

Consolidated Financial Statements
(Expressed in Canadian dollars)

WESTPORT INNOVATIONS INC.

Three and nine months ended December 31, 2007 and 2006

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

	December 31, 2007	March 31, 2007
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,353	\$ 1,702
Short-term investments	15,582	21,379
Accounts receivable	13,754	10,881
Inventories (note 3)	6,705	2,816
Prepaid expenses	1,219	783
Current portion of future income tax asset	2,218	1,778
	48,831	39,339
Long-term investments (note 4)	21,316	13,115
Equipment, furniture and leasehold improvements	31,676	34,356
Accumulated depreciation	(28,647)	(30,493)
	3,029	3,863
Intellectual property	4,321	4,321
Accumulated amortization	(3,711)	(3,602)
	610	719
Deferred charges	-	920
Future income tax asset	6,654	1,677
	\$ 80,440	\$ 59,633
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,490	\$ 6,030
Deferred revenue	157	365
Demand instalment loan	4,073	1,613
Short-term debt (note 5)	3,965	-
Current portion of long-term debt (note 6)	67	6,816
Current portion of warranty liability	4,425	3,824
Obligation to issue warrants	4,000	-
	23,177	18,648
Warranty liability	3,342	3,147
Obligation to issue warrants	-	4,000
Long-term debt (note 6)	13	13,781
Other long-term obligations (note 7)	1,571	1,720
Joint venture partners' share of net assets from joint ventures (note 11)	14,154	7,719
Shareholders' equity:		
Share capital:		
Authorised:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
93,304,278 (2007 - 75,686,085) common shares	256,045	232,830
Other equity instruments (note 9)	4,526	12,352
Additional paid in capital	5,160	5,301
Accumulated other comprehensive income:		
Unrealised gain on available for sale investments	15,157	-
Accumulated deficit	(242,705)	(239,865)
	38,183	10,618
Commitments (note 13)	\$ 80,440	\$ 59,633

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Operations (unaudited)

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

	Three months ended		Nine months ended	
	December 31		December 31	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Product revenue	\$ 15,488	\$ 13,568	\$ 43,969	\$ 31,539
Parts revenue	3,822	3,248	12,240	9,627
	19,310	16,816	56,209	41,166
Cost of revenue and expenses:				
Cost of revenue	12,756	11,418	38,264	26,954
Research and development (notes 9 and 10)	5,940	6,336	16,459	18,067
General and administrative (note 9)	1,849	1,441	4,137	4,332
Sales and marketing (note 9)	2,289	2,176	6,372	5,134
Foreign exchange loss (gain)	(35)	17	962	(138)
Depreciation and amortization	380	374	1,106	1,031
Bank charges, interest and other	80	263	205	438
	23,259	22,025	67,505	55,818
Loss before undernoted	(3,949)	(5,209)	(11,296)	(14,652)
Interest on long-term debt and amortization of discount	-	(404)	(986)	(910)
Interest and other income	353	238	794	497
Gain on sale of interest in subsidiary	-	-	-	3,891
Gain on sale of long-term investments (notes 4(a) and 4(b))	9,392	-	10,110	-
Income (loss) before income taxes and joint venture partners' share of income from joint ventures	5,796	(5,375)	(1,378)	(11,174)
Income tax recovery (expense):				
Current	(66)	-	(191)	-
Future	5,922	-	5,416	-
	5,856	-	5,225	-
Income (loss) before joint venture partners' share of income from joint ventures	11,652	(5,375)	3,847	(11,174)
Joint venture partners' share of income from joint ventures (note 11)	(4,251)	(403)	(6,037)	(1,863)
Income (loss) for the period	\$ 7,401	\$ (5,778)	\$ (2,190)	\$ (13,037)
Basic earnings (loss) per share	\$ 0.08	\$ (0.08)	\$ (0.03)	\$ (0.17)
Diluted earnings (loss) per share	\$ 0.07	\$ (0.08)	\$ (0.03)	\$ (0.17)
Weighted average common shares outstanding:				
Basic	93,189,608	75,264,565	85,860,327	75,033,479
Diluted	99,550,030	75,264,565	85,860,327	75,033,479

