

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **BASIS OF PRESENTATION**

This Management's Discussion and Analysis ("MD&A") covers the interim consolidated financial statements for Westport Innovations Inc. ("Westport", "the Company", "we") for the three and six months ended September 30, 2007 and provides an update to our annual MD&A for the fiscal year ended March 31, 2007. This information is intended to assist readers in analyzing 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, 2007 and our annual MD&A dated May 31, 2007. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to Westport, including our Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is dated October 30th, 2007. All financial information is reported in Canadian dollars unless otherwise noted.

This report 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.

### **FINANCIAL OVERVIEW**

Westport's business operations and strategy are substantially unchanged from March 31, 2007. 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.

Our strategy is broken down into four "pillars":

1. profitably growing Cummins Westport Inc ("CWI");
2. launching our liquefied natural gas ("LNG") systems for heavy-duty trucks in North America and Australia;
3. developing new OEM and strategic supply relationships; and
4. maintaining our technology leadership.

Our consolidated revenues for the three months ended September 30, 2007 compared to the three months ended September 30, 2006 increased by 54% to \$21.2 million from \$13.7 million. The increase in revenues resulted from increased CWI product revenues (\$4.5 million) from higher shipments to Asia and Europe, increased CWI parts revenue (\$1.1 million) and increased non-CWI product revenues (\$1.8 million) arising from the delivery of 22 LNG systems in the quarter. For the six months ended September 30, 2007, consolidated revenues were up 52% to \$36.9 million from \$24.4 million in the same period in the prior fiscal year. Year to date, we have

shipped 1,367 CWI engines and 33 LNG systems compared to 755 and nil, respectively, this time last year.

Our net loss for the three months ended September 30, 2007 was \$4.9 million, or \$0.05 loss per share, compared to \$1.8 million, or \$0.03 loss per share, in the corresponding period last fiscal year. The \$1.8 million loss for the three months ended September 30, 2006 included a net gain of \$3.9 million recognised on the sale of 45% of Westport Research Inc., now Wild River Resources Ltd ("Wild River"), to Matco Capital Limited. Excluding the gain on sale, consolidated net loss improved year over year by \$0.9 million with our share of CWI up \$0.5 million and the loss from non-CWI operations down \$0.4 million. Our net loss for the six months ended September 30, 2007 was \$9.6 million, or \$0.12 per share, compared to \$7.3 million, or \$0.10 per share, in the comparable period of the prior year. For the six months ended September 30, 2007, our share of CWI increased to \$1.8 million, up \$0.3 million from \$1.5 million in the prior year and non-CWI operating losses, excluding the \$3.9 million gain on the partial sale of Wild River, decreased by \$1.2 million primarily due to increased gross margins from the sale of LNG systems and higher government funding.

Our cash and short term investments balance as at September 30, 2007 was \$19.4 million compared to \$23.1 million as at March 31, 2007, a decrease of \$3.7 million. Cash used in operations and for capital expenditures for the three and six months ended September 30, 2007 was \$1.5 million and \$6.2 million compared to \$2.8 million and \$6.7 million in the comparable periods of the prior year. Year to date, operating cash usage has been offset by \$1 million drawn in the quarter against our bank demand instalment loan to fund inventory, \$1.1 million in proceeds received from our sale of Clean Energy shares in the first quarter and \$0.8 million in proceeds received on the issuance of shares on conversion of employee stock options.

On July 26, 2007, Perseus, L.L.C. ("Perseus"), through its affiliates exercised the conversion option on the approximately \$22.1 million of secured, subordinated convertible debentures (the "Notes") held by them in order to acquire approximately 16.5 million common shares of Westport, which were then sold to third parties at a price of \$3.10 per share for total gross proceeds of approximately \$51.3 million with all proceeds going to Perseus and its affiliates. As an inducement for Perseus's conversion of the notes, we agreed to pay them an amount equal to 50% of the interest that would otherwise have been payable on the Notes, on December 31, 2007 and June 30, 2008 had the Notes not been converted. Interest accrued to July 25, 2007 of \$0.1 million and the inducement payment of \$0.8 million total approximately \$0.9 million and may be made, at Westport's option, in a combination of common shares, new Notes and, in certain circumstances, cash. On conversion, the long-term debt portion and value of the conversion option were moved to share capital and the inducement, which was allocated to the conversion option based on the relative fair values of the debt and equity features of the note, was charged directly to accumulated deficit.

