

# 2007 Annual Report

***Westport***  
I N N O V A T I O N S I N C .

To Our Shareholders,

Fiscal 2007 marked a watershed in the development of our company. Some of the key highlights of the year were:

- Consolidated revenues increased 39% to \$60.5 million in fiscal 2007 compared to \$43.6 million for fiscal 2006. Product sales growth was offset by a 5% decrease in the US dollar exchange rate. In US dollar terms, consolidated revenues increased by 44%.
- Gross margins improved to 37% in fiscal 2007 compared to 34% in fiscal 2006.
- Annual net loss decreased 33% to \$11.3 million (\$0.15 loss per share) in fiscal 2007 compared to \$16.9 million (\$0.23 loss per share) for fiscal 2006.
- The year ended with two record revenue quarters, with third quarter revenues of \$16.8 million and fourth quarter revenues of \$19.3 million.
- Fourth quarter consolidated net income of \$1.7 million (\$0.02 earnings per share) represented the first-ever profitable quarter on the consolidated business. During the quarter, a \$4.2 million gain was recognised on the dilution of our interest in Westport Research Inc. (WRI) and future tax benefits of \$3.5 million recognised by Cummins Westport Inc. (CWI).
- More than 50 vehicle manufacturers now offer CWI natural gas engines as factory options; these have been delivered to customers in 35 countries. CWI began producing its B Gas International engines in both India and China, allowing them to capitalise on low-cost manufacturing to target key markets.
- First Westport LNG (liquefied natural gas) System for Heavy-Duty Trucks delivered to commercial customers in the fourth quarter. California Air Resources Board and US Environmental Protection Agency (EPA) certified, these systems are the only natural gas engines available in the US for heavy-duty commercial trucks.
- Westport and Beijing Tianhai Industry Co. (BTIC) formed a new 50:50 joint venture and began production of LNG fuel tanks.
- During the fiscal year, two separate transactions—convertible debt issued to Perseus LLC and the reorganisation and partial sale of WRI to Matco Capital Ltd.—were completed to position ourselves for the commercialization of products in key markets around the world. These transactions raised over \$33 million in new capital.
- Cash, cash equivalents, and short term investments at March 31, 2007 was \$23.1 million, compared to \$7.8 million a year ago.
- Westport was named the fastest growing technology company in Canada over the past five years by Deloitte's Technology Fast 50—the annual program that recognises excellence, innovation, and the fastest growing technology companies in Canada. This was Westport's third consecutive top 10 finish for this award. In the parallel North American Fast 500 program, Westport ranked second in North America.

- The Ports of Los Angeles and Long Beach, California (the Ports) issued their Clean Air Action Plan (CAAP), calling for 5,300 new trucks fuelled by LNG, and followed up with their first request for proposals (RFP)—with funding available for up to 150 new LNG trucks. In their responses, Port operators requested funding for a total of 170 trucks. Westport offers the only certified LNG engine for trucks to be purchased under this RFP.
- Approval received from Industry Canada's Industrial Technologies Office (formerly Technology Partnerships Canada, or TPC) to extend the existing agreement by two years.
- CWI received the first orders for its advanced technology ISL G engine from Sacramento Regional Transit District and the Orange County Transportation Authority.
- Award of AUD1.36 million (C\$1.27 million) received from the Australian government for a project to demonstrate and evaluate the use of Westport LNG heavy-duty highway trucks in Australia.
- Subsequent to the year end, Clean Energy Fuels of Seal Beach, California completed its initial public offering (IPO) and listed its shares on the NASDAQ exchange with the symbol "CLNE". Westport holds approximately 2.1 million shares of CLNE with a value of US\$12 per share as of the date of the IPO.

### **Westport Strategic Plan**

Westport follows a comprehensive strategic planning process with the active involvement of our Board of Directors. For the past four years this process has been led by Dezső Horváth, a member of Westport's Board of Directors and chair of our Strategy Committee. Our strategic plan is regularly reviewed and revised in light of new developments and to incorporate our new experiences.

Our core strategies are based on the premise that Westport's technologies will provide the first alternative fuel engines well-positioned to take on diesel engines head-to-head in terms of power, torque, efficiency, and operating and maintenance costs. This creates the potential for a significant substitution of incumbent diesel engines by natural gas engines worldwide.

Adoption barriers to alternative fuel engines are lower in high fuel use fleets, and in particular those fleets affected by government environmental regulation. On the other hand, widespread adoption of alternative fuels in the consumer market will only be possible with substantial infrastructure build-out, which will happen in limited and specific geographic areas and at different times. Therefore, Westport's strategy presumes that our near term focus should be on large vehicles and fleet customers.

A key element of our strategy is to pursue strategic partnering, outsourcing, and joint ventures as our primary commercialization path to market. Partnerships and alliances offer us immediate access to current markets and customers, without the need to make large investments in new production and distribution assets. Each new partner is also one less prospective competitor. Of course, joint ventures mean the total profit earned from our business will be shared with our partners, lowering our ultimate potential market size and control. Partnerships are also more

difficult to negotiate and manage on an ongoing basis. On balance, we remain convinced that the most productive strategy for our company continues to be to seek partnerships, joint ventures, and strategic alliances in order to leverage other people's experience and assets for faster growth and successful market penetration at the lowest cost.

#### **Cummins Westport Inc. Business Unit Highlights**

Our first joint venture, CWI, was formed in 2001. It is a 50:50 global joint venture between Westport and Cummins Inc. CWI continues to maintain its industry-leading position in product performance, reliability, and customer service for mid-range on-highway natural gas and liquefied petroleum gas engines. For Westport's fiscal year ended March 31, 2007 in US dollars, CWI revenues grew 42.5% to US\$50.9 million, and pre-tax earnings grew 173% to US\$7.7 million as a result of strong growth in product sales around the world. During fiscal 2007, CWI substantially completed work on the ISL G, due for commercial launch this month. The ISL G is a next generation natural gas engine that meets US EPA nitrogen oxide (NOx) emission regulations for 2010, with over 80% lower NOx than current natural gas engines, 34% more torque at idle, and improved fuel economy.

#### **Westport Global Heavy-Duty Business Unit Highlights**

A central pillar of Westport's strategy is to diversify its revenue base with new products that allow major sectors of the engine market to have the option to use cleaner, economical natural gas as fuel without compromising performance and reliability. After extensive development and field trials, Westport introduced its first commercial LNG heavy-duty truck product based on the industry-leading Cummins ISX 15-litre engine in a Kenworth truck chassis. This business will be organised as an independent, focused business unit under the leadership of Michael Gallagher, Westport's President and Chief Operating Officer.

The immediate market focus for this product is the south-western United States and Australia, where LNG infrastructure and fuel partnerships are established and there is increasing demand for alternative fuel trucks operating from central locations, such as ports and goods distribution centres. In addition to the recently disclosed commitment from the South Coast Air Quality Management District to fund the immediate integration of 20 LNG trucks into service at the Ports, Westport has confirmed orders for 22 LNG systems with customers including Pacific Gas & Electric, Los Angeles World Airports, Prometheus Energy, the City of Los Angeles, and Clean Energy Fuels.

In November 2006, the San Pedro Bay Port's CAAP was approved by both Ports. One of the major goals of the five year CAAP is to reduce emissions of particulate matter and NOx from trucks and drayage equipment servicing the Ports through the deployment of over 5,300 LNG trucks at the Ports by 2011. On February 2, 2007, the Port of Los Angeles issued the first US\$22 million RFP to purchase and integrate LNG-powered trucks into truck fleets involved in Port drayage. Financial incentives will be for up to US\$144,000 per truck. The Ports' LNG truck program's primary purpose is to provide financial incentives to fleets servicing the

Ports to purchase LNG trucks, and to develop LNG fuelling and maintenance infrastructure for LNG trucks entering Port service.