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Cash Flows (unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	December 31		December 31	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):				
Operations:				
Income (loss) for the period	\$ 7,401	\$ (5,778)	\$ (2,190)	\$ (13,037)
Items not involving cash:				
Depreciation and amortization	380	374	1,106	1,031
Stock-based compensation expense	157	127	566	760
Accretion of TPC warrants	-	-	-	571
Future income tax recovery	(5,922)	-	(5,416)	-
Change in deferred lease inducements	(65)	(41)	(186)	(123)
Gain on sale of interest in subsidiary	-	-	-	(3,891)
Gain on sale of long-term investments	(9,392)	-	(10,110)	-
Joint venture partners' share of income from joint ventures	4,251	403	6,037	1,863
Interest on long-term debt and amortization of discount	-	404	986	910
Other	(149)	62	(149)	22
	(3,339)	(4,449)	(9,356)	(11,894)
Change in non-cash operating working capital:				
Accounts receivable	(5,349)	(27)	(2,753)	(1,054)
Inventories	(2,885)	(802)	(3,889)	(762)
Prepaid expenses	(560)	(397)	(436)	(671)
Accounts payable and accrued liabilities	1,190	112	(313)	2,392
Deferred revenue	(45)	(120)	(170)	130
Warranty liability	868	1,163	796	1,140
	(10,120)	(4,520)	(16,121)	(10,719)
Investments:				
Purchase of equipment, furniture, and leasehold improvements	(288)	(390)	(531)	(873)
Proceeds on disposition of equipment, furniture, and leasehold improvements	396	-	396	3
Redemption (purchase) of short-term investments, net	(13,915)	6,185	5,797	(10,968)
Net proceeds from sale of interest in subsidiary	-	-	-	3,891
Proceeds on disposition of long-term investments	16,092	-	17,211	-
Proceeds from joint venture partner	399	-	399	-
Deferred transaction costs	-	(12)	-	(387)
	2,684	5,783	23,272	(8,334)
Financing:				
Share issue costs	(133)	-	(164)	(5)
Repayment of demand instalment loan	(258)	(135)	(540)	(736)
Increase in demand instalment loan	2,000	-	3,000	-
Increase in other debt obligations	3,965	-	3,965	-
Repayment of long-term debt obligations	(6,759)	(15)	(6,796)	(55)
Increase (repayment) of bank loan	-	-	-	7,346
Issuance of convertible notes	-	-	-	13,808
Finance costs incurred	-	(302)	-	(896)
Shares issued for cash	231	-	1,035	-
	(954)	(452)	500	19,462
Increase (decrease) in cash and cash equivalents	(8,390)	811	7,651	409
Cash and cash equivalents, beginning of period	17,743	644	1,702	1,046
Cash and cash equivalents, end of period	\$ 9,353	\$ 1,455	\$ 9,353	\$ 1,455
Supplementary information				
Interest paid	\$ 53	\$ 185	\$ 126	\$ 293
Taxes paid	77	-	333	15
Non-cash transactions:				
Shares issued on exercise of performance share units	49	-	337	510
Shares issued for settlement of debt	-	-	-	602
Shares issued on conversion of debt	-	-	20,827	-
Shares issued for settlement of interest on convertible notes	-	-	553	-

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) (unaudited)