Subsequent to September 30, 2007, on October 26, 2007, we announced the formation of an 51:49 equity joint venture with OMVL SpA to design, produce and sell alternative fuel engines in the sub-5 litre class for global applications. Under the terms of the joint venture agreement, we are committed to invest \$1.5 million by April 1, 2008 and will receive 49% of future profits.

## **CRITICAL ACCOUNTING POLICIES**

Our consolidated financial statements are prepared in accordance with Canadian GAAP, which require us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require use of estimates and assumptions in determining their reported amounts, include our accounting of CWI

as a variable interest entity, the valuation of long-term investments, equipment, furniture and leasehold improvements, intellectual property, inventory and warranty. The application of these and other accounting policies are described in note 2 of our fiscal 2007 annual consolidated financial statements. There have been no significant changes in our critical accounting estimates from what was previously disclosed in our MD&A for the year ended March 31, 2007 except as noted below in the “Changes in Accounting Policy” section. Actual amounts may vary significantly from estimates used.

## CHANGES IN ACCOUNTING POLICY

The accounting policies used in the unaudited consolidated interim financial statements for the three and six months ended September 30, 2007 are unchanged from the year ended March 31, 2007 except as noted below.

### Financial Instruments

In April, 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3855 Financial Instruments – Recognition and Measurement, applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Under Section 3855, financial assets and liabilities, including derivative instruments, are initially recognised and subsequently measured based on their classification as held-for-trading, available for sale financial assets, held-to-maturity loans and receivables, or other financial liabilities as follows:

- Held-for-trading financial instruments are measured at their fair value with changes in fair value recognised in net income for the period.
- Available for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet.
- Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.
- Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognised in net income for the period unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair values are recognised in other comprehensive income.

We adopted this section effective April 1, 2007. Short-term and long-term investments have been classified as “available for sale” and, except where fair value is not determinable, are being measured at fair value with changes in fair value included in other comprehensive income until the asset is removed from the balance sheet. As the result of adopting Section 3855, as at April 1, 2007 long-term investments increased by \$20.4 million, and opening accumulated deficit decreased by \$0.1 million. We have also added a separate statement entitled “Consolidated Statements of Shareholders’ Equity and Comprehensive Income (Loss)” and added the caption “Accumulated other comprehensive income (loss)” to the shareholders’ equity section of our balance sheet. Other comprehensive loss for the three months ended September 30, 2007, was \$1.6 million, which includes our net loss of \$4.9 million and an unrealised gain on available for sale securities of \$3.3 million. For the six months ended September 30, 2007, other comprehensive loss was \$8.2 million.

### Comprehensive Income

CICA Section 1530 introduced new standards for the reporting and presentation of comprehensive income, which is the change in equity, or net assets, of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources.

It includes all changes in equity during a period except those resulting from investments by, and distributions to, owners. We adopted Section 1530 effective April 1, 2007.

## Hedging

CICA Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As we are not currently engaged in hedging activities, adoption of this new standard has no impact on the consolidated financial statements.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

We have disclosure controls and procedures in place that are designed to provide reasonable assurance that material information relating to us is disclosed on a timely basis. We have reviewed our disclosure controls and concluded that they were effective during the reporting period. We have also designed internal controls over financial reporting to provide us with reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We expect that our financial reporting policies, processes and systems will continue to evolve in our fiscal year 2008 as we continue our shift from research and development to shipping product at increasing volume levels. In particular, our inventory and warranty processes and systems are expected to change over the next few quarters. In the three months ended September 30, 2007, we implemented certain inventory modules of our enterprise resource planning system which will allow us to more efficiently track cost of sales. Our primary internal controls and processes over inventory remained unchanged. No material changes were made in our internal controls over financial reporting during the interim period ended September 30, 2007.

## RESULTS FROM OPERATIONS

**Product revenue** for the three months ended September 30, 2007 compared to the three months ended September 30, 2006 increased by 61% to \$16.6 million from \$10.3 million. CWI product revenues increased by \$4.5 million as the result of increased shipments of engines to Asia and Europe, with a total of 845 units shipped in the quarter compared to 414 units shipped in the same quarter last fiscal year. Over 50% of CWI unit shipments were made outside of North America. In the quarter, we also completed 22 LNG systems and recognised \$2.2 million in non-CWI revenues. The majority of these units were ordered by Clean Energy for eventual deployment at the Port of Los Angeles. Foreign exchange had a negative impact of approximately 8% comparing Q208 to Q207.

