

as at July 15, 2008

## **The Charter of the Board of Directors of Westport Innovations Inc.**

### **Purpose of the Charter**

The purpose of this Charter for the Board of Directors (the “Board”) of Westport Innovations Inc. (“Westport”) is to disclose the standards of corporate governance that have been adopted and practiced at Westport. Westport’s Board, Committees of the Board and individual directors shall be assessed on an annual basis for their effectiveness at achieving the standards for corporate governance as set out in this Charter.

The following items are incorporated by reference into, and together comprise, this Board Charter: the Charters of Westport’s four Committees of the Board – the Audit Committee, the Nominating and Corporate Governance Committee, the Human Resources and Compensation Committee and the Strategy Committee, together with the five Position Descriptions for the Non-Executive Chair of the Board, four Committee Chairs, Individual directors, the Chief Executive Officer and the Corporate Secretary.

### **Westport’s Commitment to Effective Corporate Governance**

Effective corporate governance plays an important role in protecting shareholder rights, helping to maximize shareholder value over time and assisting the creation of a vibrant, dynamic and successful corporation.

The successful implementation of high standards of corporate governance is an important objective that contributes to the continued success of, and public confidence in, Westport. The establishment of an advanced corporate governance system, supported by a strong, independent and engaged Board, will determine, in part, how Westport is perceived by its various business partners and stakeholder groups, including prospective and current investors, strategic partners, employees, customers, suppliers and regulators. In addition, an effective governance program will enhance the Board’s ability to attract top-tier international corporate directors in its Board succession planning.

Other objectives to be achieved by Westport’s continued commitment to effective corporate governance include the following:

- (a) To satisfy prospective investors, directors, strategic partners, employees, customers, suppliers, regulators and the public that Westport’s governance standards and practices are sound, possess integrity and transparency of process;
- (b) To demonstrate to Westport’s stakeholders that the organization is trustworthy, effective and ethical;
- (c) To promote high levels of individual and organizational performance and accountability

- (d) To establish diligence in addressing governance issues; governance failure can be very costly and can result in negative publicity, loss of shareholder and organizational support, costly litigation and other penalties; and
- (e) To communicate corporate governance practices in the most relevant and user- friendly framework as possible, consistent with “best practices” in the field.

### **The Objective of Westport’s Board of Directors**

In general terms, the Board is responsible for the overall corporate governance of Westport and is charged with overseeing and directing the management of the business and affairs of Westport. Each director and officer of Westport, in exercising his or her powers and discharging his or her duties, is required by law to: (i) act honestly and in good faith with a view to the best interests of Westport; and (ii) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The objective of the Board, working with management and on behalf of the Westport shareholders, is to help build a strong, healthy and competitive corporation that maximizes shareholder value.

The Board believes that realizing these outcomes can be enhanced through: (i) addressing the corporate objective of enhancing long-term shareholder value while taking into account the interests of other stakeholders; and (ii) conforming to effective standards of corporate governance contained within this Charter.

### **Overall Responsibilities of the Westport Board of Directors**

The Board is responsible for the stewardship of Westport and, as part of this responsibility, shall assume responsibility for the following matters:

- (a) Selecting, appointing and (if necessary) terminating the Chief Executive Officer;
- (b) Chief Executive Officer succession planning, including monitoring the performance of senior management;
- (c) Approving the compensation of the senior management team;
- (d) Adoption of a strategic planning process, approval of strategic plans, and monitoring performance against plans;
- (e) Approving annual capital and operating plans and monitoring performance against those plans;
- (f) Approving policies and processes to identify business risks, to address what risks are acceptable to Westport and ensuring that systems and actions are in place to manage them;

- (g) Approving policies and procedures that enhance the integrity of Westport's internal control and management information systems;
- (h) Implementing an appropriate, formal orientation program for new directors; and
- (i) Approving a Westport communications policy.

### **Board Independence from Management**

Westport believes in an effective Board that has a high degree of independence from management. In order to achieve this, the following structures and processes have been adopted:

*The Board is constituted with a majority of independent directors*

A majority of Westport directors shall be unrelated and independent, in accordance with the standards imposed by the Toronto Stock Exchange, the NASDAQ Manual and any applicable statutes, rules and regulations of the Canadian and United States securities regulatory authorities.

*Committees are either composed of a majority, or exclusively, of independent directors*

All of the directors on the Audit Committee, the Nominating and Corporate Governance Committee and the Human Resources and Compensation Committee, and at least a majority of the directors on the Strategy Committee, shall be independent and unrelated directors.

