expenses were \$2.2 million for the three months ended December 31, 2006, up \$0.5 million from the same period last year primarily because of increased business development costs in California and China. For the nine months ended December 31, 2006, sales and marketing expenses were \$5.1 million, up \$0.7 million from the same period last year primarily because of increased business development costs offset by lower stock based compensation in the period and the timing of expenses.

Foreign exchange gains and losses primarily reflects the realized net gains and losses on foreign currency transactions and the net unrealized gains and losses on our net US dollar denominated assets and liabilities, which are mainly comprised of short-term investments and warranty. The Canadian dollar was relatively unchanged as at December 31, 2006 compared to March 31, 2006.

Depreciation and amortization for the three months ended December 31, 2006 decreased to \$0.4 million from \$0.6 million primarily as the result of certain intellectual property, equipment and furniture becoming fully amortized. For the nine months ended December 31, 2006, depreciation and amortization decreased by \$1.2 million to \$1.0 million from \$2.2 million as a result of assets becoming

fully depreciated and because of the change in our estimates of the useful life of our research and development machinery and equipment from five to eight years in the second quarter of fiscal 2006.

Interest on long-term debt and amortization of discount of \$0.4 million and \$0.9 million in the three and nine months ended December 31, 2006 relate primarily to the interest and the accretion on the convertible notes issued to funds managed by Perseus LLC. Interest is being accrued at 8% per annum and is payable in notes or in common shares June 30 and December 31 of each year for the first two years, after which time, the interest may be payable in notes, common shares, or in cash. Generally accepted accounting principles in Canada also require us to separately value the debt and equity components of convertible debt. Accordingly, the value of the warrants (\$1.2 million) and the value of the conversion feature (\$5.1 million) as calculated using the Black-Scholes option pricing method are shown on the balance sheet under "Other equity instruments" and the debt, which is included in "Long-term debt" under the liabilities section of the balance sheet, is being accreted to its face value using the effective interest rate method.

Gain on sale of interest in subsidiary of \$3.9 million relates to the gain, net of expenses, on the sale of 45% of our interest in WRI in the second quarter of this fiscal year.

Joint Venture Partner's share of income from joint venture reflects Cummins' 50% share of CWI net operating contribution. The increase in the nine months ended December 31, 2006 to \$1.9 million from \$1.1 million reflects the 73% improvement in CWI's income for the same period.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at December 31, 2006, our cash, cash equivalents and short-term investment position was \$19.2 million.

In the second quarter of this fiscal year, we closed two significant financial transactions. On June 12, 2006, we agreed to issue up to \$22.1 million in 5-year secured, subordinated, convertible notes with a coupon rate of 8% to Perseus, a private equity fund management group.

The notes were issued in two tranches of \$13.8 million and \$8.3 million, respectively, with the first tranche completed in July, 2006 and the second tranche completed January 16, 2007. Interest is payable semi-annually in arrears, on June 30 and December 31, in additional notes or shares at our option, for the first two years.

After the first two years, interest will be calculated at a rate of 8% on the outstanding principal amount of the notes issued to Perseus 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 our 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 notes, the noteholders also received 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 converted under the cashless exercise provision will be cancelled. For so long as Perseus continues to hold notes and warrants convertible into a specified percentage of Westport's issued and outstanding shares, Perseus also nominated two of seven board seats. The notes are secured with a second charge on all of our assets.

	Issuance Date	Principal - CDN	Conversion Price	No. of shares	No of warrants
Tranche 1					
Initial Closing	12-Jun-06	5,523,000	1.30	4,248,462	1,062,115
Interim Closing	14-Jul-06	8,284,500	1.30	6,372,692	1,593,173
Total outstanding as of December 31, 2006		13,807,500	1.30	10,621,154	2,655,288
Tranche 2					
	16-Jan-07	8,284,500	1.40	5,917,500	1,479,375
Total of Tranche 1 and 2		22,092,000		16,538,654	4,134,663

Generally accepted accounting principles in Canada require us to separately value the debt and equity components of convertible debt. Accordingly, the value of the first tranche warrants (\$1.2 million) and the value of the first tranche conversion feature (\$5.1 million) as calculated using Black-Scholes are shown on the balance sheet under other equity instruments. The debt is being accreted on a non-cash basis to its face value using the effective interest rate method. The amount of the interest and accretion in the three and nine months ended December 31, 2006 totaled \$0.9 million. As of December 31, 2006, actual interest of \$553,000 was payable, which, adjusting for withholding tax, we elected to settle by issuing 401,520 shares valued at the 20 day weighted average trading price of \$1.24.