Australia is the second major market focus for Westport's Global Heavy-Duty Business Unit. In fiscal 2007, Westport received an award of AUD1.36 million (C\$1.27 million) from the Australian government's Alternative Fuels Conversion Programme (AFCP) for a project to demonstrate and evaluate the use of LNG as a fuel for heavy-duty highway trucks in Australia. The AFCP is an Australian government funding programme which aims to reduce greenhouse gas (GHG) emissions from heavy-duty commercial vehicles such as buses and trucks. Westport's heavy-duty LNG trucks have demonstrated significant reductions in GHG emissions compared to diesel in previous demonstrations. If the Australian demonstration program yields the expected results, Westport plans to launch a commercial version of this product in the first half of 2008.

#### **Corporate Development and Technology Groups**

Westport's Corporate Development Business Unit is based in our Beijing, China office and led by Nicholas Sonntag, President, Westport Asia. Corporate Development focuses on developing emerging partnership and joint venture opportunities and market creation activities around the world. The group is tasked with developing new paths to market through OEM and other strategic relationships, identifying licensing opportunities for non-core technologies, and capturing value through the supply chain.

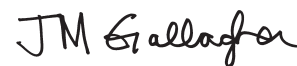
Westport's Technology and Advanced Engineering group, led by Patric Ouellette, Westport's Chief Technology Officer and Vice President, Heavy-Duty Engineering, is focused on maintaining Westport's leadership in combustion technology, fuels management and storage, and mapping the future direction of Westport's product development work. As of March 31, 2007, Westport held 41 issued US patents and 2 allowed US patents, in addition to corresponding issued patents or pending patent applications in countries other than the United States.

We're very happy with our progress to date and the prospects for our business have never been stronger as we look ahead. We are pursuing many opportunities that are open only to Westport because of our unique technologies, alliances, market position, and people. It is now our job to execute on our opportunities and achieve the results that will create shareholder value for the long term.

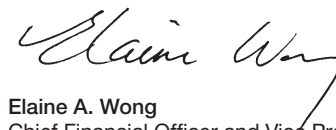
Sincerely,



**David R. Demers**  
Chief Executive Officer



**J. Michael Gallagher**  
President and Chief Operating Officer



**Elaine A. Wong**  
Chief Financial Officer and Vice President, Finance

## **BASIS OF PRESENTATION**

This Management’s Discussion and Analysis (“MD&A”) of the financial results of Westport Innovations Inc. (“Westport”, “the Company”, “we”) should be read in conjunction with, and is qualified by, Westport’s Consolidated Financial Statements and related notes for the year ended March 31, 2007 (the “Financial Statements”), which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All of the information presented herein is expressed in Canadian dollars, unless otherwise stated. Certain prior year amounts have been reclassified to conform to the current year presentation.

This MD&A contains forward-looking statements, including statements regarding the future success of our business and technology strategies and future market opportunities. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activities, performance, or achievements expressed in or implied by these forward looking statements. These risks include risks related to our revenue growth, operating results, industry, and products as well as other factors discussed below and elsewhere in this report. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements.

Additional information relating to Westport, including our Annual Information Form, is on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A is dated May 31, 2007.

## **BUSINESS OVERVIEW**

Westport is engaged in the research, development, and marketing of high performance, low-emission engines and fuel systems which use gaseous fuels such as natural gas, propane, or hydrogen. We expect strong demand for these products for transportation, power generation, and industrial applications because of the performance, emissions characteristics, and life-cycle costs when compared to alternatives now available or known to be under development for these applications. We believe that growing public concern over the environment, high oil prices, and national energy security issues in the United States, China, and Europe will drive demand for our products and services.

To encourage customers to adopt natural gas solutions for their transportation requirements, our strategy is to provide integrated solutions from fuel supply and storage, through to service and support. To do so, we develop our technologies and products in cooperation with the world’s leading engine, component, and vehicle manufacturers and fuel infrastructure providers. We target markets where there are lifecycle cost advantages arising from favourable fuel pricing differentials between natural gas and diesel and/or where there are government incentives or mandates for lower emissions. We currently have one operating segment, which involves the research, development, and related commercialization of engines and fuel systems operating on gaseous fuels such as natural gas and hydrogen for the on-road commercial vehicle sector. Within that operating segment, we break down our focus into four strategic pillars: profitably growing Cummins Westport Inc. (“CWI”), our 50:50 commercial joint venture with Cummins Inc. (“Cummins”); launching our liquefied natural gas (“LNG”) systems for heavy-duty (Class 8) trucks in North America and Australia; developing new alliances and enabling new market segments; and maintaining our technology leadership with innovative ideas and collaborative research.

Our first pillar, CWI, is focused on the development, marketing, and sale of mid-range, spark-ignited natural gas or liquefied petroleum gas (“LPG”) engines for transit bus, shuttle, and urban specialty vehicles such as refuse trucks. Geographically, CWI’s revenues are derived primarily from North America with strong interest and markets developing in Asia, Europe, and South America. CWI manufactures its engines in the United States, India, and China through facilities owned and operated by Cummins and its affiliates. CWI’s strategy is to grow profitably by leveraging its parents—Cummins for its global manufacturing, distribution, and service support network, and Westport for its worldwide natural gas focus and expertise, industry relations, and technology leadership. Since January 1, 2004, CWI revenues, expressed in US dollars to exclude foreign exchange distortions, have grown at more than 30% annually. In fiscal 2007, CWI contributed \$4.4 million to Westport on a pre-tax basis, more than double the fiscal 2006 contribution of \$1.6 million. Our share of the assets, liabilities, revenue, and expenses of CWI are disclosed separately in note 17 of our Financial Statements.

Our second pillar focuses on the introduction of high-performance LNG systems for heavy-duty trucks. This product line incorporates our proprietary direct injection technologies which allow us to deliver a natural gas-fuelled version of the latest original equipment manufacturer (“OEM”) diesel engines and match the base engine’s efficiency and performance without changing the base engine design, thereby minimizing the disruptions to the manufacturer and to the customer in switching fuels. In order to deliver LNG to our engines, we have developed proprietary integrated LNG fuel pumps and storage tanks to form a complete system and to support the adoption of LNG systems, we also work with engine, truck, component, and fuel providers as necessary to provide integrated solutions for customers.

Our third and fourth pillars focus on developing new OEM and supply relationships and new innovative technologies. We cooperate or have cooperated on fuel delivery system development programs with a number of companies including Beijing Tianhai Industry Co. Ltd. (“BTIC”), Cryostar SAS (“Cryostar”), Ford, BMW, Isuzu, and Cummins, and are in various stages of negotiations to develop and commercialize our technologies with other global leaders.

As at March 31, 2007, we also held an approximate 6% investment interest in Clean Energy Fuels Corp. (“Clean Energy”), North America’s largest provider of natural gas fuel and service infrastructure for vehicles.

## **FISCAL 2007 DEVELOPMENTS**

In our fiscal year ended March 31, 2007, we closed two significant financial transactions. On June 12, 2006, we agreed to issue up to \$22.1 million in 5-year secured, subordinated, convertible notes with a coupon rate of 8% to Perseus LLC (“Perseus”), a private equity fund management group. The notes were issued in two tranches of \$13.8 million and \$8.3 million, respectively, with the first tranche completed in July 2006 and the second tranche completed in January 2007. Interest is payable semi-annually in arrears, on June 30 and December 31, in additional notes or shares at our option, for the first two years.

