



Creating a Better World
through Innovative Energy Solutions.

Report to Shareholders

Management's Discussion and Analysis
Consolidated Financial Statements
for the three and nine months ended:
December 31, 2009 and 2008

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 nine months ended December 31, 2009 and provides an update to our annual MD&A dated May 19, 2009 for the fiscal year ended March 31, 2009. 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, 2009 and our annual MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A is dated February 9, 2010.

Additional information relating to Westport, including our Annual Information Form ("AIF") and Form 40-F, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov, respectively. All financial information is reported in Canadian dollars unless otherwise noted.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934 as amended. Such statements include but are not limited to statements regarding the demand for our products, our investments, cash and capital requirements, the intentions of partners and potential customers, the performance of our products, our future market opportunities, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, and timing of when we will adopt or meet certain accounting and regulatory standards. 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 revenue growth, operating results, industry and products, general economy, conditions of the capital and debt markets, government or accounting policies and regulation, technology innovations, as well as other factors discussed below and elsewhere in this report, including the risk factors contained in the Company's most recent Annual Information Form filed on SEDAR at www.sedar.com. 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 except as required by National Instrument 51-102.

The forward looking statements contained in this document speak only as of the date of this MD&A. Except as required by applicable legislation, Westport does not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events or circumstances after this MD&A, including the occurrence of unanticipated events.

BUSINESS OVERVIEW

Our business and operations are substantively unchanged since March 31, 2009. Westport is engaged in the research, development and marketing of high performance, low-emission engines and fuel injection systems that utilize alternative gaseous fuels such as natural gas, propane or hydrogen. We develop technology and products that enable light, medium and heavy-duty diesel engines to run primarily on compressed natural gas ("CNG") or liquefied natural gas ("LNG"), giving users an alternative fuel to diesel.

We work with strategic partners, which include some of the leading diesel engine and truck original equipment manufactures ("OEMs"), to develop, manufacture and distribute our engines, and we sell to a diverse group of leading truck and bus OEMs around the world. Our products are designed to provide environmental and economic benefits combined with strong operational performance. We currently have one operating segment, which involves the research, development, and related commercialization of

engines and fuel systems, operating on gaseous fuels, for the on-road commercial vehicle sector. Within that operating segment, we focus on markets where demand for clean, low emission engines is prevalent: Cummins Westport Inc. ("CWI"), is focused on natural gas engine applications for urban fleets ranging from 5.9L to 8.9L; Westport Heavy Duty ("Westport HD"), is focused on LNG systems for heavy-duty trucks; and Juniper Engines Inc. ("Juniper") is focused on 2.0L and 2.4L engines initially targeting industrial end markets.

While focusing firm-wide resources on developing our products and strategic relationships, we have accumulated a significant portfolio of patents, which we believe creates barriers to entry for competing technologies. Additionally, we expect to monetize select patent assets through licensing agreements. We have already been successful in achieving licensing revenue for our proprietary pump technology. We will continue to rely on a combination of patents, trade secrets, trademarks, copyrights and contracts to protect our proprietary technology and position in the marketplace.

Our consolidated revenue for the three months ended December 31, 2009 increased 24% to \$38.4 million from \$31.1 million in the same quarter in the prior year primarily because of higher shipments of CWI engines and higher parts revenue. CWI product revenue was \$27.8 million on 1,162 units shipped, up 38% from \$20.2 million on 768 units shipped, primarily because of higher engine shipments, higher parts revenue and higher kits revenue. CWI parts revenue increased from \$5.6 million to \$7.0 million or 25%, mainly due to a year to date pricing adjustment of \$0.7 million arising from CWI negotiating new annual pricing on certain parts. Non-CWI parts revenues included \$0.9 million from the sale of BTIC Westport Inc. ("BTIC") SI tanks to customers in China. Non-CWI revenues totaled \$3.6 million with 40 HD LNG systems shipped compared to \$5.3 million in the comparative quarter when 56 HD LNG systems were shipped. Sales in both the current and comparative quarters were mainly to port customers. Consolidated revenue for the three month period was also significantly impacted by foreign currency fluctuations quarter over quarter as the majority of our revenue is recorded in US dollars. Consolidated revenue increased 42% on a US dollar basis but was negatively impacted by changes in the average foreign exchange rate as the Canadian dollar strengthened against the US dollar in the period compared to the same quarter last year.

Net loss for the three months ended December 31, 2009, was \$7.3 million, or \$0.21 loss per share, which compares to \$8.9 million, or \$0.28 per share, in the three months ended December 31, 2008. Our 50% share of CWI net income increased from \$0.1 million to \$2.9 million. The increase was primarily the result of increased product revenue, parts revenue and kit revenue offset by an increase in customer related policy expense included in CWI sales and marketing expense. Non-CWI operating expenses (research and development, general and administrative and sales and marketing) decreased by \$0.6 million primarily because of decreased field service, current product support and operational costs associated with our assembly centre, but were offset by \$1.5 million in lower gross margins from lower sales volumes of HD LNG systems and an increase in other net expenses (mainly interest expense and revenue) of \$0.3 million.

For the nine months ended December 31, 2009 and 2008, consolidated revenue was \$95.0 million and \$95.6 million, respectively, a decrease of 1%. CWI revenues were up \$4.1 million, or 5%, to \$88.3 million on 2,809 units shipped, from \$84.2 million on 3,236 units shipped. The increase was driven by a \$5.0 million increase in parts revenue offset by \$0.9 million decline in product revenue on lower shipments. Non-CWI revenues were \$6.7 million compared to \$11.4 million in the same period in the prior year on 68 units shipped compared to 126 units shipped to date year over year.

For the nine months ended December 31, 2009 and 2008, net loss was \$25.5 million, or \$0.78 per share, and \$11.7 million, or \$0.39 per share, respectively. The increase in net loss of \$13.8 million was primarily the result of the \$12.0 million decrease in gains from sale of investments, net of future income taxes. Without the impact net gains from sale of investments, net loss for the nine month period ended December 31, 2009 and 2008 would have been \$25.6 million and \$23.8 million, respectively. Our 50% share of CWI has increased to \$4.6 million from \$3.1 million primarily because of lower warranty expenses as a result of warranty adjustments recorded in the nine month period of the previous fiscal year of \$3.9 million associated primarily with the L Gas and ISL G engines which compares to \$0.5 million in favourable warranty adjustments in the current year to date. Non-CWI operating expenses were up \$0.7 million in the current year to date versus the prior year. The increase was due to higher customer support costs, an increase in stock based compensation, a reduction in program funding and higher costs relating to professional, consulting and general public company related expenditures. The remaining difference related to higher interest and accretion expense relating to our long-term debt offset by foreign exchange.

Our cash and short-term investments balance as at December 31, 2009 was \$107.2 million compared to \$82.6 million as at March 31, 2009. In the nine months ended December 31, 2009, we raised approximately \$57.5 million in net proceeds from our public offering and CWI paid out dividends to Cummins Inc. (“Cummins”) of \$4.2 million.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with Canadian GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. The Company’s significant accounting policies are described in note 2 of our fiscal 2009 annual MD&A. There have been no changes to our critical accounting policies from those presented in our annual MD&A. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require us to use estimates and assumptions in determining their reported amounts, include our accounting for variable interest entities, warranty, revenue recognition, inventories, the valuation of long-term investments and stock based compensation. Changes in estimates related to warranty are made on a quarterly basis and reflect the claims data experienced by the engine field population. We use historical warranty experience from previous and related engine models and families to assist with our warranty estimates. As CWI has experienced significant revenue growth since the launching of the ISL G, a large proportion of its engines are still under warranty and the majority of those engines under warranty are ISL Gs. Accordingly, CWI’s warranty experience is being driven primarily by the ISL G, its most recently launched product. With limited products and limited history, warranty accruals can fluctuate significantly from period to period. The application of warranty and other accounting policies are described in note 2 of our fiscal 2009 annual consolidated financial statements. Actual results 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 nine months ended December 31, 2009 are unchanged from the year ended March 31, 2009, except as noted below.

GOODWILL AND INTANGIBLE ASSETS:

On April 1, 2009, we adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, Goodwill and Other Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and the recognition, measurement and presentation of intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets whether separately acquired or internally developed. We adopted this standard on April 1, 2009 but the adoption had no impact on the consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

The following changes have been recently issued and will be adopted in future.

BASIS OF PRESENTATION:

Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board over a transitional period to be completed by 2011.

We have determined that adopting US GAAP at this time rather than IFRS would be more relevant to our investor base and less disruptive and less costly as we currently prepare a US GAAP reconciliation in the notes to our consolidated financial statements and our systems are set-up to capture US GAAP information.