On June 13, 2006, we also entered into an agreement with Matco to reorganize WRI, a wholly owned subsidiary of Westport. As part of a corporate reorganization, we substantially transferred all of the assets, liabilities and operations of WRI to another wholly owned Westport company which carries on the business previously carried on by WRI, leaving WRI as a holding company for future investment opportunities. Our reorganization was substantially completed and, in August 2006, we sold a 45% equity interest in WRI to Matco for \$4.2 million in cash on closing and recognized a gain of \$3.9 million after related expenses. Matco also facilitated access to a limited recourse credit facility for \$9.7 million secured only by a pledge by us of 4% of the total shares of WRI and other security from Matco. As noted above, under the terms of our original investment agreement with Matco, the full amount was only drawable under the credit facility if a specified transaction was completed before December 31, 2006. However, as this transaction did not complete, drawings are limited to \$7.3 million. As of December 31, 2006, we have drawn the full amount available to us of \$7.3 million under this credit facility. The loan is interest bearing (prime plus 1%) and for Westport's account until December 31, 2006, after which the interest will be to Matco's account. The loan is repayable only from the proceeds on the sale of our remaining 55% interest in WRI.

We also have a \$13 million credit facility with our bank, which has been drawn down by our demand instalment loan of \$1.8 million, capital leases of \$0.3 million, and a \$0.6 million letter of credit. We have also relied on public and private sources of equity financing to fund our operations. Since our incorporation in 1995, we have raised over \$230 million in common share equity primarily from a number of private and public offerings.

During the nine months ended December 31, 2006, we issued \$13.8 million in convertible notes, borrowed an additional \$7.3 million secured only by 4% of WRI and repayable only from the proceeds of sale from our remaining 55% share of WRI and sold 45% of WRI for \$3.9 million, net of expenses, raising a total of \$25.0 million. We used \$11.9 million in operations, \$0.7 million for loan repayments, and \$0.9 million for the purchase of equipment, furniture and leasehold improvements. Changes in working capital contributed approximately \$1.1 million in the nine month period. As part of our transactions with Perseus and Matco, we have incurred approximately \$1.3 million in deferred transaction costs to December 31, 2006 which will be expensed over the term of the Perseus convertible notes or in the period we dispose of our remaining shares in WRI, as applicable. Deferred revenue at March 31, 2006 consisted primarily of amounts related to funds received by Cummins but where the engines had not yet been shipped to the end customer. Deferred revenue as at December

31, 2006 related primarily to amounts received from Cryostar that are being recognized over the term of the agreement.

We believe that our current cash, cash equivalents and short-term investments, our investment in Clean Energy and the transactions with Perseus and Matco provide us with sufficient capital to meet our committed milestones and obligations for our current programs. Clean Energy announced that on September 6, 2006, it filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission relating to a proposed initial public offering of its common stock. The timing, pricing and number of shares to be sold by Clean Energy have not been determined.

Westport's capital requirements will vary depending on a number of factors, including the contributions from the sales of products and parts, working capital requirements, progress of our current programs, any decisions by us and our current engine partners to enter into new program phases and any decision by us to establish additional programs or strategic alliances. We expect our working capital requirements to increase for inventory purposes as we commercialize our high pressure direct injection products and solutions and as we have long lead time items. In addition, we 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 or expanded engine programs, acquisitions or investments could require additional funding. If such additional funding is not available to us, or if we have significant overspending in our programs, we may be required to delay, reduce or eliminate certain research and development activities 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.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies have been disclosed in our annual MD&A dated June 13, 2006 and are substantially unchanged. As at December 31, 2006, we have accrued \$1.0 million in TPC royalty payments pursuant to our Contribution Agreement with them.

Under our signed Joint Venture Agreement with BTIC, we are committed to contributing US\$0.4 million to the formation of the venture. Initiation of formal business operations is subject to customary government approvals, the process of which is underway.