(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007

	Common shares	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity	Comprehensive income (loss)
Balance, March 31, 2007	75,686,085	\$ 232,830	\$ 12,352	\$ 5,301	\$ (239,865)	\$ -	\$ 10,618	\$ -
Transitional adjustment on adoption of new accounting policies for financial instruments (note 2)	-	-	-	-	113	20,402	20,515	-
Balance, April 1, 2007	75,686,085	232,830	12,352	5,301	(239,752)	20,402	31,133	-
Changes during the period:								
Issue of common shares on exercise of stock options	391,459	920	-	(345)	-	-	575	-
Issue of common shares on exercise of performance share units for no additional consideration	87,193	135	(135)	-	-	-	-	-
Stock-based compensation	-	-	27	86	-	-	113	-
Unrealised loss on available for sale securities	-	-	-	-	-	(1,218)	(1,218)	(1,218)
Reclassification of net realised gains on available for sale securities to net loss	-	-	-	-	-	(718)	(718)	(718)
Net loss	-	-	-	-	(4,724)	-	(4,724)	(4,724)
Balance, June 30, 2007	76,164,737	\$ 233,885	\$ 12,244	\$ 5,042	\$ (244,476)	\$ 18,466	\$ 25,161	\$ (6,660)
Changes during the period:								
Issue of common shares on exercise of stock options	153,286	370	-	(141)	-	-	229	-
Issue of common shares on exercise of performance share units for no additional consideration	79,183	153	(153)	-	-	-	-	-
Issue of common shares on conversion of subordinated convertible notes (net of issue costs) and accrued interest (note 6)	16,754,489	21,216	(7,569)	-	(763)	-	12,884	-
Stock-based compensation	-	-	27	269	-	-	296	-
Unrealised gain on available for sale securities	-	-	-	-	-	3,279	3,279	3,279
Net loss	-	-	-	-	(4,867)	-	(4,867)	(4,867)
Balance, September 30, 2007, carried forward	93,151,695	\$ 255,624	\$ 4,549	\$ 5,170	\$ (250,106)	\$ 21,745	\$ 36,982	\$ (8,248)

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Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) (unaudited) (continued)

(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007

	Common shares	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity	Comprehensive income (loss)
Balance, September 30, 2007, brought forward	93,151,695	\$ 255,624	\$ 4,549	\$ 5,170	\$ (250,106)	\$ 21,745	\$ 36,982	\$ (8,248)
Changes during the period:								
Issue of common shares on exercise of stock options	132,583	372	-	(141)	-	-	231	-
Issue of common shares on exercise of performance share units for no additional consideration	20,000	49	(49)	-	-	-	-	-
Stock-based compensation	-	-	26	131	-	-	157	-
Unrealised loss on available for sale securities	-	-	-	-	-	(107)	(107)	(107)
Reclassification of net realised gains on available for sale securities	-	-	-	-	-	(6,481)	(6,481)	(6,481)
Net income	-	-	-	-	7,401	-	7,401	7,401
Balance, December 31, 2007	93,304,278	\$ 256,045	\$ 4,526	\$ 5,160	\$ (242,705)	\$ 15,157	\$ 38,183	\$ (7,435)

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007 and 2006

1. Basis of presentation:

The unaudited consolidated balance sheet as at December 31, 2007, the unaudited consolidated statements of operations and cash flows for the three and nine months ended December 31, 2007 and 2006 and the unaudited consolidated statements of shareholders' equity and comprehensive income (loss) for the three and nine months ended December 31, 2007 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. Except as described in note 2, 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, 2007.

These consolidated financial statements have been presented on a going concern basis, which assumes the realisation of assets and the settlement of liabilities in the normal course of operations. To date, the Company has financed its operations primarily by equity and debt 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 December 31, 2007 and for all periods presented, have been included. Certain comparative amounts have been reclassified to conform with the presentation adopted in the current period.

2. Accounting policies:

On April 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. These new standards resulted in changes in the accounting for financial instruments, hedges and available for sale investments as well as recognition of certain transitional adjustments that have been recorded for available for sale investments and deferred finance costs. In accordance with the transitional provisions, prior periods have not been restated. The principal changes resulting from these new standards are described below:

Comprehensive income

Section 1530 establishes standards for reporting and presenting comprehensive income. Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income for the Company includes unrealised gains and losses on available for sale securities. The components of comprehensive income are disclosed in the consolidated statements of shareholders' equity and comprehensive income (loss). Cumulative changes in other comprehensive income (loss) are included

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Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007 and 2006

2. Accounting policies (continued):

in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity.