Management expects to transition to US GAAP on or before our fiscal year starting April 1, 2011, as permitted by Canadian securities regulatory authorities. We will continue to monitor developments in IFRS standards and our intent will be to move to IFRS if and when adopted in the United States.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Our disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosures. We have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. No changes were made in our internal control over financial reporting during the three and nine month periods ended December 31, 2009, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Pursuant to Sarbanes-Oxley Rule 404 for the fiscal year ended March 31, 2010, we will include management's assessment as to whether or not internal control over financial reporting is effective and our independent auditors will be required to furnish an attestation report on management's assessment of the effectiveness of our internal control over financial reporting.

RESULTS FROM OPERATIONS

Product revenue for the three months ended December 31, 2009 was \$30.2 million with 1,162 CWI engines and 40 HD LNG systems shipped in the period. Product revenue for the three months ended December 31, 2008 was \$25.4 million with 768 CWI units and 56 HD LNG systems shipped. The increase in units shipped was primarily the result of increased sales of engines in North America from customers such as UPS and increased sales of the ISL G to Asia and Europe. CWI product revenues increased approximately 38% in Canadian dollar terms and 57% in US dollar terms. The Canadian dollar averaged \$1.06 in the three months ended December 31, 2009 compared to \$1.21 to the US dollar in the three months ended December 31, 2008. CWI kit revenue (including natural gas engine royalties) is included in product revenue and increased by \$1.3 million from \$1.4 million to \$2.7 million quarter over quarter due to higher revenue and royalties on kits sold to customers in India. Non-CWI revenues decreased by \$2.9 million because of fewer shipments of HD LNG systems and a change in sales mix with sales in the current quarter relating to fuel systems sold to OEMs, while the majority of non-CWI shipments in the comparative quarter were upfit trucks which generated higher revenue per unit.

For the nine months ended December 31, 2009 and 2008, product revenues were \$73.5 million and \$81.2 million, respectively. CWI product revenues were down from \$69.9 million on 3,236 units sold to \$69.0 million on 2,809 units sold, a decrease of 1%. Non-CWI product revenues decreased from \$11.3 million to \$4.5 million with lower unit sales of our Westport HD LNG systems and a change in product mix from upfit trucks to fuel systems accounting for most of the change. Year to date, we have shipped 68 Westport HD LNG systems compared to 126 HD LNG systems in the same period last year. When comparing the current nine-month period to the comparative nine-month period, the impact from changes in the average US to Canadian dollar foreign exchange rate on revenue is minimal as the Canadian dollar appreciated against the US dollar by 2% during the period.

Revenue				
<i>(expressed in thousands of Canadian dollars except for units)</i>				
	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Engine shipments (units)	1,162	768	2,809	3,236
Westport HD Fuel Systems (units)	40	56	68	126
Total Unit shipments	1,202	824	2,877	3,362
Product revenue	\$ 30,158	\$ 25,448	\$ 73,478	\$ 81,208
Parts revenue	8,239	5,606	21,533	14,367
	<u>\$ 38,397</u>	<u>\$ 31,054</u>	<u>\$ 95,011</u>	<u>\$ 95,575</u>

Product Revenue by Geographic Region				
<i>(as a percentage of revenue)</i>				
	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Americas	75%	90%	62%	88%
Asia	7%	2%	18%	4%
Rest of the world	18%	8%	20%	8%

For the three and nine months ended December 31, 2009, 75% and 62% of revenues were earned from shipments to the Americas. Revenues from Asia in the three and nine months ended December 31, 2009 related primarily to shipments to China export market.

Parts revenues for the three months ended December 31, 2009 and 2008 were \$8.2 million and \$5.6 million, respectively, an increase of \$2.6 million or 46%. On a US dollar basis, parts revenue increased 72% as the increase was offset by the effect of a stronger Canadian dollar relative to the U.S. dollar for the current quarter compared to the prior quarter. CWI parts revenue increased by \$1.4 million from \$5.6 million to \$7.0 million. The increase occurred as a result of CWI negotiating new annual pricing on certain parts, resulting in a one-time adjustment of \$0.7 million in additional revenue. There was also a general increase in parts prices resulting in an increase in parts revenue of \$0.3 million. Parts revenue is a function of engine population, repair and maintenance experience, the age of the population and product reliability.

Non-CWI parts revenue increased \$1.2 million from less than \$0.1 million in the comparative period to \$1.2 million in the current quarter. The increase is mainly driven by spark ignited tank sales in BTIC Westport Inc. ("BWI") which accounted for \$0.9 million of the increase. The remaining increase of \$0.3 million related to an increase in after market part sales and other one-time part sales in Westport HD.

For the nine months ended December 31, 2009, parts revenue increased by \$7.1 million to \$21.5 million from \$14.4 million, with CWI parts revenue increasing from \$14.3 million to \$19.3 million with the most significant increase occurring in the third quarter. Non-CWI parts revenue increased from a nominal amount in the comparative period to \$2.2 million in the nine month period ended December 31, 2009. Sales of SI tanks in BWI made up of \$1.8 million of the increase with the remainder relating to after-market parts sales in Westport HD.

Cost of revenue for the three months ended December 31, 2009 and 2008 were \$23.3 million and \$24.7 million, respectively, on revenues of \$38.4 million and \$31.1 million, respectively. In the three and nine months ended December 31, 2008, CWI increased warranty reserves by \$2.4 million and \$3.9 million, respectively and also incurred campaign expenses of \$0.2 million and \$1.1 million respectively. The ISL G was launched in mid-2007 and replaced the L Gas and C Gas plus in North America. In general, engines experience higher warranty claims upon launch and lower claims at the end of their product lives as launch defects are corrected and fixes implemented. With the rapid adoption of the ISL G engine, higher than expected warranty expenses occurred in the comparative quarter. During the current quarter and year to

date, CWI reduced warranty reserves by \$1.0 million and \$0.5 million respectively as campaigns and product improvements implemented in previous quarters begin to appear in the field. However, warranty experience has and will fluctuate and could result in significant swings period to period. During the current quarter, CWI also recorded a one-time reduction in cost of parts revenue of \$0.7 million. The adjustment related to a variance between standard costs and actual costs. Cummins may charge CWI standard cost if standard costs approximate actual costs. In the current quarter it was identified that actual costs differed significantly from standard costs on certain component parts resulting in an agreed adjustment between CWI and Cummins. Non-CWI cost of revenue was \$3.4 million and \$5.8 million for the three and nine month periods ended December 31, 2009 compared with \$3.6 million and \$8.7 million for the respective comparative periods due to lower sales volume and change in sales mix from upfit truck to OEM fuel systems.

Gross margins were \$15.1 million and \$6.3 million for the three months ended December 31, 2009 and 2008, respectively, and \$29.5 million and \$23.9 million for the nine months ended December 31, 2009 and 2008, respectively. Gross margin percentages on a consolidated basis for the quarter were 39% with CWI gross margins at 43%, up from 18% in the comparative quarter primarily because of higher warranty reserves taken in the comparative quarter and a one-time adjustment to parts revenue of \$1.0 million and cost of parts revenue of \$0.7 million dollars taken in the third quarter of fiscal 2010 as noted above. For the nine months ended December 31, 2009 and 2008, consolidated gross margin percentages were 31% and 25%, respectively, with CWI's gross margins at 32% and 25%, respectively. The primary reason for the increase in CWI gross margin was adjustments in warranty reserves and parts.

Research and development expenses, on a net basis, for the three and nine months ended December 31, 2009 were \$6.6 million and \$20.4 million down 16% and 7%, respectively, from \$7.8 million and \$22.0 million for the same periods in the prior year. In the quarter ended December 31, 2009, CWI research and development expenses were down \$0.6 million compared to the third quarter of fiscal 2009 primarily because \$0.3 million in government funding in the current quarter and internal staff reallocations to sales and marketing initiatives offset by increased materials costs associated with current product support and new products. On a year to date basis, CWI expenses are down \$0.4 million with lower technology royalty fees associated with lower revenues in the period of \$0.2 million and a reallocation of personnel to sales and marketing activities of \$1.0 million. This reduction was offset by an additional \$0.8 million in material costs associated with current product support and new product development. Research and development costs fluctuate with funding levels and stage of the development program. Non-CWI research and development expenses have decreased by \$0.6 million and \$1.3 million in the three and nine months ended December 31, 2009. For the three months period ended December 31, 2009, the reduction related to shifts in program costs towards customer care and support. For the nine month period, the reduction related to shifts in program costs including a reduction in OEM integration costs, Australian program costs, and costs associated with our EPA 2007 engine of approximately \$0.6 million, \$0.7 million, and \$0.8 million respectively. There were also decreases in intellectual property costs of \$0.3 million due primarily to timing, reductions in travel costs of \$0.3 million. These decreases in costs were offset by decreases in government funding of \$0.8 million and spending on 2010 initiatives of \$0.6 million.