*The Chair is a check on Board independence*

Westport shall have a Chair who is an independent and unrelated director. The Chair shall be responsible for working to ensure the independence of the Board in the discharge of its responsibilities, as outlined in the Chair's position description, approved by the Board. The Chair shall also be explicitly responsible for ensuring that an appropriate Committee of the Board monitors the performance of the Chief Executive Officer on a regular basis and that the assessment of the Chief Executive Officer is reported to and discussed by the whole Board.

*Executive sessions of independent directors occur at every meeting*

Independent directors must meet regularly, but no less than twice per year, without management present. These sessions provide an opportunity for Board members to discuss any procedural or substantive issues they wish. The Chair and/or the Board may then discuss with the Chief Executive Officer any issues arising from such meeting.

*Access to management*

The Board shall, on a regular basis, both formally and informally, gain regular exposure to members of management for the purposes of evaluating executive succession and other purposes. In addition, directors may, should they desire, be entitled to consult with any member of management on an as-needed basis if they deem such a meeting necessary in the carrying out their responsibilities and duties as directors.

*Certain functions remain the exclusive responsibility of independent directors*

Lastly, certain specific functions shall be the exclusive responsibility of independent directors, consulting closely with the Chief Executive Officer, who will then bring recommendations to the full Board for approval. These functions include:

- (a) Revising the Charter of the Board from time to time;
- (b) Developing a position description for the Chair of the Board; and
- (c) Developing a position description for the Chief Executive Officer, as well as indicators to measure the Chief Executive Officer's performance.

### **Other Effective Westport Corporate Governance Practices**

The following practices are designed to make the Board as effective as it can be:

#### *Adequate compensation for directors and explicit performance expectations*

The Human Resources and Compensation Committee shall recommend for discussion and Board approval levels and forms of compensation for directors, and shall work to ensure that such compensation realistically reflects the responsibilities and risk in being an effective Westport director.

Each Westport director shall be required to meet the expectations set out in the position descriptions for Westport directors and shall meet minimum attendance requirements, including attending: (i) 80% of all Board and Committee meetings; (ii) the directors' annual governance and strategic planning retreat; and (iii) the Annual General Meeting.

Meetings of the Board will be held as required, but generally 10 times a year.

#### *Effective committee structure and charters*

The Chair shall be responsible for putting in place an appropriate Committee structure and shall monitor compliance with the Board and Committee charters.

#### *Board, committee and director assessments*

The Chair shall conduct regular assessments of the Board, the Committees of the Board and individual directors.

#### *An effective Corporate Secretary*

A Corporate Secretary who has a position description approved by the Board shall support the Board in its work. The Corporate Secretary shall report to the Chair of the Board. The Chair shall approve the appointment of the Corporate Secretary and evaluate his or her performance.

### *Retaining of professional advisors*

The Chair of the Board may, in his or her discretion, under appropriate circumstances, retain a professional advisor to provide services to the Board or a Committee of the Board, at the expense of Westport.

If an individual director wishes to engage an outside advisor at the expense of Westport for advisory purposes, the engagement of such outside advisor shall be approved by the Chair of the Board or Chair of the applicable Committee of the Board, depending on the circumstances and reason for requesting independent professional advice.

### *Conditions for re-election of directors*

Whether a Westport director stands for re-election at the Annual General Meeting shall be based on: (i) that director's performance as evidenced by his execution of his or her duties and responsibilities; (ii) the confidence of other Board members in that director; (iii) the confidence that Westport shareholders have in that director, if such views are known and considered accurate and considered relevant; (iv) the preferences of the individual director; and (v) the skills, competencies, experience and benefit to Westport of such directors re-election, without undue regard being had to such director's shareholdings in Westport or relationship with existing directors, officers, shareholders or affiliates of Westport. In addition, the Nominating and Corporate Governance Committee shall review the retention of any director upon a change of work or employment by that director.

### *Directors' shareholdings*

In an effort to better align the interests of the director with the common shareholders of Westport, each director is required to hold a minimum of one times their annual retainer in Westport common shares or performance share units, to be acquired within a three year period, such period commencing on the later of July 9, 2003 and the date that the director was initially elected to the Board.

### *Executive Officers' shareholdings*

In an effort to better align the interests of Westport's senior management team with the common shareholders of Westport, each executive officer of Westport is required to hold a minimum of one times his or her annual salary in common shares or performance share units, to be acquired within a five year period, such period commencing on the later of July 9, 2003 and the date that the individual became a Westport Executive.

### *Loans for Westport*

Westport shall be prohibited from making any loans to any of its directors or officers.