SHARES OUTSTANDING

For the three and nine months ended December 31, 2006, the weighted average number of shares used in calculating the loss per share was 75,264,565 and 75,033,479, respectively. Actual shares outstanding as of December 31, 2006 was 75,264,565 with 2,655,288 warrants outstanding, 5,309,117 share options outstanding at a weighted average price of \$1.92 and 2,083,159 performance share units outstanding. Of the share options outstanding, 1,496,371 were exercisable at a weighted average price of \$3.01. Of the performance share units outstanding, 1,183,162 were exercisable.

As of January 31, 2007, we had 75,666,085 shares outstanding, 2,655,288 warrants outstanding with exercise price of \$1.30, 1,479,375 warrants with an exercise price of \$1.40, 5,284,178 options outstanding at a weighted average price of \$1.92 and 2,083,159 of performance share units outstanding of which 1,183,162 were exercisable. We also had convertible notes of \$13.8 million outstanding with a conversion price of \$1.30 and \$8.3 million in convertible notes outstanding with a conversion price of \$1.40.

SELECTED QUARTERLY FINANCIAL DATA (unaudited)

The selected table provides summary financial data for our last eight quarters:

Selected Quarterly Operations Data (Unaudited)

Three months ended	31-Mar-05	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06	30-Jun-06	30-Sep-06	31-Dec-06
Engines shipped	445	310	384	245	388	341	414	629
Average foreign exchange rate (C\$:US\$)	\$ 1.23	\$ 1.24	\$ 1.19	\$ 1.17	\$ 1.15	\$ 1.11	\$ 1.12	\$ 1.14
<i>(Expressed in thousands of Canadian dollars except per share)</i>								
Product revenue	\$ 8,532	\$ 7,006	\$ 9,095	\$ 5,147	\$ 8,684	\$ 7,644	\$ 10,327	\$ 13,568
Parts revenue	\$ 1,857	\$ 3,508	\$ 3,134	\$ 3,466	\$ 3,512	\$ 2,978	\$ 3,401	\$ 3,248
Total revenue	\$ 10,389	\$ 10,514	\$ 12,229	\$ 8,613	\$ 12,196	\$ 10,622	\$ 13,728	\$ 16,816
Cost of sales	\$ 7,339	\$ 7,804	\$ 7,934	\$ 4,933	\$ 7,971	\$ 6,585	\$ 8,952	\$ 11,418
Gross margin	\$ 3,050	\$ 2,710	\$ 4,295	\$ 3,680	\$ 4,225	\$ 4,037	\$ 4,776	\$ 5,398
	29%	26%	35%	43%	35%	38%	35%	32%
Loss for the period	\$ 9,308	\$ 6,213	\$ 3,329	\$ 3,607	\$ 3,711	\$ 5,420	\$ 1,840	\$ 5,778
Basic and diluted loss per share ⁽¹⁾	\$ 0.12	\$ 0.08	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.07	\$ 0.03	\$ 0.08
Cash used in operations before change in non-cash operating working capital	\$ 3,100	\$ 3,019	\$ 1,463	\$ 2,225	\$ 1,954	\$ 3,685	\$ 3,760	\$ 4,448
Company's 100% share of CWI income, excluding foreign exchange	\$ 233	\$ 211	\$ 1,251	\$ 517	\$ 1,099	\$ 1,351	\$ 1,393	\$ 900
Joint Venture Partner's share of CWI income	\$ 69	\$ 66	\$ 758	\$ 251	\$ 518	\$ 764	\$ 696	\$ 403

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

Our quarterly results are impacted by the timing of product deliveries, completion of engineering milestones, government and partner funding and foreign exchange gains and losses. CWI income or loss, and our resulting 50% share, will vary from quarter to quarter depending on the timing of unit sales, product and customer mix, and the timing of completion of engineering milestones and related government funding. On its calendar year fiscal basis, in United States dollars, CWI unaudited revenues were up 33%. On the same basis, CWI's net income increased by 145%. In Canadian dollar terms on a calendar year basis, revenue was up 27% with the difference related to foreign exchange and CWI contributed \$2.4 million in calendar year 2006 compared to \$1.1 million in calendar year 2005 after taking into account Cummins' 50% share.

RISKS AND UNCERTAINTIES

Business risks and uncertainties related to product development, competitive and regulatory environments, economic and industry factors are described in detail in our fiscal 2006 MD&A and referenced in our 2006 Annual Information Form. They remain substantially unchanged.