For the six months ended September 30, 2007 and 2006, product revenues were \$28.5 million and \$18.0 million respectively. CWI revenues increased to \$25.2 million from \$17.2 million. Non-CWI revenues increased by \$2.5 million with commercial sales of our Westport LNG systems accounting for \$2.8 million and offsetting the \$0.3 million decrease in revenues earned from engineering contract activities.

<b>Revenue</b>				
<i>Expressed in thousands of Canadian dollars except for units</i>				
	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Units, including LNG systems	867	414	1,400	755
Product revenue	16,639	10,327	28,481	17,971
Parts revenue	4,530	3,401	8,418	6,379
	<u>21,169</u>	<u>13,728</u>	<u>36,899</u>	<u>24,350</u>

<b>Product Revenue by Geographic Region</b>				
<i>As a percentage of revenue dollars</i>				
	<b>Three months ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
North America	52%	66%	51%	69%
Asia	31%	3%	31%	4%
Rest of the world	17%	31%	18%	27%

**Parts revenue** for the three and six months ended September 30, 2007 compared to September 30, 2006 increased to \$4.5 million and \$8.4 million, respectively, from \$3.4 million and \$6.4 million. The increase in parts revenue is due to distributors stocking new parts for the newly launched ISL-G engine, modifications related to the L-Gas engine, an increasing and aging engine population, mix and timing.

**Cost of revenue** for the three and six months ended September 30, 2007 was \$15.1 million and \$25.5 million respectively, up from \$9.0 million and \$15.5 million respectively. Cost of revenue from CWI was \$13.2 million and \$22.6 million in the three and six months ended September 30, 2007. Included in CWI's cost of revenues was a positive \$0.4 million warranty adjustment (2007 - \$0.3 million) for the three months ended September 30, 2007 and \$1.0 million (2007 - \$0.3 million) for the six months ended September 30, 2007. Non-CWI cost of revenue for the three and six months ended September 30, 2007 was \$2.0 million and \$2.9 million.

**Gross margin** dollars in the three months and six ended September 30, 2007 increased to \$6.1 million and \$11.4 million respectively from \$4.8 million and \$8.8 million on higher revenues. Gross margin percentage for those periods decreased to 29% and 31% from 35% and 36% in the same periods of the prior year primarily as the result of product and geographical mix and with parts, kits and LNG systems generally selling at lower margins on a percentage (though not necessarily dollar) basis relative to CWI engines. In addition, parts gross margin percentage has decreased year over year due to the mix of parts sold.

**Research and development** expenses, on a net basis, for the three months ended September 30, 2007 were \$5.1 million compared to \$5.7 million for the same period last year. Non-CWI research and development expenses (R&D) decreased by \$0.2 million as the result of higher government funding recognised in the period (\$0.5 million) related to the extension of our funding agreement with the Industrial Technologies Office (ITO), formerly Technology Partnerships Canada. Funding in the quarter and year-to-date also includes amounts from the Australian Greenhouse Office and the US Department of Energy. Gross R&D expenses in the period ending September 30, 2006 also contained an accrual for \$0.3 million for royalty payments to ITO that, under the terms of the extension, will now not come into effect until April 1, 2008. CWI R&D expenses decreased by \$0.5 million with the launch of the ISL-G. For the six months ended September 30, 2007, research and development expenses are down \$1.2 million primarily because of the timing of funding recognised under the ITO extension.

<b>Research and Development Expenses</b>				
<i>(expressed in thousands of Canadian dollars)</i>				
	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Research and development expenses	6,358	6,489	13,089	13,264
Program funding	(1,280)	(755)	(2,570)	(1,533)
Research and development	<u>5,078</u>	<u>5,734</u>	<u>10,519</u>	<u>11,731</u>

**General and administrative** expenses for the three and six months ended September 30, 2007 were \$1.2 million and \$2.3 million, respectively, down from \$1.5 million and \$2.9 million from the same periods in the prior year. Year to date, expenses are down \$0.6 million primarily due to lower stock based compensation expense (\$0.2 million), lower legal and consulting costs and timing of expenses.

**Sales and marketing** expenses in the three and six months ended September 30, 2007 were \$2.3 million (2006 - \$2.0 million) and \$4.1 million (2006 - 3.0 million) respectively. The \$0.3 million increase in the quarter and \$1.1 million increase year to date are primarily attributable to increased sales and marketing activities in CWI with the launch of the ISL-G and continuing support for the L-Gas plus and non-CWI sales and marketing expenses associated with business development activities in Asia and in California.