Research and Development Expenses				
<i>(expressed in thousands of Canadian dollars)</i>				
	Three months ended		Nine months ended	
	December 31		December 31	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Research and development expenses	\$ 7,168	\$ 8,280	\$ 21,385	\$ 23,806
Program funding	(617)	(526)	(1,014)	(1,784)
Research and development, net	<u>\$ 6,551</u>	<u>\$ 7,754</u>	<u>\$ 20,371</u>	<u>\$ 22,022</u>

General and administrative expenses for the three months ended December 31, 2009 and 2008 were \$2.2 million and \$2.4 million, respectively. The \$0.2 million decrease related to a reduction in CWI general and administrative expenses as a result of a one-time payment of compensation related expenses in the

comparative quarter. For the nine months ended December 31, 2009, general and administrative costs were up \$1.5 million to \$7.6 million from \$6.1 million with CWI costs down \$0.3 million, stock based compensation up \$0.7 million primarily associated with our mandatory performance share unit exercise program, legal and other professional fees higher by \$0.5 million, and \$0.6 million related to internal allocations of information technology development, rent and office support costs, and public company related expenses.

Sales and marketing expenses for the three months ended December 31, 2009 were \$5.7 million compared to \$4.0 million in the prior year. CWI sales and marketing expenses were up \$1.6 million, primarily because of policy expenses associated with customer support issues on out of warranty engines. Non-CWI expenses were up \$0.1 million primarily because of increased field service and current product support. For the nine months ended December 31, 2009 compared to 2008, sales and marketing expenses increased by \$2.5 million to \$13.3 million from \$10.8 million. CWI sales and marketing expenses increased by \$2.3 million due to a \$1.5 million increase in policy expense and reallocation of personnel to customer service activities recorded as sales and marketing expense of \$0.8 million. Non-CWI sales and marketing expense increased by \$0.2 million primarily due to a reduction in funding of \$0.3 million, an increase in stock based compensation of \$0.2 million and a reallocation of personnel from research and development activities to customer service which is recorded as sales and marketing expense, offset by a reduction in integration payments to an OEM partner.

Foreign exchange loss (gain) relates primarily to the realized and unrealized losses recognized on US dollar denominated balances other than on those arising from the translation of CWI balances, which are included in a separate component of accumulated other comprehensive income. For the three months ended December 31, 2009, we recognized a gain of \$0.1 million compared with a negligible loss in the comparative quarter. For the nine months ended December 31, 2009 we recognized foreign exchange gains of \$0.5 million compared to foreign exchange losses of \$0.6 million in the comparative period. During the three month and nine months ended December 31, 2009 we reclassified \$0.2 million from accumulated other comprehensive income to realized gains as a result of CWI paying out a dividend resulting in a reduction of the Company's net investment in CWI. A similar reclassification of \$0.8 million to realized gains was recorded in the three and nine month period ended December 31, 2008, however the reclassification was offset by realized losses on non-CWI foreign denominated assets and liabilities. From March 31, 2009 to December 31, 2009, the Canadian dollar strengthened by 14% relative to the US dollar.

Depreciation and amortization for the three and nine months ended December 31, 2009 was relatively unchanged at \$0.5 million and \$1.6 million compared to \$0.5 million and \$1.4 million, respectively, for the same periods in the prior year.

Loss from investment accounted for by the equity method relating to our 49% share of Juniper was \$0.2 million and \$0.8 million for the three and nine months ended December 31, 2009 and \$0.3 million and \$0.8 million for the respective comparative periods. Losses related primarily to market and product development expenses in anticipation of product launch in mid-2010. We made our 49% investment in Juniper on April 1, 2008.

Interest on long-term debt and amortization of discount expense of \$0.7 million and \$2.0 million in the three and nine months ended December 31, 2009 and \$0.6 million and \$1.2 million for the three and nine months ended December 31, 2008, relates to the \$15 million in debenture units issued on July 3, 2008.

Gain on sale of investments for the three months ended December 31, 2009 and 2008 was nil. For the nine months ended December 31, 2009, we recognized a gain of \$0.3 million on the sale of Clean Energy and Wild River shares compared with a gain of \$14.5 million in the comparative fiscal year primarily from the sale of 1,178,760 Clean Energy shares.

Income tax expense in the three months ended December 31, 2009 was \$3.6 million compared with less than \$0.1 million in the three months ended December 31, 2008. In the comparative quarter, current tax expense related to \$0.5 million in withholding taxes payable on dividends paid by CWI to Westport while the remainder largely related to income taxes payable by CWI. Future income taxes recognized tax benefits related primarily to warranty accruals, which are deductible for tax only when paid. For the nine months ended December 31, 2009, income tax expense was \$5.4 million compared with \$4.9 million for the nine months ended December 31, 2008. The current period amount relates primarily to CWI as well as withholding taxes payable of \$0.2 million on dividends paid by CWI, while in the comparative period, \$2.6

million related to CWI and the balance related to the future tax impact from the sale of available for sale securities.

Joint venture partners' share of net income from joint ventures of \$3.0 million for the three months ended December 31, 2009 reflects Cummins' 50% share of CWI's income for the period on an after tax basis of \$2.9 million and Beijing Tianhai Industry Co., Ltd.'s ("BTIC") 50% share of BWI's net operating income of \$0.1 million. For the nine months ended December 31, 2009 and 2008, our joint venture partners' share of income from joint ventures was \$4.6 million and \$3.4 million respectively with Cummins share of CWI representing \$4.6 million and \$3.1 million respectively.

CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

Cash and cash equivalents consist of treasury bills, guaranteed investment certificates, and term deposits and banker acceptances with maturities of 90 days or less when acquired. Short-term investments consist primarily of government treasury bills, commercial paper and bank issued debt.

Our cash and short-term investments balance as at December 31, 2009 was \$107.2 million compared to \$82.6 million as at March 31, 2009. In December 2009, we raised \$57.5 million in net proceeds from our public offering.

For the nine months ended December 31, 2009, cash used in operations and for capital expenditures was \$20.4 million. Changes in non-cash operating working capital contributed \$3.9 million, primarily from increases in accounts receivable of \$5.3 million due mainly to shipments of systems near the end of the quarter and decreases in accounts payable and accrued liabilities of \$2.9 million. Cash used in operations, excluding changes in non-cash operating working capital, was \$16.4 million. We also advanced Cummins \$1.7 million net of repayments and paid \$1.2 million against our limited recourse loan from Clean Energy and \$1.0 million of our demand installment loan. CWI also paid out \$4.2 million in dividends to each parents with Cummins share reflected as a reduction of the joint venture partner's share of net assets of joint venture.

Foreign exchange negatively impacted cash and cash equivalents by \$5.7 million as the relative value of the Canadian dollar increased relative to the U.S. dollar by 14% over the nine month period.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI profits, borrowings under our credit facility, proceeds from the sale of our remaining investment in Clean Energy, valued at \$2.7 million as at December 31, 2009, to fund our committed milestones and obligations for our current programs. We will also continue to seek third party and government funding on commercially acceptable terms to offset costs of our investments; however, there are no guarantees that we will be successful in obtaining third party funding on acceptable terms or at all.

During December 2009, we issued 5,462,500 common shares at a price of US\$10.50 per share, for gross proceeds of US\$57.4 million (\$60.8 million Canadian dollars). The net proceeds of \$57.5 million (net of share issuance costs of \$3.3 million) will be used on the development of new OEM engine platform for our Westport HD system, to support working capital requirements including funding inventory and developing and seeking alternate suppliers, and for general corporate purposes including market creation activities, potential acquisitions of businesses, technologies or other assets, debt repayments, general and administrative expenses, supply chain development and capital expenditures including facilities and equipment.

Our \$13 million credit facility with our bank has been drawn down by our demand installment loan of \$3.6 million and is subject to and limited by financial covenants, which may prevent us from drawing against the full amount of the line. As at December 31, 2009, we had access to the full amount of the line at an interest rate of prime plus 0.25% for borrowings up to \$5.0 million.

Westport's capital requirements will vary depending on a number of factors, including: the timing and size of orders for our LNG systems, our ability to successfully launch products on time, our 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 orders, expanded engine programs, acquisitions or investments could require additional funding. If such additional funding is not available to us, if expected orders do not materialize or are delayed, or if we have significant overspending in our programs, we may be required to delay, reduce or eliminate certain research and development activities, reduce or cancel inventory orders, 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 and could have an adverse effect on our business, results of operations, liquidity and financial condition.

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 “Forward Looking Statements and Basis of Presentation” sections of this MD&A which discusses forward-looking statements and the “Risks and Uncertainties” section of this MD&A and of our Annual Information Form.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

Commitments and contingencies have been disclosed in our annual MD&A dated May 19, 2009 and are substantially unchanged except we are no longer in discussions with Industrial Technologies Office (“ITO”) to extend the work phase of our agreement as we have determined that we were substantially completed as at March 31, 2008. Accordingly, during October 2009, \$1.4 million relating to royalties owing to ITO under our existing agreement was paid. The amount had been accrued as at September 30, 2009 and March 31, 2009.