After the first two years, interest will be calculated at a rate of 8% on the outstanding principal amount of the notes only for the number of trading days in the period on which the share price is below \$3.00 and is payable semi-annually in cash, additional convertible notes, or shares at our option. The first tranche is convertible to common shares at a conversion price of \$1.30 at any time during the term of the notes and the second tranche is convertible to common shares at a conversion price equal to \$1.40. At the time of issuance of the notes, the noteholders also received warrants to acquire, at an exercise price equal to the conversion price of the accompanying notes, common shares of Westport equal to 25% of the number of common shares into which the notes are convertible. The warrants expire four years from the date of issuance and include a cashless exercise provision which allows the noteholder to receive the number of common shares having a value equal to the net gain that would be realised by the noteholder had the warrant been exercised for cash and the

## WESTPORT INNOVATIONS INC. – MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

related shares sold at the market price on the date the option is exercised. Any warrants converted under the cashless exercise provision will be cancelled. For so long as Perseus continues to hold notes and warrants convertible into a specified percentage of Westport’s issued and outstanding shares, Perseus also has the right to nominate two of seven board seats. The notes are secured with a second charge on all of our assets.

	Issuance date	Principal—CDN	Conversion price	No. of shares	No. of warrants
<b>Tranche 1</b>					
Initial closing	12-Jun-06	5,523,000	1.30	4,248,462	1,062,115
Interim closing	14-Jul-06	8,284,500	1.30	6,372,692	1,593,173
		13,807,500	1.30	10,621,154	2,655,288
<b>Tranche 2</b>					
	16-Jan-07	8,284,500	1.40	5,917,500	1,479,375
<b>Total of Tranche 1 and 2</b>		<b>22,092,000</b>		<b>16,538,654</b>	<b>4,134,663</b>

We accounted for the \$22.1 million in convertible notes as follows: \$7.6 million assigned to conversion options, \$1.4 million assigned to the warrants, and \$13.1 million assigned to long-term debt. During the year, we recognised \$1.7 million in interest and amortization of discount, paid interest of \$0.5 million, net of withholding tax, through the issuance of 401,520 shares and accrued \$0.4 million in interest as at March 31, 2007.

On June 13, 2006, we entered into an agreement with Matco Capital Ltd. (“Matco”), an unrelated party, to reorganise Westport Research Inc. (“WRI”), at the time, a wholly owned subsidiary of Westport. As part of the reorganisation, we substantially transferred all of the assets, liabilities, and operations of WRI to another wholly owned Westport company, Westport Power Inc., which carries on the business previously carried on by WRI. On closing and post-reorganisation, we sold 45% of WRI to Matco for \$4.2 million in cash consideration and recognised a gain of \$3.9 million net of related transaction costs. In addition, Matco facilitated access to a limited recourse credit facility for \$9.7 million secured only by a pledge by us of 4% of the total shares in WRI and other Matco collateral. Under the terms of our original investment agreement with Matco, the full amount was only drawable under the limited recourse credit facility if a previously identified transaction was completed before December 31, 2006. However, as this transaction did not occur, drawings under this credit facility were limited to \$7.3 million. Proceeds from the sale of our remaining shares in WRI are to be first applied to repay the loan. During the year, we drew the full amount available to us under this credit facility of \$7.3 million. We paid interest of prime plus 1% on amounts drawn until December 31, 2006, after which time Matco is responsible for bearing such interest costs.

In February, 2007, WRI, renamed “Wild River Resources Ltd.” (“WRRL”), completed a \$25.5 million private placement by issuing additional shares, thereby diluting our ownership percentage from 55% to approximately 17.5%. This dilution resulted in a net dilution gain of approximately \$4.0 million. As part of that transaction, we also recognised a gain of \$0.2 million on the disposition of an additional 1.5% interest in WRRL, reducing our investment to approximately 16% as at March 31, 2007. Other than \$0.6 million received from the sale of this interest used to pay down our limited recourse credit facility, there were no cash inflows or outflows to Westport as a result of this transaction other than associated legal costs. As a result of our change in ownership percentage and resulting loss of control, we no longer consolidate WRRL and we account for our remaining investment in WRRL on a cost basis.

During the year, we saw increased interest globally in our products and technologies amidst growing public awareness and concerns over climate change and the environment, as well as continued instability in several oil-producing regions. In the United States, in January 2007, President Bush announced a long-term goal for alternative fuel deliveries of 35 billion gallons (gasoline gallon equivalents) per year to reduce US dependence on imported oil. Westport and its partners believe that natural gas will form a large part of this move to alternative fuels.

As the first step in a comprehensive five year Clean Air Action Plan, the San Pedro Bay Ports (Los Angeles and Long Beach, California) announced US\$22 million in financial incentives to assist fleets serving the Ports of Los Angeles and Long Beach to replace older trucks with new ones powered by Westport LNG engines. The Port plans to announce funding recipients mid-2007 with deliveries starting soon after. In all, the Ports’ action plan calls for the replacement of 5,300 older diesel trucks with new trucks fueled with LNG by 2011.

In Australia, our near term focus has shifted from off-road to on-road applications as we were awarded AUD\$1.4 million from the Australian government to demonstrate and evaluate the use of LNG as a fuel for heavy-duty highway trucks in Australia, where natural gas enjoys a significant price advantage over diesel. We expect to be able to adapt our North American product to Australian engines and operating conditions by increasing horsepower and torque and adjusting emissions to meet Australian standards.

In Asia, in July 2006, we signed a joint venture agreement with BTIC, a Chinese-Korean company with its headquarters and manufacturing facilities in Beijing, China. The joint venture, BTIC Westport Inc. (“BWI”), will leverage BTIC’s manufacturing expertise and Westport’s LNG tank design to sell and market LNG tanks for natural gas fuelled vehicles globally. Through the 50:50 joint venture agreement and related license and supply agreements, BTIC and Westport will share equally in the profits on products developed and sold by the joint venture. BTIC and Westport will each contribute US\$0.4 million to the formation of the venture. Initiation of formal joint venture business operations is subject to customary government approvals which were received in April 2007. In the interim, BTIC has established LNG tank manufacturing facilities and has been producing LNG tanks to our design.

In July 2006, we also announced the completion of a License and Supply Agreement with Cryostar SAS, a division of the BOC Group and a global leader in cryogenic pump products, for the development, manufacture, and supply of cryogenic LNG fuel pumps, based on Westport’s cryogenic technology. The off-engine LNG fuel system, consisting of the LNG fuel pump and LNG tank, is a critical component of the overall high pressure direct injection (“HPDI”) vehicle solution.

These agreements with BTIC and Cryostar form an integral part of Westport’s strategy to secure long-term business alliances that will ensure a reliable supply of leading-edge, top quality components for our LNG transportation solutions, including our heavy-duty LNG truck program.

We also completed the December 2005 CNG-DI development contract with Isuzu of Japan as planned. As we and Isuzu do not yet have a mutually agreed plan for commercial production of CNG-DI Isuzu vehicles, we have agreed to conclude the cooperative development program at this point. Technical resources allocated to the Isuzu Elf program were reassigned to other strategic programs during the fourth quarter of fiscal 2007.