**Foreign exchange loss** of \$0.5 million and \$1.0 million in the three and six months ended September 30, 2007 primarily reflected the realised net loss on foreign currency transactions and the net unrealised losses on our US dollar denominated assets and liabilities such as cash, accounts receivable and warranty. From March 31, 2007 to September 30, 2007, the US dollar weakened by 16%. In the six months ended September 30, 2006, the US dollar decreased by approximately 4%. However, at that time, we had a net US dollar liability position which resulted in a gain of \$0.2 million.

**Depreciation and amortization** for the three and six months ended September 30, 2007 were consistent with the comparable period in the prior year at \$0.4 million (2006 - \$0.3 million) and \$0.7 million (2006 - \$0.7 million).

**Interest on long-term debt and amortization of discount** was \$0.2 million (2006 - \$0.5 million) and \$1.0 million (2006 - \$0.5 million) in the three and six months ended September 30, 2007 and related primarily to the interest and the accretion on the \$22.1 million in convertible notes, the first

issuance of which occurred June 12, 2006. The full amount of the Notes was converted into shares on July 26, 2007, at which point we retired the debt and ceased to accrue interest and to amortize the discount. The \$0.8 million inducement payable to Perseus LLC has been attributed to the conversion feature of the instrument. Accordingly, the \$0.8 million inducement has been included in accumulated deficit in the period.

**Gain on sale of long-term investment** of \$0.7 million in the six months ended September 30, 2007 arose on the sale of 92,575 shares of Clean Energy for proceeds of \$1.1 million.

**Gain on sale of interest in subsidiary** in the second quarter of fiscal 2007 of \$3.9 million related to the reorganization and disposition of 45% of Wild River.

**Joint Venture Partner's share of income from joint venture** reflects Cummins' 50% share of CWI net operating contribution in the period.

**Income tax expense** in the three and six months ended September 30, 2007 of \$0.3 million and \$0.6 million, respectively, relates primarily to the translation of CWI's US dollar denominated future income tax asset into Canadian dollars. Due to the 16% decline in the US dollar from March 31, 2007, the asset has declined in value by \$0.6 million in Canadian dollar terms.

## CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

As at September 30, 2007, our cash, cash equivalents and short-term investment position was \$19.4 million. Cash and cash equivalents consist of guaranteed investment certificates, bankers acceptances, and term deposits with maturities of 90 days or less when acquired. Short term investments consist primarily of investment grade commercial paper. We do not hold asset backed securities.

During the three months ended September 30, 2007, we used \$2.6 million for operating purposes before changes in working capital and \$0.1 million for purchases of equipment, furniture and leasehold improvements. Working capital, primarily through the collection of government funding, contributed \$1.2 million. For the six months ended September 30, 2007, we used \$6.0 million for operating purposes and \$0.2 million for capital expenditures. Working capital was neutral with \$2.6 million in collected Accounts Receivable from ITO and Cummins Inc. offsetting increases in cash used for inventory, trade payables and employee bonuses. We also sold approximately 4% of our holdings in Clean Energy for \$1.1 million and received \$0.8 million on the exercise of employee share options.

We expect our working capital requirements to increase for inventory purposes as we commercialize our products and solutions. We also expect capital expenditures to increase significantly over the next 6 to 12 months as we ramp up our production capabilities and facilities. We also have a \$1.5 million commitment to fund our share of the capital required for our joint venture with OMVL.

We believe that our current cash, cash equivalents and short-term investments, and our investment in Clean Energy, valued at \$30.4 million on a fair value basis as at September 30, 2007, provide us with sufficient capital to meet our committed milestones and obligations for our current programs. In addition, we have a \$13 million credit facility with our bank, which has been drawn down by our demand instalment loan of \$2.3 million and a \$0.6 million letter of credit. During the quarter, we re-negotiated the interest rate payable on our credit facility from prime to prime minus 0.25% for borrowings up to \$5 million. Further rate reductions apply if borrowings exceed \$5 million.

Westport's capital requirements will vary depending on a number of factors, including the timing and volume of orders for our LNG systems, our ability to successfully launch product on time, 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 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.

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 "Basis of Presentation" section of this MD&A which discusses forward-looking statements and the "Risks and Uncertainties" section of our Annual Information Form.