SHARES OUTSTANDING

For the nine months ended December 31, 2009 and 2008, the weighted average number of shares used in calculating the loss per share was 32,758,987 and 29,689,377, respectively. During the nine months ended December 31, 2008, as part of the debenture units issued on July 3, 2008, we issued 771,428 warrants with a strike price of \$18.73 and 46,118 broker warrants with a strike price of \$16.10. We also issued 790,614 warrants with a strike price of \$10.65 to the Government of Canada, as required under our funding agreement. The number of shares, share options, performance share units, and warrants outstanding and exercisable as at the following dates are shown below:

	December 31, 2009		February 9, 2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Shares outstanding	38,278,840	\$	38,287,431	\$
Share Options				
- Outstanding	1,252,916	7.85	1,244,325	7.86
- Exercisable	772,040	8.15	763,449	8.17
Performance Share Units				
- Outstanding	1,195,313	N/A	1,195,313	N/A
- Exercisable	43,867	N/A	43,867	N/A
Warrants				
- Outstanding and exercisable	1,608,160	14.68	1,608,160	14.68

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-08	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09	30-Jun-09	30-Sep-09	30-Dec-09
Units shipped	519	1,078	1,460	824	676	622	1,053	1,202
Average foreign exchange rate (C\$:US\$)	\$ 1.00	\$ 1.01	\$ 1.04	\$ 1.21	\$ 1.25	\$ 1.16	\$ 1.10	\$ 1.06
<i>(expressed in thousands of Canadian dollars except per share)</i>								
Product revenue	\$ 11,269	\$ 21,428	\$ 34,332	\$ 25,448	\$ 21,547	\$ 19,329	\$ 23,991	\$ 30,158
Parts revenue	\$ 4,058	\$ 4,081	\$ 4,680	\$ 5,606	\$ 4,715	\$ 5,614	\$ 7,680	\$ 8,239
Total revenue	\$ 15,327	\$ 25,509	\$ 39,012	\$ 31,054	\$ 26,262	\$ 24,943	\$ 31,671	\$ 38,397
Gross margin	\$ 4,568	\$ 8,339	\$ 9,226	\$ 6,321	\$ 6,930	\$ 6,396	\$ 7,992	\$ 15,083
	30%	33%	24%	20%	26%	26%	25%	39%
Net income (loss) for the period	\$ (8,125)	\$ (3,463)	\$ 676	\$ (8,928)	\$ (12,710)	\$ (9,189)	\$ (8,984)	\$ (7,279)
Earnings (loss) per share:								
Basic	\$ (0.30)	\$ (0.13)	\$ 0.02	\$ (0.28)	\$ (0.43)	\$ (0.29)	\$ (0.28)	\$ (0.21)
Diluted	\$ (0.30)	\$ (0.13)	\$ 0.02	\$ (0.28)	\$ (0.43)	\$ (0.29)	\$ (0.28)	\$ (0.21)
Cash from (used in) operations before change in non-cash operating working capital	\$ (8,238)	\$ (2,548)	\$ (3,947)	\$ (8,288)	\$ (10,842)	\$ (7,132)	\$ (6,869)	\$ (2,369)
Company's 100% share of CWI net income	\$ (810)	\$ 3,234	\$ 2,800	\$ 258	\$ 1,540	\$ 1,312	\$ 2,092	\$ 5,878
Joint Venture Partner's share of CWI net income	\$ (405)	1,617	1,400	\$ 129	\$ 770	\$ 656	\$ 1,046	\$ 2,939

Our quarterly results are impacted by the timing of product deliveries, completion of engineering milestones, government and partner funding, timing of sale of long-term investments, timing of stock based compensation 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 and part sales, product and customer mix, and the timing of completion of engineering milestones and related government funding.

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 2009 Annual Information Form. The following additional risks have been identified during the third quarter of fiscal 2010.

We could be adversely affected by risks associated with acquisitions.

We may, in future, seek to expand our business through acquisitions. Any such acquisitions will be in part dependent on management's ability to identify, acquire and develop suitable acquisition targets in both new and existing markets. In certain circumstances, acceptable acquisition targets might not be available. Acquisitions involve a number of risks, including: (i) the possibility that we, as a successor owner, may be legally and financially responsible for liabilities of prior owners; (ii) the possibility that we may pay more than the acquired company or assets are worth; (iii) the additional expenses associated with completing an acquisition and amortizing any acquired intangible assets; (iv) the difficulty of integrating the operations and personnel of an acquired business; (v) the challenge of implementing uniform standards, controls, procedures and policies throughout an acquired business; (vi) the inability to integrate, train, retain and motivate key personnel of an acquired business; and (vii) the potential disruption of our ongoing business and the distraction of management from our day-to-day operations. These risks and difficulties, if they materialize, could disrupt our ongoing business, distract management, result in the loss of key personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial performance.

We could be adversely affected by violations of Canadian and international anti-corruption and anti-bribery laws.

Canadian and international anti-corruption and anti-bribery laws, including the Foreign Corrupt Practices Act in the United States, generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-corruption and anti-bribery laws may conflict with local customs and practices. Despite our policies mandating compliance with these laws, we cannot assure you that our internal control policies and procedures always will protect us from reckless or negligent acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our business and operations.

Some of our foreign subsidiaries may do business in countries subject to U.S. sanctions and embargoes, and we have limited managerial oversight over those activities.

In the future, some of our foreign subsidiaries or joint ventures may sell our products to customers in countries that may be subject to sanctions and embargoes imposed by the U.S, Canadian governments or the United Nations. Although these sanctions and embargoes may not prohibit our foreign subsidiaries and joint ventures from selling products and providing services in these countries, they may prohibit us and our domestic subsidiaries and joint ventures, as well as employees of our foreign subsidiaries and joint ventures who are U.S. or Canadian citizens, from participating in, approving or otherwise facilitating any aspect of the business activities in those countries.

The constraints on our ability to have U.S. or Canadian persons, including our senior management, provide managerial oversight and supervision over sales in embargoed countries may negatively affect the financial or operating performance of such business activities. Further, failure to comply with U.S. and Canadian laws in our foreign operations could result in material fines and penalties, damage to our reputation and a reduction in the value of our Common Shares.

NON-GAAP MEASURES

We use certain non-GAAP measures to assist in assessing our financial performance and liquidity. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures and reconciliations to financial statement line items for the periods indicated are as follows:

Cash flows from operations before changes in non-cash working capital				
<i>(expressed in thousands of Canadian dollars)</i>				
	Three months ended		Nine months ended	
	December 31		December 31	
	2009	2008	2009	2008
Cash flow from operations	\$ (3,521)	\$ (3,895)	\$ (20,238)	\$ (2,823)
Changes in other non-cash operating working capital:				
Accounts receivable	(5,249)	(1,478)	(5,337)	(1,963)
Inventories	1,907	(1,080)	2,670	(3,006)
Prepaid expenses	(1,063)	(271)	(940)	(357)
Accounts payable and accrued liabilities	3,406	(1,185)	(2,884)	1,501
Deferred revenue	153	1,190	1,271	1,758
Warranty liability	(306)	7,217	1,352	14,027
Cash flows from operations before changes in non-cash operating working capital	<u>\$ (2,369)</u>	<u>\$ (8,288)</u>	<u>\$ (16,370)</u>	<u>\$ (14,783)</u>

Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)

WESTPORT INNOVATIONS INC.