## **Other Board Memberships**

Unless approved by the Board, the Westport Chief Executive Officer is prohibited from swapping directorships with the chief executive officer of another public corporation.

Unless approved by the Board, three or more directors are prohibited from sitting on another public company's board of directors together.

Every executive officer requires the approval of the Board before accepting a directorship of another public company.

## **Other Westport Corporate Governance Responsibilities**

Other areas of responsibility for the Board include the following:

### *General responsibility*

The principal responsibility of the Board is to promote the best interests of Westport and its shareholders. This responsibility includes: (i) approving fundamental operating, financial and other corporate plans, strategies and objectives; (ii) approving the compensation of Westport's executive officers; (iii) adopting policies of corporate governance and conduct, including compliance with applicable laws and regulations, financial and other controls; (v) reviewing the process of providing appropriate financial and operational information to the shareholders and the public generally; and (vi) evaluating the overall effectiveness of the Board.

### *Fiduciary duties*

The Board must act with a view to the best interests of Westport and its shareholders generally.

Fiduciary duties include, by way of example, the obligation to refrain from (i) voting on contracts where personal financial or other interests conflict with those of Westport; (ii) using insider information in securities transactions; and (iii) appropriating a corporate opportunity for personal benefit. Directors must act with such care as would reasonably be expected of a person having the knowledge and experience of the director in question.

Directors should have sufficient information to enable them to make knowledgeable decisions on all matters coming before the Board. It is the responsibility of each director to ask such questions as may be necessary to satisfy himself or herself that he or she has been supplied with all the necessary information on which to base his or her decisions. Directors should be familiar with the aspects of the business and affairs of Westport and have a basic understanding of the principal operational and financial objectives, strategies and plans of Westport, the results of operations and the financial condition of Westport.

Directors are entitled to rely in good faith on: (i) financial statements of Westport which are represented to them by an officer of Westport or in a written report of the auditors of Westport as fairly reflecting the financial condition of Westport; and (ii) an opinion or report of a lawyer, accountant, engineer, appraiser or other person whose profession lends creditability to a statement made by them.

In order to fulfill their fiduciary duties to Westport and its shareholders, each director should: (i) prepare for and attend no less than 80% of the meetings of the Board; (ii) be sufficiently informed about the current and proposed activities of Westport; (iii) review the minutes of any meeting not attended as well as any resolutions passed or actions taken; (iv) obtain advice from outside or independent advisors and consultants when necessary; (v) review the minutes of the previous meeting of the Board to determine that they accurately represent the discussions that took place and the resolutions that were passed; and (vi) be especially attentive to specific aspects of Westport's activities according to their own experience and occupation.

### *Conflicts of interest*

A director who is a party to a material contract or proposed material contract with Westport, or who is a director or officer of or has a material interest in any person who is a party to a material contract or proposed material contract with Westport, must disclose in writing to Westport, or request to have entered in the minutes of meetings of directors, the nature and intent of his or her interest.

The disclosure required to be made by a director where there is a conflict of interest must be made at the meeting at which a proposed contract is first considered by the Board or, if the director had no interest in a proposed contract at the time of such meeting, at the first meeting of the Board after that director acquires an interest. If the director acquires an interest after a contract is made, he or she must disclose their interest at the first meeting of the Board after they became so interested. If a person who has an interest in a contract later becomes a director of Westport, they must disclose their interest at the first meeting of the Board after they became a director.

Where a proposed contract is dealt with by a written resolution signed by all directors in lieu of a meeting of the Board, the disclosure must be made immediately upon receipt of the resolution or, if the director had no interest at the time of receipt of the resolution, at the first meeting of the Board after he or she acquired the interest.

A director who discloses a conflict of interest must refrain from taking part in any discussions or voting on any resolution to approve the contract, unless the contract is:

- (a) An arrangement by way of security for money loaned to or obligations undertaken by that director, or by a body corporate in which that director has an interest, for the benefit of Westport or an affiliate;
- (b) A contract relating primarily to a director's remuneration as a director, officer, employee or agent of Westport or an affiliate;
- (c) A contract for indemnity or insurance with respect to a director or officer of Westport, a former director or officer of Westport or a person who acts or acted at Westport's request as a director or officer of a body corporate of which Westport is or was a shareholder or creditor; or

- (d) A contract with an affiliate of Westport, provided, however, that directors who serve on Boards of affiliated corporations are not prohibited from voting on contracts between the two corporations.

Any profits or gains realized by a director as a result of their privileged position on the Board must be reimbursed to Westport, except in the case of gains resulting from contracts with respect to which that director has complied with the obligation to disclose his or her interest and refrained from voting.