On the government funding side, the work phase of our Contribution Agreement with the government of Canada’s Technology Partnerships Canada programme (“TPC”) ended March 31, 2006 pursuant to the existing terms and schedules in the agreement. However, we continued to work with TPC, now renamed the Industrial Technologies Office, to extend the work phase of that agreement to fund continued development of our vehicle technologies on a retroactive basis from April 1, 2006 and we continued to make progress claims to TPC. For the first three quarters of fiscal 2007, we did not reflect these claims in our financial results as we had not received approval from TPC. After reaching agreement with TPC on a two year extension, we accrued \$2.2 million in claims and reversed approximately \$1.0 million in royalty payments in the fourth quarter of fiscal 2007. To March 31, 2007, we have claimed or accrued approximately \$17.7 million of the \$18.9 million under our TPC agreement.

**SELECTED ANNUAL FINANCIAL INFORMATION**
**Selected Statements of Operations Data for years ended March 31, 2005 to 2007**
*(expressed in thousands of Canadian dollars, except for per share amounts, shares outstanding, and units shipped)*

	Fiscal Year ended March 31		
	2007	2006	2005
Units shipped	2,001	1,327	1,277
Total revenue	60,480	43,552	34,436
Gross margin	22,099	14,910	10,674
GM %	37%	34%	31%
Net loss	(11,307)	(16,860)	(26,209)
Net loss per share – basic and diluted <sup>[1]</sup>	(0.15)	(0.23)	(0.38)
Weighted average shares outstanding	75,174,826	74,228,495	69,381,968
Cash and short-term investments	23,081	7,832	20,291
Total assets	59,633	29,500	44,442
Long-term financial liabilities <sup>[2]</sup>	22,648	3,497	4,609
Cash used in operations before changes in non-cash working capital	(11,325)	(8,661)	(13,571)
CWI income for the year after taxes	12,115	3,186	186
JV Partner’s share of CWI income	6,057	1,593	69

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

[2] Excluding current portions of warranty liability and long-term debt obligations, and Joint Venture Partner’s share of income from joint venture.

Our revenues from fiscal year 2005 to fiscal year 2007 grew from \$34.4 million to \$60.5 million, or 33% per year, and margins have increased by 44% per year from \$10.7 million to \$22.1 million in the same period on increased revenues and better field experience resulting in lower warranty accruals. Net loss in fiscal 2007 improved to \$11.3 million from \$16.9 million in fiscal 2006 and \$26.2 million in fiscal 2005. Cash used in operations before changes in non-cash working capital increased in fiscal 2007 to \$11.3 million compared to \$8.7 million in fiscal 2006 primarily as the result of reduced government funding of \$3.5 million and increased expenditures associated with development activities around the launch of CWI’s new ISL-G engine and our LNG systems for heavy-duty trucks and with business development activities in China.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Financial statement preparation requires that we use estimates and assumptions that affect the reported amount of assets and liabilities as well as revenues and expenses. Our accounting policies are described in note 2 to our Financial Statements. The following policies have a significant impact on the consolidated Financial Statements or are impacted significantly by judgments, assumptions, and estimates used in the preparation of our consolidated Financial Statements.

**Variable Interest Entity Accounting**

A variable interest entity (“VIE”) is any type of legal structure not controlled by voting equity, but rather by contractual and/or other financial arrangements. Interests in VIE’s are consolidated by the company that is the primary beneficiary. Westport has identified CWI as a VIE, determined that we are the primary beneficiary, and accordingly consolidate CWI, reflecting 100% of CWI’s assets, liabilities, revenues, and expenses in our consolidated financial statements and showing the 50% interest held by Cummins as “Joint Venture Partner’s share of net income from joint venture”.

**Warranty Liability**

Estimated warranty costs are recognised at the time we sell our products and included in cost of revenues. We use historical failure rates, and costs to repair product defects during the warranty period, together with information on known products to estimate the warranty liability. The ultimate amount payable and the timing will depend on actual failure rates and the actual cost to repair. Since many of our products are new to the market, historical data may not necessarily reflect actual costs to be incurred and exposes us to the potential for significant positive or negative fluctuations in the warranty liability. We review our warranty provision quarterly and make adjustments to our assumptions based on the latest information available at that time. Adjustments to the warranty provision are recorded in cost of revenues.

**Revenue Recognition**

Product revenue is recognised, net of estimated costs of returns, allowances, and sales incentives, when the products are shipped and title passes to the customers. Revenue also includes fees earned from performing research and development activities for third parties and revenues earned from licensing our technologies to third parties. Revenue from research and development activities is recognised as the services are performed. Amounts received in advance of revenue recognition are recorded as deferred revenue. Parts revenue is recognised as the parts are sold.

**Inventory**

Inventory consists of fuel systems, component parts, work-in-progress, and CWI engine products. In establishing whether or not a provision is required for inventory obsolescence, we estimate the likelihood that inventory carrying values will be affected by changes in market demand for our products and by changes in technology, which could make inventory on hand obsolete. We perform regular reviews to assess the impact of changes in technology, sales trends, and other changes on the carrying value of inventory. If and when we determine that such changes have occurred and that they would have a negative impact on the carrying value of inventory on hand, adequate provisions would be made. Unforeseen changes in these factors could result in the recognition of additional inventory provisions.

**Long-term Investments**

We account for long-term investments in non-consolidated entities using the equity method to the extent that we have significant influence over the investee's strategic operating, financing, and investing policies. All other long-term investments are accounted for using the cost method. Long-term investments are reduced to market value only to the extent that the loss in value is other than temporary. In determining market value for our long-term investments in privately held companies, we use assumptions around future cashflows from the investments, recent equity transactions involving its investees, and the current financial performance of the investees to determine fair value. All our long-term investments are currently carried at cost.

**Equipment, Furniture, and Leasehold Improvements and Intellectual Property**

Generally accepted accounting principles in Canada require that we consider whether or not there has been an impairment in our long-lived assets, such as equipment, furniture, and leasehold improvements and intellectual property, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such costs are not recoverable, we are required to write down the assets to fair value. When quoted market values are not available, we use the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset, as an estimate of fair value to determine whether or not a write down is required.

**CHANGES IN ACCOUNTING POLICY**

Our accounting policies are substantially unchanged from the prior fiscal year ended March 31, 2006. However, as we have started to launch our LNG fuel systems for heavy-duty trucks, for clarity, our accounting policies for items such as inventory, have been broadened to include non-CWI activities as applicable.

**Financial Instruments**

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

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

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

We will adopt this section effective April 1, 2007. Short-term and long-term investments will be classified as “available for sale” and, except where fair value is not determinable, will be measured at fair value with changes in fair value included in other comprehensive income until the asset is removed from the balance sheet. Deferred transaction costs related to the Perseus convertible note will be netted against the long-term debt and will be amortized using the effective interest method. We continue to review our accounting in this area including a review of all significant contracts to identify further financial instruments, derivatives, and embedded derivatives and there may be other changes required. Note 19(a) of our Financial Statements highlights the fair values of our material financial assets and liabilities.

**Comprehensive Income**

CICA Section 1530 introduced new standards for the reporting and presentation of comprehensive income, which is the change in equity, or net assets, of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by, and distributions to, owners. We will be adopting Section 1530 effective April 1, 2007.

**DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Our disclosure controls and procedures are designed to provide reasonable assurance that material information is disclosed on a timely basis. 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. Under the supervision of the CEO and CFO, management evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures and assessed the design of the company's internal control over financial reporting as of March 31, 2007, in accordance with the Canadian Securities Administrators' Multilateral Instrument 52-109. Based on this evaluation, we have concluded that disclosure controls and procedures were effective and internal controls over financial reporting have been adequately designed to provide reasonable assurance regarding the reliability of our financial statements and reports.