Three and nine months ended December 31, 2009 and 2008

WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

	December 31, 2009 (unaudited)	March 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 74,929	\$ 39,043
Short-term investments	32,249	43,576
Accounts receivable	11,421	6,417
Loan receivable (note 10(a))	10,919	11,234
Inventories (note 3)	11,312	13,982
Prepaid expenses	2,303	1,387
Current portion of future income tax assets	5,119	4,451
	<u>148,252</u>	<u>120,090</u>
Long-term investments (note 4)	2,294	1,935
Equipment, furniture and leasehold improvements, net	6,686	7,712
Intellectual property, net	323	430
Future income tax assets	4,371	5,337
	<u>\$ 161,926</u>	<u>\$ 135,504</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,788	\$ 14,359
Current portion of deferred revenue	732	546
Demand instalment loan	3,632	4,642
Short-term debt	168	1,614
Current portion of long-term debt (note 5)	130	17
Current portion of warranty liability	12,546	12,222
	<u>27,996</u>	<u>33,400</u>
Warranty liability	9,540	12,369
Long-term debt (note 5)	12,600	11,353
Deferred lease inducements	223	284
Deferred revenue	4,958	4,537
Joint Venture Partners' share of net assets of joint ventures (note 10(c))	10,861	12,603
	<u>66,178</u>	<u>74,546</u>
Shareholders' equity:		
Share capital:		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
38,278,840 (2009 - 32,040,540) common shares	374,292	311,855
Other equity instruments (note 8)	10,577	12,319
Additional paid in capital	5,961	5,263
Deficit	(297,337)	(271,885)
Accumulated other comprehensive income	2,255	3,406
	<u>95,748</u>	<u>60,958</u>
	<u>\$ 161,926</u>	<u>\$ 135,504</u>

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 December 31		Nine months ended December 31	
	2009	2008	2009	2008
Product revenue	\$ 30,158	\$ 25,448	\$ 73,478	\$ 81,208
Parts revenue	8,239	5,606	21,533	14,367
	38,397	31,054	95,011	95,575
Cost of revenue and expenses:				
Cost of revenue	23,314	24,733	65,540	71,688
Research and development (notes 8 and 9)	6,551	7,754	20,371	22,022
General and administrative (note 8)	2,214	2,432	7,602	6,100
Sales and marketing (note 8)	5,714	3,991	13,273	10,763
Foreign exchange loss (gain)	(167)	13	(547)	679
Depreciation and amortization	525	519	1,563	1,407
Bank charges, interest and other	150	140	344	345
	38,301	39,582	108,146	113,004
Income (Loss) before undernoted	96	(8,528)	(13,135)	(17,429)
Loss from investment accounted for by the equity method (note 4(b))	(215)	(259)	(846)	(842)
Interest on long-term debt and amortization of discount	(705)	(598)	(2,048)	(1,246)
Interest and other income	69	886	282	1,700
Gain on sale of investments (note 4(a))	-	-	268	14,479
Loss before income taxes and Joint Venture Partners' share of income from joint ventures	(755)	(8,499)	(15,479)	(3,338)
Income tax recovery (expense):				
Current	(3,846)	(911)	(6,941)	(1,216)
Future	289	952	1,542	(3,732)
	(3,557)	41	(5,399)	(4,948)
Net loss before Joint Venture Partners' share of income from joint ventures	(4,312)	(8,458)	(20,878)	(8,286)
Joint Venture Partners' share of net income from joint ventures (note 10)	(2,967)	(469)	(4,574)	(3,429)
Net loss for the period	\$ (7,279)	\$ (8,927)	\$ (25,452)	\$ (11,715)
Loss per share:				
Basic	\$ (0.21)	\$ (0.28)	\$ (0.78)	\$ (0.39)
Diluted	(0.21)	(0.28)	(0.78)	(0.39)
Weighted average common shares outstanding:				
Basic	33,864,074	32,029,996	32,758,987	29,689,377
Diluted	33,864,074	32,029,996	32,758,987	29,689,377

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Comprehensive Income (Loss) (unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Loss for the period	\$ (7,279)	\$ (8,927)	\$ (25,452)	\$ (11,715)
Other comprehensive income (loss)				
Unrealized gain (loss) on available for sale securities, net of tax of \$16 and \$189 (2008 – \$237 and \$337)	111	(1,186)	1,324	1,706
Reclassification of net realized gains on available for sale securities to net loss, net of tax of \$nil and \$23 (2008 - \$nil and \$2,454)	-	-	(158)	(12,119)
Cumulative translation adjustment	(217)	2,647	(2,098)	3,272
Reclassification of realized foreign exchange gain	(219)	(793)	(219)	(793)
	(325)	668	(1,151)	(7,934)
Comprehensive loss	\$ (7,604)	\$ (8,259)	\$ (26,603)	\$ (19,649)

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

Consolidated Statements of Shareholders' Equity (continued)
(Expressed in thousands of Canadian dollars, except share amounts)

Year ended March 31, 2009 (audited) and for the nine months ended December 31, 2009 (unaudited)

	Common shares	Share capital	Other equity Instruments	Additional paid in capital	Accumulated Deficit	Accumulated other comprehensive income	Total shareholders' Equity
Balance, March 31, 2008	27,416,993	\$ 258,202	\$ 3,079	\$ 5,097	\$ (247,460)	\$ 10,878	\$ 29,796
Issue of common shares on exercise of stock options	104,669	939	-	(357)	-	-	582
Issue of common shares on exercise of performance share units	3,947	23	(23)	-	-	-	-
Issue of common shares on settlement of accrued interest	14,931	249	-	-	-	-	249
Issue of common shares on public offering	4,500,000	57,348	-	-	-	-	57,348
Share issue costs	-	(4,906)	-	-	-	-	(4,906)
Value of warrants issued with long-term debt	-	-	3,847	-	-	-	3,847
Value of warrants issued to settle obligation to issue warrants	-	-	4,000	-	-	-	4,000
Financing costs incurred	-	-	(307)	-	-	-	(307)
Stock-based compensation	-	-	1,723	523	-	-	2,246
Net loss for the period	-	-	-	-	(24,425)	-	(24,425)
Other comprehensive loss	-	-	-	-	-	(7,472)	(7,472)
Balance, March 31, 2009	32,040,540	311,855	12,319	5,263	(271,885)	3,406	60,958
Issue of common shares on exercise of stock options	174,345	1,586	-	(587)	-	-	999
Issue of common shares on exercise of performance share units	601,455	3,395	(3,395)	-	-	-	-
Issue of common shares on public offering	5,462,500	60,840	-	-	-	-	60,840
Share issue costs	-	(3,384)	-	-	-	-	(3,384)
Stock-based compensation	-	-	1,653	1,285	-	-	2,938
Net loss for the period	-	-	-	-	(25,452)	-	(25,452)
Other comprehensive loss	-	-	-	-	-	(1,151)	(1,151)
Balance December 31, 2009 (unaudited)	38,278,840	\$ 374,292	\$ 10,577	\$ 5,961	\$ (297,337)	\$ 2,255	\$ 95,748

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 December 31		Nine months ended December 31	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from operations:				
Income (loss) for the period	\$ (7,279)	\$ (8,927)	\$ (25,452)	\$ (11,715)
Items not involving cash:				
Depreciation and amortization	525	519	1,563	1,407
Stock-based compensation expense	1,140	505	2,938	1,680
Future income tax recovery	(289)	(952)	(1,542)	3,732
Change in deferred lease inducements	(13)	(78)	(61)	(244)
Gain on sale of investments	-	-	(268)	(14,479)
Joint Venture Partners' share of net income from joint ventures	2,967	469	4,574	3,429
Loss from investment accounted for by the equity method	215	259	846	842
Accretion of long-term debt	365	(83)	1,032	565
Changes in non-cash operating working capital:				
Accounts receivable	(5,249)	(1,478)	(5,337)	(1,963)
Inventories	1,907	(1,080)	2,670	(3,006)
Prepaid expenses	(1,063)	(271)	(940)	(357)
Accounts payable and accrued liabilities	3,406	(1,185)	(2,884)	1,501
Deferred revenue	153	1,190	1,271	1,758
Warranty liability	(306)	7,217	1,352	14,027
	(3,521)	(3,895)	(20,238)	(2,823)
Cash flows from investments:				
Purchase of equipment, furniture and leasehold improvements	(59)	(1,476)	(134)	(5,484)
Sale / Maturity of short-term investments, net	(2,735)	(15,850)	11,327	(25,441)
Disposition of long-term investments	-	-	396	19,379
Investment in joint venture	-	-	-	(1,500)
Advances on loan receivable	(12,559)	(12,292)	(15,240)	(18,866)
Repayment on loan receivable	13,509	17,307	13,509	17,307
Leasehold inducement	-	-	-	325
	(1,844)	(12,311)	9,858	(14,280)
Cash flows from financing:				
Issue of demand instalment loan	-	-	-	500
Repayment of demand instalment loan	(336)	(418)	(1,010)	(1,240)
Increase in short-term debt	-	-	-	170
Repayment of short-term debt	(84)	(2,078)	(1,205)	(4,627)
Repayment of long-term debt	(6)	(45)	(15)	(96)
Issuance of debenture units	-	-	-	15,000
Finance costs incurred	-	-	-	(1,006)
Shares issued for cash	60,898	40	61,839	57,920
Share issue costs	(3,384)	-	(3,384)	(4,906)
Dividends paid to joint venture partner	(4,218)	(9,259)	(4,218)	(9,259)
	52,870	(11,760)	52,007	52,456
Effect of foreign exchange on cash and cash equivalents				
	(723)	4,134	(5,741)	5,292
Increase (decrease) in cash and cash equivalents				
	46,782	(23,832)	35,886	40,645
Cash and cash equivalents, beginning of period	28,147	72,037	39,043	7,560
Cash and cash equivalents, end of period	\$ 74,929	\$ 48,205	\$ 74,929	\$ 48,205

WESTPORT INNOVATIONS INC.