Financial instruments

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 value are recognised in other comprehensive income.

Upon adoption of this new standard, the Company designated its short and long-term investments as available for sale financial assets and recognises these investments at their fair value to the extent a reliable fair value is determinable. On April 1, 2007, the Company recorded these investments at their fair value of \$20,402 with an offsetting adjustment to AOCI in shareholders' equity. Investments in private companies are recorded at cost as a reliable fair value is not available for such investments. When the investments are sold or otherwise disposed of, gains or losses will be recorded in the consolidated statements of operations.

Cash and cash equivalents are classified as held-for-trading measured at fair value and accounts receivable are classified as loans and receivables measured at amortized cost.

Accounts payable and accrued liabilities, demand instalment loan and long-term debt are classified as other financial liabilities and are measured at amortized cost.

As permitted by Section 3855, the Company has elected to defer and amortize transaction costs associated with the issuance of financial instruments. Accordingly, on adoption of Section 3855, transaction costs of \$146 associated with the investment in Wild River Resources Ltd. were reclassified to long-term investments and transaction costs associated with long-term debt of \$774 were deducted from the proceeds of the debt on initial recognition and were amortized as interest expense using the effective interest rate method over the term of the related debt. Prior to April 1, 2007, the Company amortized transaction costs associated with long-term debt on a straight line basis. Accordingly, on adoption of Section 3855, the Company recognised a reduction in opening deficit of \$113 as the cumulative effect of the change in amortization of transaction costs associated with long-term debt.

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Notes to Consolidated Financial Statements (unaudited)
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Three and nine months ended December 31, 2007 and 2006

2. Accounting policies (continued):

Hedging

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company is not currently engaged in hedging activities. Accordingly, adoption of this new standard had no impact on the consolidated financial statements.

3. Inventories:

	December 31, 2007	March 31, 2007
	(Unaudited)	
Finished goods	\$ 2,468	\$ -
Work-in-progress	1,769	456
Parts	2,468	2,360
	<u>\$ 6,705</u>	<u>\$ 2,816</u>

The Company's inventory consists of the Company's fuel system products (finished goods), work-in-progress, and parts. Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a standard cost basis which approximates weighted average cost, and net realisable value. The cost of fuel system product inventories and work-in-progress include materials, labour and production overhead.

An inventory obsolescence provision is provided to the extent cost of inventory exceeds net realisable value. In establishing the amount of inventory obsolescence provision, management estimates the likelihood that inventory carrying values will be affected by changes in market demand and technology, which would make inventory on hand obsolete.

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Notes to Consolidated Financial Statements (unaudited)
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4. Long-term investments:

Long-term investments include the following:

	December 31, 2007	March 31, 2007
	(Unaudited)	
Clean Energy Fuels Corp. (a)	\$ 21,209	\$ 9,134
Wild River Resources Ltd. (b)	41	3,981
Prometheus Energy Co. (c)	66	-
	\$ 21,316	\$ 13,115

- (a) The Company owns approximately 3.20% of Clean Energy Fuels Corp. ("CEFC"), an owner and operator of natural gas refueling facilities. During the three and nine months ended December 31, 2007, the Company sold 603,600 and 696,175 shares of CEFC, respectively, for net proceeds of \$9,351 and \$10,470 resulting in a gain on sale of long-term investment of \$6,737 and \$7,455, respectively. As at December 31, 2007, the Company owned 1,413,171 shares of CEFC which have been valued at a closing market price of \$15.01 per share (\$15.14 USD per share) on December 31, 2007.
- (b) As at March 31, 2007, the Company owned approximately 16% of Wild River Resources Ltd. ("WRRL"), a privately owned oil and gas company, and carried this investment at cost. On adoption of Section 3855 on April 1, 2007, the Company reclassified the remaining balance of the deferred charges associated with this investment of \$146 to the cost base of WRRL. During the three months ended December 31, 2007, the Company disposed of substantially all of its shares in WRRL for \$6,741, resulting in a gain on disposal of \$2,655. The proceeds from the sale were used to repay a bank loan of \$6,741 (note 6). As at December 31, 2007, the company owned 0.2% of WRRL and continues to carry this investment at cost, as the Company cannot determine with sufficient reliability the fair value of WRRL due to the absence of a readily available market for the shares of WRRL.
- (c) The Company's investment in CryoFuel Systems Inc. ("Cryofuels"), a fuel company that produces, sells and distributes liquid natural gas, which had been carried at cost, was fully written off in the fiscal year ended March 31, 2003. Subsequently, Prometheus Energy Co. ("Prometheus"), a public company listed on the Alternative Investment Market of the London Stock Exchange under the symbol PEC, acquired the technology rights and other remaining assets of Cryofuels in exchange for shares in Prometheus. As a result, the Company now owns 147,072 shares of Prometheus which have been valued at \$0.45 per share on December 31, 2007.