We have designed additional controls over financial reporting in the fourth quarter relating to the commercialization of our products. We expect that our financial reporting policies, processes, and systems will continue to evolve in our fiscal year 2008 as we continue our shift from primarily a research and development company to a commercial one shipping product at increasing volume levels. In particular, our inventory and warranty processes and systems are expected to change over the next few quarters.

**FINANCIAL OVERVIEW**

For the years ended March 31, 2007 and 2006, net loss decreased to \$11.3 million, or \$0.15 per share, from \$16.9 million, or \$0.23 per share primarily as the result of an \$8.1 million gain on the partial disposition and dilution of our interest in WRI and the recognition of CWI's \$3.5 million future tax benefit (\$1.7 million after taking into account our joint venture partner's share of CWI). Offsetting the gain was \$1.7 million in interest and amortization of discount on the convertible notes issued to Perseus, \$2.0 million increase in general and administrative expenses, \$1.2 million increase in sales and marketing costs and decreased government funding of \$3.5 million year over year as we substantially completed significant government funded projects in 2006.

## WESTPORT INNOVATIONS INC. – MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

For the years ended March 31, 2007 and 2006, total revenues were \$60.5 million and \$43.6 million respectively. The 39% increase in revenues was primarily due to increased CWI engine shipments (up 50%) and the delivery of our first LNG systems for heavy-duty trucks offset by a 5% decrease in the US dollar exchange rate. In US dollar terms, revenue growth was 44%. Our products and parts are priced in US dollars and are accordingly affected by fluctuations in the US dollar exchange rate. Cost of goods sold, including warranty, is also primarily US dollar denominated.

For the year ended March 31, 2007, CWI’s revenues increased by 37% to \$58.0 million from \$42.3 million with 1993 units shipped compared to 1327 units shipped in the prior year. CWI gross margins increased by \$6.9 million year over year with most of that increasing CWI’s net income. By leveraging Cummins’ manufacturing and distribution facilities, CWI is able to scale its business without incurring significant additional costs. CWI earned \$8.9 million in income before taxes and recognised a \$3.5 million future income tax benefit for total income for the year of \$12.1 million. After taking into account Cummins share of CWI’s net income after taxes, CWI contributed \$6.1 million to our consolidated results in the year.

### RESULTS FROM OPERATIONS

**Product revenue** was \$47.2 million for the year ended March 31, 2007, up 58% from fiscal 2006 revenues of \$29.9 million on 2001 units shipped compared to 1327 units in the prior year. Increased revenues reflected strong CWI sales activities in North America and Asia with revenues from Asia accounting for 13% of revenues. Our geographical and product mix will vary from year to year depending on where our customers are in their order cycles and their locations. CWI also recognised approximately \$1.9 million in B-Gas production kits and components shipped to China and India for local assembly and sale in those countries.

Non-CWI revenues increased to \$2.4 million in 2007 compared to \$1.3 million in 2006 with the first 8 shipments of LNG systems for heavy-duty trucks resulting in approximately \$0.8 million in revenues. In both 2007 and 2006, the balance of the non-CWI revenues related to prototype vehicle work performed by Westport for Isuzu and other OEM partners. Our development program with Isuzu ended December 31, 2006 and no further revenue is contemplated at this time.

Revenue <i>(expressed in thousands of Canadian dollars except for units)</i>	Year ended March 31	
	2007	2006
	Total units shipped	2,001
Product revenue	47,195	29,932
Parts revenue	13,285	13,620
	60,480	43,552

Product Revenue by Geographic Region <i>(as a percentage of revenue dollars)</i>	Year ended March 31	
	2007	2006
	(unaudited)	(unaudited)
North America	72%	82%
Asia	13%	4%
Rest of the World	15%	14%

**Parts revenue** for the year ended March 31, 2007 compared to 2006 was down \$0.3 million to \$13.3 million from \$13.6 million reflecting the weaker US dollar. In US dollar terms, parts revenue increased slightly year over year. Parts revenue is a function of engine population, failure rates, and price.

**Cost of revenue** for the years ended March 31, 2007 and 2006 was \$38.4 million and \$28.6 million respectively. The \$9.8 million increase in cost of revenues is consistent with the \$16.9 million increase in revenues. Cost of revenue includes production costs and the associated warranty. Estimated warranty costs are recognised at the time we sell our products and included in cost of revenues. We use historical failure rates, and costs to repair product defects during the warranty period, together with information on known products to estimate the warranty liability. The ultimate amount payable and the timing will depend on actual failure rates and the actual cost to repair. Historical data may not necessarily reflect actual costs to be incurred and could result in significant positive or negative fluctuations in the warranty liability. We review our warranty provision quarterly and make adjustments based on the latest information available at that time. Adjustments to the warranty provision are recorded in cost of revenues. In the years ended March 31, 2007 and 2006, CWI made changes in estimates to its warranty balance, reducing the balance by \$1.4 million and \$1.8 million in the respective years as actual claims experience has been better than the expected experience at time of sale.

**Gross margin** was \$22.1 million for the year ended March 31, 2007 compared to \$14.9 million for the year ended March 31, 2006 on higher product revenues and higher gross margins. Gross margin percentages were 37% and 34% respectively.

**Research and development** expenses, net of program funding, were \$21.9 million and \$16.9 million for the years ended March 31, 2007 and 2006 respectively. The \$5.0 million increase in research and development costs year over year was primarily the result of the following:

- Reduced government funding of \$3.5 million with major government funded projects such as the US government funded 1.2 gram project and our Canadian government funded 401 demonstration project substantially completed in 2006;
- Increased CWI research and development activities (\$1.5 million) related primarily to the ISL G engine which is being launched in the calendar year 2007; and
- Increased engineering and development work associated with our on and off-engine LNG systems and increased investment in our patent portfolio as we prepared to commercialize product.

These items were offset by a decrease of \$1.3 million in stock-based compensation in 2007 compared to 2006 reflecting a special grant of options to all employees in 2006.

Research and Development Expenses <i>(expressed in thousands of Canadian dollars)</i>	Year ended March 31		Year over year % change	
	2007	2006	2007	2006
	Research and development expenses	27,041	25,628	6%
Program funding	(5,150)	(8,689)	(41%)	45%
Net research and development expenses	21,891	16,939	29%	(8%)

**General and administrative** expenses for the year ended March 31, 2007 and 2006 were \$6.9 million and \$4.9 million respectively with \$0.8 million related to higher bonus and stock-based compensation expense in the year with certain milestones associated with performance share units granted in fiscal years 2005 and 2006 triggering in the year. The balance related primarily due to higher public company costs, including investor relations and the establishment of an internal audit function, and increased legal and finance support activities related to commercialization of our HPDI system.

**Sales and marketing** expenses increased to \$7.1 million from \$5.8 million in the year ended March 31, 2007 compared to 2006 primarily because of increased business development costs in China (\$1.0 million), and costs associated with sales and marketing activities related to LNG systems offset by lower stock-based compensation expense in the year.

**Foreign exchange gains** primarily reflect the realised net gains and losses on foreign currency transactions and the net unrealised gains and losses on our net US dollar denominated assets and liabilities, which are mainly comprised of short-term investments, accounts receivable, and warranty liability. The Canadian dollar was relatively unchanged as at March 31, 2007 compared to March 31, 2006.