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

	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Supplementary information:				
Interest paid	\$ 761	\$ 103	\$ 1,532	\$ 165
Taxes paid	1,959	213	6,198	238
Non-cash transactions:				
Purchase of equipment, furniture and leasehold improvements by assumption of capital lease obligation	-	-	343	50
Shares issued on exercise of performance share units	-	-	3,395	-
Shares issued for settlement of interest on convertible notes	-	249	-	249
Broker warrants issued with subordinated debt	-	283	-	283

See accompanying notes to consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

Three and nine months ended December 31, 2009 and 2008

1. Basis of presentation:

The unaudited consolidated balance sheet as at December 31, 2009, the unaudited consolidated statements of operations, comprehensive loss and cash flows for the three and nine months ended December 31, 2009 and 2008 and the unaudited consolidated statement of shareholders' equity for the nine months ended December 31, 2009 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, 2009.

These consolidated financial statements have been presented on a going concern basis, which assumes the realization of assets and the settlement of liabilities in the normal course of operations. To date, Westport Innovations Inc. (the "Company") has financed its operations primarily by equity and debt financing, sale of investments, its share of operating cash flow from Cummins Westport Inc. ("CWI") 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, 2009 and for all periods presented have been included.

The unaudited consolidated financial statements conform in all material respects with accounting principles generally accepted in the United States except as disclosed in note 12.

2. Accounting policies:

Goodwill and Intangible Assets:

On April 1, 2009, the Company adopted CICA Handbook Section 3064 which replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and the recognition, measurement and presentation of intangible assets, including assets developed from research and development activities ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Company adopted this standard on April 1, 2009 but adoption had no impact on the interim consolidated financial statements.

WESTPORT INNOVATIONS INC.

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

Three and nine months ended December 31, 2009 and 2008

2. Accounting policies (continued):

Basis of presentation:

Canada's Accounting Standards Board has ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board over a transitional period. Full adoption of IFRS is required for all publically accountable enterprises for fiscal years beginning on or after January 1, 2011. The Company is currently planning to adopt accounting principles generally accepted in the United States of America ("US GAAP") as permitted by Canadian Securities regulatory authorities and adopt IFRS if and when IFRS and US GAAP converge.

3. Inventories:

	December 31, 2009	March 31, 2009
	(Unaudited)	
Purchased parts	\$ 7,256	\$ 9,976
Assembled parts	2,468	2,051
Work-in-process	1,116	638
Finished goods	472	1,317
	\$ 11,312	\$ 13,982

During the three and nine months ended December 31, 2009, the Company recorded write-downs to net realizable value of approximately \$209 (2008 – \$nil) and \$277 (2008 – \$97) respectively for obsolescence and scrap. There were no reversals of write-downs recorded in any period presented.

During the three and nine months ended December 31, 2009, the Company recognized \$20,285 (2008 - \$16,349) and \$52,956 (2008 - \$52,670) respectively related to inventoriable items in cost of sales.

4. Long-term investments:

	December 31, 2009	March 31, 2009
	(Unaudited)	
Clean Energy Fuels Corp. (a)	\$ 2,661	\$ 1,416
Juniper Engines Inc. (b)	(367)	479
Other investments (c)	-	40
	\$ 2,294	\$ 1,935

- (a) As at December 31, 2009, the Company owned an approximate 0.3% (March 31, 2008 – 0.4%) interest in Clean Energy Fuels Corp. ("CEFC"), an owner and operator of natural gas refueling facilities. During the nine months ended December 31, 2009, the Company sold 20,000 (2008 – 1,178,760) shares of CEFC for net proceeds of \$267 (2008 - \$19,378) resulting in a gain on sale of \$180 (2008 - \$14,275). As at December 31, 2009, the Company owned 164,311 shares of CEFC which have been valued at a closing market price of \$16.20 per share (US\$15.41 per share).

WESTPORT INNOVATIONS INC.

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

Three and nine months ended December 31, 2009 and 2008

4. Long-term investments (continued):

- (b) The Company has a 49% interest in Juniper Engines Inc. ("Juniper"), a jointly controlled company which designs, produces and sells alternative fuel engines in the sub-5 litre class for global applications.

The Company has determined that Juniper is a variable interest entity. However, the Company is not the primary beneficiary and has accounted for its interest in Juniper using the equity method.

During the three and nine months ended December 31, 2009, the Company recognized a loss of \$215 (2008 – \$259) and \$846 (2008 - \$842) respectively as loss from investment accounted for by the equity method. The Company's net equity investment position in Juniper at December 31, 2009 is a deficit of \$367. The Company has continued to recognize its share of the losses of Juniper even though losses exceed the initial investment as it is the Company's intention to continue to finance Juniper for the foreseeable future.

- (c) On July 2, 2009, Wild River Resources Ltd. ("WRRL") entered into an arrangement agreement with Crescent Point Energy Trust ("CPET") to exchange CPET trust units for WRRL common shares. In addition, the shares of WRRL were consolidated on a 0.1512 to 1.0 basis. As a result of the arrangement, WRRL and CPET formed Crescent Point Energy Corp. ("CPEC"), a publicly listed company on the Toronto Stock Exchange. The Company received 3,780 shares of CPEC for its 25,000 shares of WRRL. During the nine month ended December 31, 2009, the Company sold all 3,780 shares of CPEC for net proceeds of \$129 resulting in a gain on sale of \$87.

5. Long-term debt:

	December 31, 2009 (unaudited)	March 31, 2009
Capital lease obligation	\$ 380	\$ 52
Subordinated debenture notes	12,350	11,318
	12,730	11,370
Current portion	130	17
	\$ 12,600	\$ 11,353

On July 3, 2008, the Company completed the sale and issue of 15,000 debenture units of the Company for total gross proceeds of \$15,000. Each debenture unit consisted of one unsecured subordinated debenture note in the principal amount of \$1 bearing interest at 9% per annum and 51 common share purchase warrants exercisable into common shares of the Company at any time for a period of two years from the date of issue at \$18.73. The Company has the option to redeem the debentures at any time after 12 months and before 18 months from the date of issue at 115% of their principal amount and at 110% of the principal amount after 18 months. Interest is payable semi-annually and the debentures mature on July 3, 2011. Of the \$15,000 gross proceeds received, the Company assigned \$11,436 to the debenture notes and \$3,564 to the warrants based on each instruments' relative fair value. The amount assigned to the debenture notes is being accreted to the principal amount using the effective interest rate of 23% over the term to maturity and the warrants are included in other equity instruments.

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6. Share Capital

During December 2009, the Company issued 5,462,500 common shares at a price of \$11.13 (US \$10.50) per share. Gross proceeds totaled \$60,840 (US \$57,356) and the Company incurred share issue costs of \$3,384

7. Stock options and other stock-based plans:

	Nine months ended December 31, 2009		Nine months ended December 31, 2008	
	Number of shares (Unaudited)	Weighted average exercise price (Unaudited)	Number of shares (Unaudited)	Weighted average exercise price (Unaudited)
Outstanding, beginning of period	1,136,163	\$ 7.32	1,235,799	\$ 6.96
Granted	381,262	10.41	39,280	13.73
Exercised	(174,400)	5.73	(102,530)	5.59
Cancelled/expired	(90,109)	16.08	(22,253)	6.37
Outstanding, end of period	1,252,916	\$ 7.85	1,150,296	\$ 7.34
Options exercisable, end of period	772,040	\$ 8.15	783,750	\$ 7.58

During the three and nine months ended December 31, 2009, the Company recognized \$546 (2008 – \$68) and \$1,285 (2008 – \$480), respectively in stock-based compensation related to stock options. During the three and nine months ended December 31, 2009, the Company issued 249,000 and 381,262 stock options, respectively. The weighted average fair value of the options granted was \$5.60 determined using the Black-Scholes option pricing formula based on the following assumptions: expected stock volatility – 78.6%; risk free rate – 1.6%; expected life – 3.4 years; expected dividend yield – nil%.

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8. Other equity instruments:

	December 31, 2009 (Unaudited)	March 31, 2009
Value assigned to performance share units (a)	\$ 3,036	\$ 4,778
Value assigned to warrants (b)	7,541	7,541
	<u>\$ 10,577</u>	<u>\$ 12,319</u>

- (a) During the nine months ended December 31, 2009, 105,084 performance share units ("PSUs") were granted (2008 – 407,892 and 667,383) while 38,286 (2008 – 16,889) were cancelled and 601,455 were exercised (2008 – 3,947). As at December 31, 2009, there are 1,195,313 PSUs outstanding of which 43,867 were exercisable. During the three and nine months ended December 31, 2009, the Company recognized stock-based compensation expense of \$594 and \$1,653 (2008 – \$437 and \$1,200), respectively related to PSUs which vested during the period.