## **CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS**

Commitments and contingencies have been disclosed in our annual MD&A dated May 31, 2007 and are substantially unchanged. Subsequent to September 30, 2007, we entered into a commitment for a new five year lease for expanded facilities with total basic rent payments of \$0.9 million over the term of the lease. Under the terms of the joint venture agreement signed subsequent to September 30, 2007 with OMVL, we are committed to invest \$1.5 million by April 1, 2008.

## **SHARES OUTSTANDING**

For the three and six months ended September 30, 2007, the weighted average number of shares used in calculating the loss per share was 88,535,739 and 82,175,661 respectively. Actual shares outstanding as of September 30, 2007 was 93,151,695 with 2,655,288 warrants outstanding, 4,831,327 share options outstanding at a weighted average price of \$1.97 and 3,085,433 performance share units outstanding. Of the share options outstanding, 3,194,188 were exercisable at a weighted average price of \$2.25. Of the performance share units outstanding, 1,985,435 were exercisable.

As at October 30, 2007, there were 93,151,695 shares outstanding, 4,831,327 share options outstanding at a weighted average price of \$1.97, 3,085,433 performance share units outstanding and 2,655,288 warrants outstanding. Of the share options outstanding, 3,194,188 were exercisable at a weighted average price of \$2.25. Of the performance share units outstanding, 1,985,435 were exercisable.

## SELECTED QUARTERLY FINANCIAL DATA (unaudited)

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

Three months ended	31-Dec-05	31-Mar-06	30-Jun-06	30-Sep-06	31-Dec-06	31-Mar-07	30-Jun-07	30-Sep-07
Units shipped	245	388	341	414	629	617	533	867
Average foreign exchange rate (C\$:US\$)	\$ 1.17	\$ 1.15	\$ 1.11	\$ 1.12	\$ 1.14	\$ 1.17	\$ 1.10	\$ 1.04
<i>(Expressed in thousands of Canadian dollars except per share)</i>								
Product revenue	\$ 5,147	\$ 8,684	\$ 7,644	\$ 10,327	\$ 13,568	\$ 15,656	\$ 11,842	\$ 16,639
Parts revenue	\$ 3,466	\$ 3,512	\$ 2,978	\$ 3,401	\$ 3,248	\$ 3,658	\$ 3,888	\$ 4,530
Total revenue	\$ 8,613	\$ 12,196	\$ 10,622	\$ 13,728	\$ 16,816	\$ 19,314	\$ 15,730	\$ 21,169
Gross margin	\$ 3,680	\$ 4,225	\$ 4,037	\$ 4,776	\$ 5,398	\$ 7,888	\$ 5,338	\$ 6,053
	43%	35%	38%	35%	32%	41%	34%	29%
Net income (loss) for the period	\$ (3,607)	\$ (3,711)	\$ (5,420)	\$ (1,840)	\$ (5,778)	\$ 1,731	\$ (4,724)	\$ (4,867)
Basic and diluted earnings (loss) per share <sup>(1)</sup>	\$ (0.05)	\$ (0.05)	\$ (0.07)	\$ (0.02)	\$ (0.08)	\$ 0.02	\$ (0.06)	\$ (0.05)
Cash from (used in) operations before change in non-cash operating working capital	\$ (2,225)	\$ (1,954)	\$ (3,685)	\$ (3,760)	\$ (4,448)	\$ 568	\$ (3,372)	\$ (2,645)
Company's 100% share of CWI net income	\$ 502	\$ 1,035	\$ 1,528	\$ 1,392	\$ 806	\$ 8,389	\$ 1,160	\$ 2,412
Joint Venture Partner's share of CWI net income	\$ 251	\$ 518	\$ 764	\$ 696	\$ 403	\$ 4,194	\$ 580	\$ 1,206

<sup>(1)</sup> 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, timing of sale of investments, financing related transactions 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.

Net income (loss) for the quarters ending September 30, 2006 through to the quarter ending September 30, 2007 include interest and amortization related to the Perseus convertible note, which was converted July 26, 2007, at which time the note was retired and interest and amortization ceased. In the three months ended March 31, 2007, we recognised a \$4.2 million dilution gain related to the partial sale and dilution of our interest in Wild River and we also recognised \$2.2 million in funding from ITO and reversed a royalty accrual of \$1.3 million on receipt of the approved extension in our funding contract with them.

## 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 2007 Annual Information Form and are substantially unchanged.