5. Short-term debt

In the three months ended December 31, 2007, the Company entered into an agreement with Clean Energy Finance, LLC ("CEF"), a wholly owned subsidiary of CEFC, whereby CEF would advance the Company up to \$6,000 to produce approximately 75 LNG systems. The loan is non-interest bearing, unsecured and repayable on receipt of proceeds from the sale of these units. As at December 31, 2007, \$3,965 has been advanced to the Company.

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Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007 and 2006

6. Long-term debt:

	December 31, 2007	March 31, 2007
	(Unaudited)	
Capital lease obligations	\$ 80	\$ 135
Bank loan (note 4(b))	-	6,741
Subordinated convertible notes	-	13,721
	80	20,597
Current portion	67	6,816
	\$ 13	\$ 13,781

On July 26, 2007, Perseus, LLC ("Perseus") exercised their conversion option and converted the principal amount of their \$22.1 million in subordinated convertible notes into 16,538,653 common shares pursuant to the terms of such subordinated convertible notes. As part of this transaction, the Company agreed to pay an inducement amount to Perseus on each of December 31, 2007 and June 30, 2008, equal to 50% of the aggregate interest payment which Perseus would otherwise have been entitled to receive had the entire principal amount of the subordinated convertible notes been outstanding on such dates. In accordance with EIC-96 – "Accounting for early extinguishment of convertible securities through (1) Early redemption or repurchase and (2) induced early conversion", the Company charged the inducement fee of \$763 to accumulated deficit and recorded the inducement fee payable along with \$121 in accrued interest to accounts payable. On conversion, \$13,258 of long-term debt, representing the carrying value of the notes on July 26, 2007, and the carrying value of the conversion option of \$7,569 previously included in other equity instruments were reclassified to share capital.

As at December 31, 2007, inducement payable of \$884 was included in accounts payable of which \$379 and \$127 was paid in shares and cash, respectively, subsequent to December 31, 2007.

7. Other long-term obligations:

	December 31, 2007	March 31, 2007
	(Unaudited)	
Deferred lease inducements	\$ 344	\$ 530
Deferred revenue	1,227	1,190
	\$ 1,571	\$ 1,720

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Notes to Consolidated Financial Statements (unaudited)
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8. Share options:

(Unaudited)	Nine months ended December 31, 2007		Nine months ended December 31, 2006	
	Share options	Weighted average exercise price	Share options	Weighted average exercise price
Outstanding, beginning of year	5,228,993	\$ 1.91	4,968,563	\$ 2.05
Granted	180,000	2.53	585,872	1.18
Exercised	(677,328)	(1.53)	-	-
Cancelled / expired	(308,038)	(2.44)	(245,318)	(2.96)
Outstanding, end of period	4,423,627	\$ 1.96	5,309,117	\$ 1.92
Exercisable, end of period	3,043,201	\$ 2.19	1,496,371	\$ 3.01

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% (2006 – nil%); expected stock price volatility – 59.5% (2006 – 59.2%); risk free interest rate – 3.7% (2006 – 4.6%); expected life of options – 4 years (2006 – 6 years). The average fair value of options granted for the three and nine months ended December 31, 2007 was \$nil (2006 – \$0.75) and \$1.24 (2006 – \$0.71). During the three and nine months ended December 31, 2007, the Company granted a total of nil share options (2006 – 42,440) and 180,000 share options (2006 – 585,872), respectively. During the three and nine months ended December 31, 2007, the Company recognised \$131 (2006 – \$116) and \$486 (2006 – \$395) of stock-based compensation associated with stock options that have vested during the current period.