#### *Corporate opportunity*

Directors are precluded from obtaining for themselves or diverting to another person or corporation with whom or with which they are associated, either secretly or without the approval of Westport, any property or business advantage either belonging to Westport or for which it has been negotiating.

Each director is also precluded from so acting even after their resignation where the resignation may fairly be said to have been prompted or influenced by a wish to acquire for themselves the opportunity sought by Westport, or where it was their position with Westport that led to the opportunity.

A director may not use his or her position as a director to make a profit even if it was not open to Westport to participate in the transaction.

#### *Duty of independence*

A director must act strictly in the best interests of Westport and its shareholders generally and not in the interest of any one shareholder or group of shareholders. In determining whether a particular transaction or course of action is in the best interests of Westport, a director, if he or she is elected or appointed by holders of a class or series of shares, may give special, but not exclusive, consideration to the interests of those who elected or appointed them.

#### *Duty of confidentiality*

Directors of Westport have an obligation to maintain the confidentiality of matters discussed at meetings of the Board unless:

- (a) It was clearly understood at the Board meeting that the information was not required to be kept in confidence;
- (b) The director was required or authorized by law to disclose the information;
- (c) The director was authorized expressly or implicitly by the Board to make disclosure of the information; or
- (d) The information was previously disclosed publicly.

### *Duty not to misuse information or position*

Directors must not misuse their position or make improper use of information acquired by virtue of their position to gain, directly or indirectly, an advantage for themselves or any other person or to cause detriment to Westport. Directors are insiders of Westport and, as such, must not use any information to trade in securities or to assist others to trade in securities before the information is available to the public.

### *Insider reporting*

Directors are required to report to the appropriate regulatory authorities, and to Westport's Corporate Counsel, any changes in their direct or indirect beneficial ownership of or control or direction over securities of Westport within ten days of the change.

### *External communications*

The Board is responsible for overseeing the establishment, maintenance and annual review of Westport's external communications policies, which facilitate effective communication with, and accurate, appropriate and timely disclosure to, its shareholders, analysts and the public generally.

### *Delegation of authority to officers and committees*

The Board may delegate authority and functions to officers and to Committees of the Board. The Board has the right to approve the appointment of Westport officers to perform such duties assigned to them by the Board and the Chief Executive Officer.

Committees of the Board currently include an Audit Committee, a Nominating and Corporate Governance Committee, a Human Resources and Compensation Committee and a Strategy Committee. The Board has established charters for each such Committee, and these charters include the Committee's responsibilities, the composition and membership of the Committee, the number of meetings to be held by the Committee per year and other relevant matters.

The following matters are within the sole purview of the Board and may not be delegated by the Board to a Committee of the Board or to an officer of Westport:

- (a) The submission to the shareholders of any question or matter requiring the approval of the shareholders;
- (b) The filling of a vacancy among the directors or in the office of the auditor;
- (c) The issuance of securities, except in the manner and on the terms authorized by the directors;
- (d) The declaration of dividends;
- (e) The purchase, redemption or other acquisition of shares of Westport, except in the manner and on the terms authorized by the directors;

- (f) The payment of a commission to any person in consideration of: (i) his or her purchasing or agreeing to purchase shares of Westport from Westport or from any other person; or (ii) his or her procuring or agreeing to procure purchasers for shares of Westport;
- (g) The approval of a management proxy circular;
- (h) The approval of any Westport financial statements; or
- (i) The adoption, amendment or repealing of any by-laws of Westport.

#### *Financial statements*

The Board has a duty to approve the annual financial statements of Westport and to submit the financial statements of Westport, and the external auditors' report thereon, for the preceding year to the shareholders at the Annual General Meeting of the shareholders of Westport.

A director is required to forthwith notify both the Audit Committee and Westport's auditors of any error or misstatement of which he or she became aware in the audited financial statements of Westport. The Board has a duty to prepare and issue corrected financial statements on being informed of an error or misstatement by an auditor or former auditor and the duty to file these statements with or inform the appropriate regulatory authorities.

On demand from Westport's external auditors, each present and former director of Westport has a duty to furnish to Westport's auditors any information and explanations and allow access to any books, records, documents, accounts or vouchers of Westport or its subsidiaries that he or she is reasonably able to furnish and which Westport's external auditors consider necessary to enable them to report on the annual financial statements.

#### *Shareholder meetings*

The Board is required to call the Annual General Meeting of the shareholders and may, at any time, call a special meeting of shareholders. The Board has a duty to call a special meeting of the shareholders to approve any matter that requires the approval of shareholders by special resolution.