**Depreciation and amortization** for the year ended March 31, 2007 compared to 2006 decreased by \$1.3 million to \$1.4 million from \$2.7 million primarily as the result of certain intellectual property, equipment, and furniture becoming fully amortized in the year ended March 31, 2006 and because we changed the estimated remaining useful life of our research and development machinery and equipment from five to eight years in the second quarter of fiscal 2006.

**Interest on long-term debt and amortization of discount** of \$1.7 million in the year ended March 31, 2007 relates to the interest and the accretion on the convertible notes issued to funds managed by Perseus. Interest is being accrued at 8% per annum and is payable in notes or in common shares on June 30 and December 31 of each year for the first two years, after which time, the interest may be payable in notes, common shares, or in cash. Canadian GAAP requires us to separately value the debt and equity components of convertible debt as well as the warrants issued in connection with the financing. Accordingly, the value of the warrants (\$1.4 million) and the value of the conversion feature (\$7.6 million) as calculated using the Black-Scholes option pricing model are shown on the balance sheet under “Other equity instruments” and the amount allocated to the debt of \$13.1 million is included in “Long-term debt” and is being accreted to its face value using the effective interest rate method. As at March 31, 2007, the long-term debt amount, including accretion to date, was \$13.7 million.

**Gain on sale of interest in subsidiary** of \$8.1 million relates to the gain, net of expenses, on the sale of 45% of our interest in WRI in the second quarter of this fiscal year and the dilution gain recognised in the fourth quarter of 2007 when our interest in WRI was diluted from 55% to 16% and we changed our accounting for WRI from the consolidation method to the cost method.

**Joint Venture Partner’s share of income from joint venture** reflects Cummins’ 50% share of CWI net operating contribution. For the year ended March 31, 2007, Cummins’ share of CWI was \$6.1 million representing 50% of CWI’s pre-tax income of \$8.9 million (2006 – \$3.2 million) and 50% of CWI’s net tax recovery of \$3.3 million (2006 – nil). For the year ended March 31, 2006, Cummins’ share of CWI was \$1.6 million, representing 50% of CWI’s net income for the year.

**Income tax recovery** was \$3.1 million in the year ended March 31, 2007. The income tax recovery arose on recognition of \$3.5 million of future tax assets consisting primarily of loss carryforwards from CWI offset by current taxes payable. In prior years, these losses were fully offset by a valuation allowance but as CWI has generated taxable income for two consecutive tax years and we expect that CWI will generate taxable income in the future, a portion of its loss carryforwards has been recognised.

## **CAPITAL REQUIREMENTS, RESOURCES, AND LIQUIDITY**

As at March 31, 2007, our cash, cash equivalents, and short-term investment position was \$23.1 million. During the year end March 31, 2007, we issued \$22.1 million in convertible notes, borrowed an additional \$7.3 million through a limited recourse facility established under our agreement with Matco, and sold 45% of WRI for \$4.2 million, raising over \$33.0 million. We used \$11.3 million in operations excluding working capital, \$0.9 million for loan repayments, and \$1.2 million for the purchase of equipment, furniture, and leasehold improvements. Non-cash working capital requirements in the year totalled \$3.1 million with accounts receivable consuming \$4.7 million and inventory \$2.0 million offset by increases in accounts payable of \$2.4 million and warranty liability of \$1.2 million. The increase in accounts receivable relates to CWI’s strong fourth quarter and TPC claims and accruals totalling \$2.2 million. The increase in accounts payable relates primarily to the increase in trade payables for inventory and other materials and accruals for bonuses. Deferred revenue as at March 31, 2007 related primarily to amounts received from Cryostar that are being recognised over the term of the agreement. Deferred revenue at March 31, 2006 consisted primarily of amounts related to funds received by Cummins but where the engines had not yet been shipped to the end customer. As at March 31, 2007, we had recognised approximately \$0.9 million in net deferred transaction costs related to our transactions with Perseus and Matco and which are being expensed over the term of the Perseus convertible notes or in the periods we dispose of our shares in WRI, as applicable. At March 31, 2007, Cummins share of CWI was \$7.7 million, including its \$1.7 million share of CWI’s future income tax recovery, a non-cash item.

In addition to our convertible note with Perseus and the limited recourse loan facilitated by Matco, we have a \$13 million credit facility with our bank, which has been drawn down by our demand instalment loan of \$1.6 million, capital leases of \$0.1 million, and a \$0.6 million letter of credit. Perseus also has a right of first refusal on an additional US\$10 million in financing. Historically, we have relied on public and private sources of equity financing to fund our operations and growth, and bank financing to fund working capital and requirements and capital expenditures. Since our incorporation in 1995, we have raised over \$230 million in common share equity primarily from a number of private and public offerings.

As at March 31, 2007, our capital resources consisted primarily of cash, cash equivalents, and short-term investments of \$23.1 million, a bank operating line of \$13 million as described above, and our investment in Clean Energy. On May 25, 2007, Clean Energy raised US\$120 million through an initial public offering (“IPO”) and its shares now freely trade on NASDAQ under the symbol CLNE. As of the date of the IPO, we held 2.1 million shares in Clean Energy with a market price of US\$12. We are restricted from trading our shares for a period of six months from the date of the public offering. We believe that at current valuation levels for Clean Energy and with commercial orders expected in the current fiscal year, we have sufficient capital to fund our existing business activities through the commercialization of LNG systems for heavy-duty trucks.

However, Westport’s capital requirements will vary depending on a number of factors, including the timing and volume of orders for our LNG systems, our ability to successfully launch product on time, 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 expect our working capital requirements to increase for inventory purposes as we commercialize our products and solutions. We also review investment and acquisition opportunities on a regular basis for technologies, businesses, and markets that would complement our own products or assist us in our commercialization plans. Significant new or expanded engine programs, acquisitions, or investments could require additional funding. If such additional

## WESTPORT INNOVATIONS INC. – MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

funding is not available to us, or if we have significant overspending in our programs, we may be required to delay, reduce, or eliminate certain research and development activities and possibly forego new program, acquisition, or investment opportunities. Any of those circumstances could potentially result in a delay of the commercialization of our products in development.

This “Capital Requirements, Resources, and Liquidity” section contains certain forward looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Readers are encouraged to read the “Basis of Presentation” section of this MD&A which discusses forward-looking statements and the “Risks and Uncertainties” section of this MD&A for a discussion of the factors that could affect our future performance.

### SHARES OUTSTANDING

For the years ended March 31, 2007 and 2006, the weighted average number of shares used in calculating the loss per share was 75,174,826 and 74,228,495, respectively. As of March 31, 2007, actual shares outstanding was 75,686,085 (2006 – 74,391,779). There were also 2,655,288 warrants with an exercise price of \$1.30 and 1,479,375 warrants with an exercise price of \$1.40 outstanding. Of the 5,228,993 share options outstanding, 1,479,465 were exercisable at a weighted average price of \$2.98 and of the 2,063,159 performance share units outstanding 1,763,162 were exercisable. The share options and performance share units are subject to various vesting conditions. We also had convertible notes of \$13.8 million outstanding with a conversion price of \$1.30 and \$8.3 million in convertible notes outstanding with a conversion price of \$1.40. As of May 31, 2007, there were 5,248,505 share options outstanding, 2,001,810 of which were exercisable at a weighted average price of \$2.59, and 2,063,159 performance share units outstanding, of which 1,863,161 were exercisable.