9. Other equity instruments:

	December 31, 2007	March 31, 2007
	(Unaudited)	
Value assigned to performance share units	\$ 3,106	\$ 3,363
Value assigned to warrants	1,420	1,420
Value assigned to conversion options (note 6)	-	7,569
	\$ 4,526	\$ 12,352

During the three and nine months ended December 31, 2007, the Company granted nil performance share units (“Units”) (2006 – nil) and 1,188,650 Units (2006 – 915,716), respectively. 20,000 and 186,376 Units were exercised during the three and nine months ended December 31, 2007, respectively, and as at December 31, 2007 there were 3,065,433 Units outstanding of which 1,965,435 were exercisable. During the three and nine months ended December 31, 2007, the Company recognised stock-based compensation expense of \$26 (2006 – \$11) and \$80 (2006 – \$365) related to units which vested during the period.

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Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of Canadian dollars except share amounts)

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9. Other equity instruments (continued):

The stock-based compensation associated with the 2003 Unit Plan and the stock option plan (note 8), is included in operating expenses as follows:

(Unaudited)	Three months ended		Nine months ended	
	December 31		December 31	
	2007	2006	2007	2006
Research and development	\$ 22	\$ 16	\$ 64	\$ 91
General and administrative	64	85	397	601
Sales and marketing	71	26	105	68
	\$ 157	\$ 127	\$ 566	\$ 760

10. Research and development expenses:

Research and development expenses are recorded net of program funding received or receivable. For the three and nine months ended December 31, 2007 and 2006, the following research and development expenses had been incurred and program funding received or receivable:

(Unaudited)	Three months ended		Nine months ended	
	December 31		December 31	
	2007	2006	2007	2006
Research and development expenses	\$ 6,290	\$ 6,948	\$ 19,379	\$ 20,212
Program funding	(350)	(612)	(2,920)	(2,145)
Research and development	\$ 5,940	\$ 6,336	\$ 16,459	\$ 18,067

In the nine months ended December 31, 2007, program funding is comprised mainly of funding from the Industrial Technologies Office (formerly Technology Partnerships Canada), the Australian Greenhouse Office and the U.S Department of Energy. In the nine months ended December 31, 2006, program funding was comprised mainly of funding from Hydrogen Early Adopters (h2EA) Program, Sustainable Development Technology Canada, National Renewable Energy Laboratory and South Coast Air Quality Management District. At December 31, 2007, \$2,232 (March 31, 2007 - \$5,401) 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.

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007 and 2006

11. Investment in joint ventures:

Joint venture partners' share of net assets from joint ventures include the following:

	December 31, 2007	March 31, 2007
	(Unaudited)	
Cummins Westport Inc. (a)	\$ 13,940	\$ 7,719
BTIC Westport Inc. (b)	214	-
	<u>\$ 14,154</u>	<u>\$ 7,719</u>

a) Cummins Westport Inc.

The consolidated financial statements include the assets, liabilities, revenue and expenses of CWI as at and for all periods presented. From January 1, 2005, 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. Accordingly, the Company continues to consolidate CWI with Cummins' share of CWI's income and losses included in "Joint venture partners' share of income from joint ventures".