The stock-based compensation associated with the Performance Share Unit Plan and the stock option plan (note 6), is included in operating expenses as follows:

	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Research and development	\$ 258	\$ 75	\$ 520	\$ 209
General and administrative	567	313	1,832	1,106
Sales and marketing	315	117	586	365
	<u>\$ 1,140</u>	<u>\$ 505</u>	<u>\$ 2,938</u>	<u>\$ 1,680</u>

- (b) The value assigned to warrants represents 790,614 warrants issued to TPC with a fair value of \$4,000 and 771,428 warrants with an assigned value of \$3,564 and 46,118 broker warrants with an assigned value of \$284 issued as part of the debenture units net of transaction costs of \$307 (note 5).

9. 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, 2009 and 2008, the following research and development expenses had been incurred and program funding received or receivable:

	Three months ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Research and development expenses	\$ 7,168	\$ 8,280	\$ 21,385	\$ 23,806
Program funding	(617)	(526)	(1,014)	(1,784)
	<u>\$ 6,551</u>	<u>\$ 7,754</u>	<u>\$ 20,371</u>	<u>\$ 22,022</u>

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10. Investment in Joint Ventures:

(a) Cummins Westport Inc.:

The consolidated financial statements include 100% of 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 included in "Joint venture partners' share of income from joint ventures". During the quarter, CWI declared a dividend and paid \$4,218 in dividends to Cummins.

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, 2009	March 31, 2009
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,098	\$ 17,061
Short-term investments	13,349	-
Accounts receivable	4,535	2,101
Loan receivable	10,919	11,234
Prepaid expenses	69	162
Current portion of future income tax assets	5,119	4,451
	<u>35,089</u>	<u>35,009</u>
Future income tax assets	4,371	5,337
Equipment, furniture and leasehold improvements	388	467
	<u>\$ 39,848</u>	<u>\$ 40,813</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,146	\$ 2,171
Current portion of deferred revenue	482	360
Current portion of warranty liability	11,946	11,656
	<u>\$ 17,574</u>	<u>\$ 14,187</u>
Long-term liabilities:		
Warranty liability	\$ 8,455	\$ 10,976
Deferred revenue	3,648	3,141
	<u>\$ 12,103</u>	<u>\$ 14,117</u>

The loan receivable above of \$10,919 (March 31 - \$11,234) was loaned to Cummins under a demand loan agreement, with interest accruing monthly at the one month prime corporate paper rate. The loan is unsecured.

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	Three months ended December 31		Nine months ended December 31,	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Product revenue	\$ 27,805	\$ 20,168	\$ 68,966	\$ 69,889
Parts revenue	7,008	5,597	19,296	14,302
	34,813	25,765	88,262	84,191
Cost of revenue and expenses:				
Cost of revenue	19,957	21,150	59,785	62,981
Research and development	1,948	2,505	6,452	6,830
General and administrative	269	463	862	1,188
Sales and marketing	3,380	1,758	6,851	4,530
Foreign exchange loss (gain)	(24)	350	(390)	360
Bank charges, interest and other	72	44	177	133
	25,602	26,270	73,737	76,022
Income before undernoted	9,211	(505)	14,525	8,169
Interest and investment income	26	268	108	738
Income before income taxes	9,237	(237)	14,633	8,907
Income tax recovery (expense):				
Current	(3,631)	(693)	(6,726)	(998)
Future	272	1,188	1,375	(1,617)
	(3,359)	495	(5,351)	(2,615)
Income for the period	5,878	258	9,282	6,292
Joint Venture Partner's share of net income from joint venture	(2,939)	(129)	(4,641)	(3,146)
Company's share of income	\$ 2,939	\$ 129	\$ 4,641	\$ 3,146

(b) BTIC Westport Inc.:

The consolidated financial statements include 100% of the assets, liabilities, revenue and expenses of BTIC Westport Inc. ("BWI"), a joint venture with Beijing Tianhai Industry Co., Ltd. of China ("BTIC") since the Company has determined that BWI is a variable interest entity and that the Company is the primary beneficiary. Accordingly, the Company consolidates BWI and BTIC's share of BWI's income and losses is included in "Joint venture partners' share of income from joint ventures". For the three months ended December 31, 2009, the Company's share of income from BWI was \$28 (2008 - \$340) and for the nine months ended December 31, 2009 it was a net loss of \$67 (2008 - net income of \$283).

(c) Joint Venture Partners' share of net assets of joint ventures:

	December 31, 2009 (Unaudited)	March 31, 2009
Cummins Westport Inc.	\$ 10,449	\$ 12,124
BTIC Westport Inc.	412	479
	\$ 10,861	\$ 12,603

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11. 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 and nine months ended December 31, 2009, 75% (2008 - 90%) and 62% (2008 - 88%) respectively of the Company's revenue was from sales in the Americas, 7% (2008 - 2%) and 18% (2008 - 4%) from sales in Asia, and 18% (2008 - 8%) and 20% (2008 - 8%) from sales elsewhere.

12. Reconciliation to United States generally accepted accounting standards:

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial reporting. Such principles differ in certain respects from United States ("US GAAP").

The significant measurement and disclosure differences that are applicable to the interim consolidated financial statements as at December 31, 2009 and for the three and nine months ended December 31, 2009 and 2008, are as follows:

(a) Investments:

Under Canadian GAAP and US GAAP, mark to market adjustments on available for sale securities result in future income tax expense (recoveries) and, for the Company, a corresponding change in the valuation allowance against related future tax assets. The tax expense (recovery) is included in accumulated other comprehensive income ("AOCI") until the shares are sold at which time the tax expense (recovery) will be included in net loss. For Canadian GAAP, the corresponding change in the future income tax valuation allowance is recognized in net loss for the period but under US GAAP, the change in valuation allowance would be recognized in other comprehensive income. Accordingly, for US GAAP purposes, future income tax recovery for the three and nine months ended December 31, 2009 of \$16 and \$166, respectively, (2008 - future income tax expense of \$237 and \$2,117) recognized under Canadian GAAP would not be recognized.

(b) Acquired in-process research and development costs:

Under Canadian GAAP, acquired in-process research and development costs are capitalized and amortized to earnings. For US GAAP purposes, such in-process research and development costs are expensed immediately if there is no alternative use for the related research and development. Accordingly, amortization of in-process research and development recorded under Canadian GAAP for the three and nine months ended December 31, 2009 of \$36 and \$107, respectively, (2008 - \$36 and \$108) would not be recognized under U.S. GAAP. As at December 31, 2009, the carrying value of intellectual property would be reduced by \$323 (March 31, 2009 - \$430) with a corresponding increase in deficit.

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(c) Joint venture partners' share of net assets of joint ventures

Under Canadian GAAP, Joint Venture Partners' share of net assets of joint ventures is recorded as a liability just before shareholders' equity. For US GAAP purposes, the Joint Venture partners' share of net assets of joint ventures is recorded as a component of shareholders' equity. As at December 31, 2009, total liabilities under Canadian GAAP would be reduced by \$10,861 (March 31, 2009 - \$12,603) with a corresponding increase to shareholders' equity. The allocation of net income to the parent company and Joint Venture Partners is presented in the consolidated statement of operations. During the three and nine months ended December 31, 2009 under US GAAP, the other comprehensive loss was \$307 and \$2,864 (2008 – income of \$3,871 and loss of \$5,986), respectively. The Joint Venture Partners' share of other comprehensive loss was \$217 and \$2,098 (2008 – income of \$2,647 and \$3,272) and the parent company share of other comprehensive loss was \$90 and \$766 (2008 – income of \$1,224 and loss of 9,258) for the three and nine months ended December 31, 2009, respectively. There were no changes in the Company's interests in its joint ventures during the nine month period ended December 31, 2009 or the year ended March 31, 2009. A reconciliation of the Joint Venture Partners' share of net assets in joint ventures is as follows:

Balance, March 31, 2008	\$	13,983
Joint Venture Partners' share of net income from joint ventures		4,221
Joint Venture Partners' share of other comprehensive income		3,658
Dividends paid by Joint Ventures		(9,259)
Balance, March 31, 2009		12,603
Joint Venture Partners' share of net income from joint ventures		4,574
Joint Venture Partners' share of other comprehensive loss		(2,098)
Dividends paid by Joint Ventures		(4,218)
Balance, December 31, 2009	\$	10,861

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(d) Unamortized debt financing costs

Under Canadian GAAP, unamortized financing costs relating to issuance of the Company's debenture notes are deducted from the liability on the consolidated balance sheet and amortized using the effective interest rate method. Under US GAAP these unamortized financing costs are classified as deferred charges.