### SUMMARY OF THE QUARTERLY RESULTS AND DISCUSSION OF THE FOURTH QUARTER 2007

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

Selected Quarterly Operations Data (unaudited)								
Three months ended	Jun 30 2005	Sep 30 2005	Dec 31 2005	Mar 31 2006	Jun 30 2006	Sep 30 2006	Dec 31 2006	Mar 31 2007
Units shipped	310	384	245	388	341	414	629	617
Average foreign exchange rate (C\$:US\$)	\$ 1.24	\$ 1.19	\$ 1.17	\$ 1.15	\$ 1.11	\$ 1.12	\$ 1.14	\$ 1.17
<i>(expressed in thousands of Canadian dollars except per share)</i>								
Product revenue	\$ 7,006	\$ 9,095	\$ 5,147	\$ 8,684	\$ 7,644	\$ 10,327	\$ 13,568	\$ 15,656
Parts revenue	\$ 3,508	\$ 3,134	\$ 3,466	\$ 3,512	\$ 2,978	\$ 3,401	\$ 3,248	\$ 3,658
Total revenue	\$ 10,514	\$ 12,229	\$ 8,613	\$ 12,196	\$ 10,622	\$ 13,728	\$ 16,816	\$ 19,314
Gross margin	\$ 2,710	\$ 4,295	\$ 3,680	\$ 4,225	\$ 4,037	\$ 4,776	\$ 5,398	\$ 7,888
	26%	35%	43%	35%	38%	35%	32%	41%
Net income (loss) for the period	\$ (6,213)	\$ (3,329)	\$ (3,607)	\$ (3,711)	\$ (5,420)	\$ (1,840)	\$ (5,778)	\$ 1,731
Basic and diluted earnings (loss) per share <sup>[1]</sup>	\$ (0.08)	\$ (0.05)	\$ (0.05)	\$ (0.05)	\$ (0.07)	\$ (0.02)	\$ (0.08)	\$ 0.02
Cash from (used in) operations before change in non-cash operating working capital	\$ (3,019)	\$ (1,463)	\$ (2,225)	\$ (1,954)	\$ (3,685)	\$ (3,760)	\$ (4,448)	\$ 568
Company's 100% share of CWI net income	\$ 133	\$ 1,516	\$ 502	\$ 1,035	\$ 1,528	\$ 1,392	\$ 806	\$ 8,389
Joint Venture Partner's share of CWI net income	\$ 66	\$ 758	\$ 251	\$ 518	\$ 764	\$ 696	\$ 403	\$ 4,194

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

Our revenues and operating results can vary significantly from quarter to quarter depending on the timing of customer orders and deliveries, product mix in the quarter, new product launch dates, research and development project cycles, timing of related government funding, and foreign exchange impacts. There has been an overall trend of increasing revenues in the last eight quarters with revenues per quarter on average 39% higher than in the prior fiscal year. We expect overall revenue growth to continue through fiscal year 2008 although on a quarterly basis, revenues will continue to fluctuate. Net loss has and can vary significantly from one quarter to another depending on operating results, gains and losses from investing activities, timing of stock-based compensation awards, and other similar transactions.

Net loss for the three months ended June 30, 2005 included \$1.8 million in stock-based compensation reflecting a special grant of 1.7 million share options to all employees. Starting in the second quarter of fiscal 2007, we have also been recognizing approximately \$0.4 million per quarter in interest and amortization of discount related to the Perseus convertible notes. This amount increased to \$0.8 million per quarter in the fourth quarter of fiscal 2007 with the issuance of the second tranche of the convertible notes. As we are using the effective interest method to amortize the discount, we expect this expense to increase over time. In the three months ended September 30, 2006, we also recognised a net gain of \$3.9 million on the sale of 45% of WRI and a further gain of \$4.2 million on the partial sale and dilution of our interest in WRI from 55% to 16% was recognised in the three months ended March 31, 2007.

The initial work phase of our TPC agreement was scheduled to end March 31, 2006. Funding claims averaging approximately \$0.5 million per quarter were submitted to TPC but were not accrued in the first three quarters of fiscal year 2007 pending confirmation that the work phase would be extended and royalty payments of \$0.3 million per quarter were accrued. In the fourth quarter of fiscal 2004, TPC substantially completed its review of our proposed amended statement of work and we have received confirmation of their approval for a two year extension of the work phase of our agreement, allowing us to claim eligible costs through fiscal years 2007 and 2008 and starting royalties two years later. Accordingly, in the fourth quarter, we accrued \$2.2 million in claims and reversed \$1.0 million in royalty accruals recognised in the first three quarters of fiscal 2007 for a total \$3.2 million reduction to research and development expenditures in the quarter.

In the fourth quarter of fiscal 2007, we also recognised \$0.8 million in stock-based compensation with certain vesting milestones relating to prior year performance share unit grants under our long-term incentive plan having been met in the quarter. We also accrued \$1.2 million in annual bonuses. In the

## WESTPORT INNOVATIONS INC. – MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

three months ended March 31, 2007, revenues increased by 37% to \$19.3 million from \$12.2 million from the fourth quarter of the prior year as the result of higher CWI engine shipments and the first eight shipments of Westport’s LNG systems for heavy-duty trucks which contributed approximately \$0.8 million in revenues. Gross margins improved to 41% in the fourth quarter of 2007 compared to 35% in the prior year primarily because of a \$0.8 million warranty adjustment taken by CWI in 2007. As a result of the items discussed above, Westport had its first profitable quarter with net income for the fourth quarter of 2007 of \$1.7 million compared to a net loss of \$3.7 million in the fourth quarter of 2006. Included in net income for the fourth quarter was the \$4.2 million gain described previously on the dilution of our interest in WRI and the recognition of \$3.5 million in future income tax recoveries recognised by CWI. Both of these items are non-cash items. Excluding these items, we would have had a net loss of \$4.3 million after taking into account Cummins’ 50% share of the future income tax recovery.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Minimum annual payments due by period					
<i>(in thousands of dollars)</i>					
	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Capital lease obligations	75	59	4	-	138
Operating leases	1,078	1,080	199	219	2,576
Total contractual commitments	1,153	1,139	203	219	2,714

#### Contractual Commitments

Capital lease obligations related primarily to office equipment, have terms of two to five years and have interest rates ranging from 1% to 6.2%. Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment. We also have an outstanding letter of credit for \$0.6 million.

#### Demand Instalment Loan

As of March 31, 2007, we had \$1.6 million in a demand instalment loan outstanding, down \$0.9 million from \$2.5 million as at March 31, 2006. The loan is drawn against our line of credit of \$13 million and bears interest at prime. The loan is being repaid over five years.

#### BTIC

Under our signed joint venture agreement with BTIC, we are committed to contributing US\$0.4 million to the formation of the joint venture. Initiation of formal business operations is subject to customary government approvals which were received subsequent to March 31, 2007.

### CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS

#### Government Funding

We are continually exploring strategic opportunities to work with governments to provide them with alternative fuel solutions. As the result of our government partnerships, we recognised \$5.2 million in government funding in 2007 and \$8.7 million in funding in 2006. Under certain repayment terms, we are obligated to repay royalties as follows:

AGREEMENT	DESCRIPTION	ROYALTIES	TERM
INDUSTRIAL TECHNOLOGIES OFFICE (FORMERLY TECHNOLOGY PARTNERSHIPS CANADA)	Funds 30% of the eligible costs of, among other research projects, the adaptation of Westport’s technology to diesel engines, up to \$18.9 million.	Annual royalties equal to the greater of \$1,350,000 or 0.33% of annual gross revenues from all sources, provided that gross revenues exceed \$13.5 million.  Share purchase warrants valued at \$4 million under Black-Scholes.	Fiscal 2009 to fiscal 2015, inclusive; royalty period may be extended until the earlier of March 31, 2018 or until cumulative royalties total \$28,189,000.  To be issued no earlier than September 30, 2008.
DEPARTMENT OF NATURAL RESOURCES CANADA	Funded \$1 million for demonstration of a low emissions natural gas power generator in Grand Prairie, Alberta.	1% of revenues from future sales of natural gas engines for power generators.	Earlier of 10 years from project completion date (August 30, 2004), or when cumulative royalties total \$1 million.
GREEN ECONOMY DEVELOPMENT FUND (Province of British Columbia)	\$0.6 million for low-emission, natural gas power generation demonstration project.	0.75% from gross revenue received by Westport on certain natural gas fuel systems.	Earlier of the seventh anniversary of the funding contribution date (April 10, 2001) or when the cumulative royalties paid by Westport equal \$0.8 million.