Assets, liabilities, revenue and expenses of CWI included in the consolidated financial statements of the Company as at and for the periods presented are as follows:

	December 31, 2007	March 31, 2007
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 3,660	\$ 43
Short-term investments	9,105	8,017
Accounts receivable	9,818	5,771
Prepaid expenses	139	354
Current portion of future income tax asset	2,218	1,778
	<u>24,940</u>	<u>15,963</u>
Equipment, furniture and leasehold improvements	171	184
Future income tax asset	6,654	1,677
	<u>\$ 31,765</u>	<u>\$ 17,824</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,623	\$ 760
Deferred revenue	49	303
Current portion of warranty liability	4,194	3,767
	<u>\$ 5,866</u>	<u>\$ 4,830</u>
Long term liabilities:		
Deferred revenue	\$ 363	-
Warranty liability	3,111	3,091

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007 and 2006

11. Investment in joint ventures (continued):

a) Cummins Westport Inc. (continued):

	Three months ended		Nine months ended	
	December 31		December 31	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Product revenue	\$ 14,846	\$ 12,918	\$ 40,032	\$ 30,117
Parts revenue	3,822	3,248	12,240	9,627
	18,668	16,166	52,272	39,744
Cost of revenue and expenses:				
Cost of revenue	12,549	10,769	35,198	25,534
Research and development	1,668	2,817	5,144	6,464
General and administrative	404	262	828	752
Sales and marketing	1,261	1,418	3,941	3,350
	15,882	15,266	45,111	36,100
Income before undernoted	2,786	900	7,161	3,644
Interest and other income	203	-	601	-
Effect of foreign currency translation gain (loss)	25	(94)	(554)	82
Income before income taxes	3,014	806	7,208	3,726
Income tax expense:				
Current	(66)	-	(182)	-
Future	5,922	-	5,416	-
	5,856	-	5,234	
Income for the period	8,870	806	12,442	3,726
Joint venture partner's share of income from joint venture	(4,435)	(403)	(6,221)	(1,863)
Company's share of income from joint venture	\$ 4,435	\$ 403	\$ 6,221	\$ 1,863

WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of Canadian dollars except share amounts)

Three and nine months ended December 31, 2007 and 2006

11. Investment in joint ventures (continued):

(b) BTIC Westport Inc.:

On July 21, 2006, the Company and Beijing Tianhai Industry Co. Ltd. ("BTIC") of Beijing, China formed BTIC Westport Inc. ("BWI") 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 share equally in the profits on products developed and sold by the joint venture. Headquartered in Beijing, China, BWI sells tanks for installation on any vehicle, regardless of the natural gas engine manufacturer. During the nine months ended December 31, 2007, the Company contributed \$429 (USD \$400) to the formation of this joint venture.

The consolidated financial statements include the assets, liabilities, revenue and expenses of BWI as at and for all periods presented since the Company has determined that BTIC Westport is a variable interest entity and that the Company is the primary beneficiary. Accordingly, the Company consolidates BWI with BTIC's share of BWI's income and losses included in "Joint venture partners' share of income from joint ventures". For the nine months ended December 31, 2007, BTIC's share of loss from BWI was \$184.

12. 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 and nine months ended December 31, 2007, 77% (2006 – 61%) and 60% (2006 – 65%) respectively of the Company's revenue was from sales in North America, 7% (2006 – 31%) and 22% (2006 – 19%) from sales in Asia, and 16% (2006 – 8%) and 18% (2006 – 16%) from sales elsewhere.

13. Commitments:

On October 26, 2007, the Company and OMVL SpA ("OMVL") entered into a joint venture agreement, engineering agreements and supply agreements to design, produce and sell alternative fuel engines in the sub-5 litre class for global applications. Based in Pernumia, Italy, OMVL designs, manufactures and markets complete fueling systems for new vehicles and for the aftermarket conversion of engines from gasoline (petrol) to compressed natural gas and liquid petroleum gas. Under the terms of the joint venture agreement, OMVL and the Company will share 51% and 49%, respectively, of the profits or losses of the venture. The jointly controlled company will be headquartered in Vancouver, Canada and will exploit the global engineering, production and distribution strengths of OMVL and its parent company, SIT Group, to deliver engines worldwide. The Company will support the new venture through supply of technology, design, testing and market development services. The Company is obligated to contribute \$1,500 to the formation of the joint venture on or before April 1, 2008.

During the three months ended December 31, 2007 the company 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.