(e) Cumulative translation adjustment

On December 15, 2009, CWI paid a dividend to its joint venture partners of \$8,436. The transaction between CWI and Company resulted in a reduction in the Company's net investment in CWI. For Canadian GAAP purposes, the Company recognized a foreign exchange gain on the reduction of the net investment and reduced AOCI by a corresponding amount. Under U.S. GAAP, foreign exchange gains or losses arising from a net investment in a foreign operation are recognized in other comprehensive income until the investment is sold. Accordingly, for U.S. GAAP purposes, a foreign exchange gain of \$216 recognized in net loss for Canadian GAAP is not recognized under U.S. GAAP.

(f) Effect of US GAAP differences:

The effect of the previously discussed accounting differences on total assets, total liabilities and shareholders' equity, net loss, comprehensive loss and loss per share under US GAAP are as follows:

	December 31, 2009 (Unaudited)	March 31, 2009
Total assets, Canadian GAAP	\$ 161,926	\$ 135,504
Differences in accounting for:		
Intellectual property (b)	(323)	(430)
Unamortized financing costs (d)	619	763
Total assets, US GAAP	\$ 162,222	\$ 135,837
Total liabilities, Canadian GAAP	\$ 66,178	\$ 74,546
Difference in accounting for:		
Joint venture partners' share of net assets of joint ventures (c)	(10,861)	(12,603)
Unamortized financing costs (d)	619	763
Total liabilities, US GAAP	\$ 55,936	\$ 62,706
Shareholders' equity, Canadian GAAP	\$ 95,748	\$ 60,958
Difference in accounting for:		
Intellectual property (b)	(323)	(430)
Joint venture partners' share of net assets of joint ventures (c)	10,861	12,603
Shareholders' equity, US GAAP	\$ 106,286	\$ 73,131

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	Three months ended December 31		Nine months ended December 31	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Net loss for the period, Canadian GAAP	\$ (7,279)	\$ (8,927)	\$ (25,452)	\$ (11,715)
Tax (expense) recovery on realized and unrealized gain on available for sale securities (a)	(16)	237	(166)	2,117
Amortization of intellectual property (b)	36	36	107	108
Difference in accounting for reclassification of cumulative translation adjustment on dividend paid by joint venture (e)	(219)	(793)	(219)	(793)
Net loss for the period, US GAAP	\$ (7,478)	\$ (9,447)	\$ (25,730)	\$ (10,283)
Other comprehensive income (loss), Canadian GAAP	(325)	668	(1,151)	(7,934)
Tax recovery (expense) on realized and unrealized gain on available for sale securities (a)	16	(237)	166	(2,117)
Difference in accounting for reclassification of cumulative translation adjustment on dividend paid by joint venture (e)	219	793	219	793
Other comprehensive income (loss), US GAAP	(90)	1,224	(766)	(9,258)
Comprehensive loss, US GAAP	\$ (7,568)	\$ (8,223)	\$ (26,496)	\$ (19,541)
Basic and diluted loss per share, US GAAP	\$ (0.22)	\$ (0.29)	\$ (0.79)	\$ (0.35)

There are no differences between Canadian GAAP and US GAAP in total cash flows from operations, investments and financing presented in the consolidated statement of cash flows in any of the years presented.

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(f) *Additional financial information and disclosures required under US GAAP*

(i) *Warranty liability*

A continuity of the warranty liability is as follows

Balance, March 31, 2008	\$	9,157
Warranty claims		(9,254)
Warranty accruals		17,105
Change in warranty estimates		4,317
Impact of foreign exchange		3,266
Balance, March 31, 2009		24,591
Warranty claims		(11,258)
Warranty accruals		13,520
Change in warranty estimates		(542)
Impact of foreign exchange		(4,225)
Balance, December 31, 2009	\$	22,086

(ii) *Stock based compensation*

Additional information about stock options granted and the PSUs issued is as follows:

As at December 31, 2009, there are a total of 1,151,446 unvested PSU's outstanding with a weighted average grant date fair value of \$8.32. The aggregate intrinsic value of the Company's outstanding and exercisable PSUs was \$14,619 and \$536, respectively, at December 31, 2009.

The aggregate intrinsic value of outstanding and exercisable stock option awards was \$5,772 and \$3,435, respectively, at December 31, 2009.

The total intrinsic value of options and PSUs exercised for the three and nine months ended December 31, 2009 was \$6,593. As at December 31, 2009, \$8,290 of compensation cost relating to share-based payment awards has yet to be recognized in results from operations and will be recognized over a weighted average period of four years.

(iii) *Fair value of Financial instruments*

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, loan receivable and accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of these instruments.

The Company's short- and long-term investments are recorded at fair value except for its interest in Juniper Engines Inc. which is accounted for using the equity method and other investments which are carried at cost (note 4) due to the lack of a readily available market for these securities.

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The carrying value reported in the balance sheets for obligations under capital lease, which is based upon discounted cash flows, approximates its fair value. The fair values of the Company's demand installment loan and short-term debt are not materially different from its carrying value based on market rates of interest.

The carrying value reported in the balance sheets for the subordinated debenture notes (note 5) is recorded at amortized cost using the effective interest rate method and the gross proceeds have been allocated between debt and equity based on the relative fair values of the subordinated debenture notes and the warrants on the issue date. As at December 31, 2009, the fair value of the subordinated debenture notes is higher than its carrying value by \$1,908 based on discounting the expected cash flows using a market interest rate of 14%.

(g) *Adoption of new accounting policies:*

On April 1, 2009, the Company adopted a new US accounting standard for business combinations. The standards broaden the scope of a business combination to all transactions in which an entity obtains control over another entity. The new standard provides further guidance on the recognition of identifiable assets and liabilities and the measurement of goodwill. The new standard did not affect the consolidated financial statements on adoption.

On April 1, 2009, the Company adopted a new US accounting standard for non-controlling interests. The new standard clarifies the definition of a non-controlling interest, requires non-controlling interests to be presented as part of equity on the balance sheet, changes the way the consolidated income statement is presented and establishes a single method of accounting for a change in a parent's ownership interest in a subsidiary. The statement also provides for further disclosures in the consolidated financial statements. On adoption, the Company reclassified the amount for Joint Venture Partners' share of net assets of joint ventures to equity. The Company has also disclosed additional details on the joint venture partners' share of other comprehensive income as required under the new standard.

On April 1, 2009, the Company adopted new US disclosure standards related to disclosures about derivative instruments and hedging activities. The new standard requires enhanced disclosures about an entity's derivative and hedging activities but did not impact the Company's financial disclosure or presentation.

On April 1, 2009, the Company adopted a new US accounting standard for accounting for convertible debt instruments which changed the accounting treatment for convertible debt securities that may settle fully or partly in cash. The new standard requires bifurcation of convertible debt securities into a debt component that is initially recorded at fair value and an equity component that represents the difference between initial proceeds from the issuance of the instrument and the fair value allocated to the debt component. The debt component is then subsequently accreted to par value over its expected life. The new standard must be retroactively applied to all periods presented, even if the instrument has matured, converted or has been otherwise extinguished as of the effective date of the standard. The new standard did not have a material effect on the consolidated financial statements at

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the date of adoption.

On April 1, 2009, the Company adopted new US interpretive guidance related to determining whether an instrument (or an embedded feature) is indexed to an entity's own stock. The guidance requires an entity to use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. The guidance did not have a material impact on the consolidated financial statements.

On April 1, 2009, the Company adopted a new accounting pronouncement related to the determination of the useful life of intangible assets which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This pronouncement requires enhanced disclosures concerning a company's treatment of costs incurred to renew or extend the term of a recognized intangible asset. The pronouncement did not have a material impact on the consolidated financial statements.

(h) *New accounting pronouncements:*

In June 2008, the FASB issued a new US accounting standard related to variable interest entities which amends accounting standards for determining whether an entity is a variable interest entity and modifies the methods allowed for determining the primary beneficiary of a variable interest entity. In addition, this new accounting standard requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and enhanced disclosures related to an enterprise's involvement in a variable interest entity. We are required to adopt this new standard on April 1, 2010. The Company is currently in the process of assessing the impact that the statement may have on our financial statements.

The following new US accounting standards are effective for interim periods ending on or after June 15, 2009. These pronouncements did not have a material impact on the consolidated financial statements.

A new US accounting standard related to recognition and presentation of other-than-temporary impairments require entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost base. The amount of the other-than-temporary impairment related to a credit loss is recognized in net income and the amount of other-than-temporary impairment related to other factors is recorded in other comprehensive income.

A new US accounting standard related to determining fair value when volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly amends existing accounting standards to provide additional guidance on estimating fair value when there has not been a significant decrease in the volume and level of activity for the asset or liability in relation to the normal market activity for the asset or liability. In addition, the new standard provides additional guidance on situations that may indicate that a transaction for the asset or liability is not orderly.

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A new disclosure standard related to interim disclosures about fair value of financial instruments requires disclosures about fair value of financial instruments in interim financial statements. The Company has provided the required disclosures in note 11(f)(iii).