As at March 31, 2007 and 2006, no royalties have been paid or were payable under these agreements.

**BUSINESS RISKS AND UNCERTAINTIES**

An investment in our business involves risk and readers should carefully consider the risks described below and in our Annual Information Form and other filings on [www.sedar.com](http://www.sedar.com). Our ability to generate revenue and profit from our technologies is dependent on a number of factors, and the risks identified below, if they were to occur, could have a material impact on our business, financial condition, results of operation, or prospects. While we have attempted to identify the primary known risks that are material to our business, the risks and uncertainties described below may not be the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently believe are immaterial may also adversely affect our business, financial condition, results of operation, or prospects.

**We have incurred and continue to incur losses**

We have incurred substantial losses since our inception in 1996, and continue to incur losses. We cannot predict if and when we will operate profitably or if we will be able to implement our business strategy successfully. Pursuing our strategy requires us to incur significant expenditures for research and product development, marketing, and general administrative activities. As a result, we need to continue to grow our revenues and gross margins to achieve and sustain profitability and positive operating cash flows.

**Potential fluctuations in our financial results make financial forecasting difficult**

We expect our revenues and results of operation to continue to vary significantly from quarter to quarter. Sales and margins may be lower than anticipated due to timing of customer orders and deliveries, unexpected delays in our supply chain, general economic and market-related factors, product quality, performance and safety issues, and competitive factors. In addition, the continuance and timing of government funding of our R&D programs is difficult to predict, and may cause quarter to quarter variations in financial results. In addition, due to our early stage of development, we cannot accurately predict our future revenues or results of operations. We are also subject to normal operating risks such as credit risks and foreign currency risks. As a result, quarter-to-quarter comparisons of our revenues and results of operation may not be meaningful. It is likely that in one or more future quarters our results of operation will fall below the expectations of securities analysts and investors. If this happens, the trading price of our shares might be materially and adversely affected.

**We have foreign currency risk**

While CWI's revenues, expenses, and warranty balances are all denominated in US dollars, the majority of our revenue is in US dollars while many of our operating expenses, other than cost of sales, are in Canadian dollars. Foreign exchange gains and losses are included in results from operations. A large decline in the value of the US dollar relative to the Canadian dollar could impair revenues, margins, and other financial results. We have not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations.

**We may be unable to raise additional capital**

Execution of our business plan and our commercial viability could be jeopardised if we are unable to raise additional funds for our research and development projects, sales, marketing, and product development activities, and other business opportunities. We attempt to mitigate this risk by generating funds from a variety of sources including: through the sale of our commercial products, through the sale of non-core assets including long-term investments, through funding from government agencies, industry, and business partners, and through the issuance of shares or debt in the public equity markets or through strategic investors. In addition, we try to maintain reserves of cash and short-term investments and seek to obtain funding commitments before we take on any significant incremental initiatives. There can, however, be no assurance that we will be able to secure additional funding, or funding on terms acceptable to us, to pursue our commercialization plans. In particular, there can be no assurance that we will continue to receive funding from government agencies at the same levels we have received in the past or at all. Funding agreements with government agencies are also subject to audit, which could result in certain funding being denied or monies received from such agencies having to be repaid.

**A market for engines with our fuel systems may never develop or may take longer to develop than we anticipate**

Engines with our fuel systems represent an emerging market, and we do not know whether end-users will ultimately want to use them or pay for their initial incremental cost. The development of a mass market for our fuel systems may be affected by many factors, some of which are beyond our control, including: the emergence of newer, more competitive technologies and products; the future cost of natural gas and other fuels used by our systems; regulatory requirements; customer perceptions of the safety of our products; and customer reluctance to try a new product.

In addition, while some of our customers and potential customers have made successful applications for government funding to assist them in converting their vehicles to natural gas engines, there is no guarantee that such funds will continue to be available. If incentive programs are discontinued or are no longer available to our customers and potential customers, it may have a detrimental effect on our sales.

If a market fails to develop or develops more slowly than we anticipate, we may be unable to recover the losses we will have incurred in the development of our products and may never achieve profitability.

**We are dependent on fuel price differentials that are hard to predict**

The acceptance of natural gas-fuelled engines by customers depends in part on the price differential between natural gas and diesel fuel. Natural gas has generally been, and currently is, less expensive than diesel fuel in many jurisdictions. This price differential is affected by many factors, including changes in the resource base for natural gas compared with crude oil, pipeline transportation capacity for natural gas, refining capacity for crude oil, and government excise and fuel tax policies. There can be no assurance that natural gas will remain less expensive than diesel fuel.

**We are dependent on growth in natural gas refuelling infrastructure that may not take place**

For motor vehicles, natural gas must be carried on board in liquefied or compressed form and there are few public or private refuelling stations available in most jurisdictions. We are involved in developing such infrastructure through our minority ownership interest in Clean Energy, the largest natural gas refuelling company for vehicles in North America, and are seeking further involvement with other natural gas refuelling companies. However, there can be no assurance that Clean Energy will continue to be successful in expanding the availability of natural gas as a vehicle fuel, or that other companies will develop refuelling stations to meet projected demand. If customers are unable to obtain fuel conveniently and affordably, a mass market for vehicles powered by our technology is unlikely to develop.

**Changes in environmental and regulatory policies could hurt the market for our products**

We currently benefit from, and hope to continue to benefit from, certain government environmental policies, mandates and regulations around the world, most significantly in the automotive markets and in the United States. Examples of such regulations include those that provide economic incentives, subsidies, tax credits, and other benefits to purchasers of low emission vehicles, restrict the sale of engines that don’t meet emission standards, fine the sellers of non-compliant engines, tax the operators of diesel engines, and require the use of more expensive ultra-low sulphur diesel fuel. There can be no assurance that these policies, mandates, and regulations will be continued. If they are discontinued or if current requirements are relaxed, this may have a material impact on our competitive position.

**We currently face and will continue to face significant competition**

Our products face and will continue to face significant competition. New developments in technology may negatively affect the development or sale of some or all of our products or make our products uncompetitive or obsolete. Other companies, many of which have substantially greater customer bases, businesses, and other resources than us, are currently engaged in the development of products and technologies that are similar to, or may be competitive with, certain of our products and technologies.

Competition for our products may come from current power technologies, from improvements to current power technologies, and from new alternative power technologies, including other fuel systems. Each of our target markets is currently serviced by existing manufacturers with existing customers and suppliers using proven and widely accepted technologies. Additionally, there are competitors working on developing technologies such as fuel cells, advanced batteries, and hybrid battery/internal combustion engines in each of our targeted markets. Each of these competitors has the potential to capture market share in various markets, which could have a material adverse effect on our position in the industry and our financial results. For our products to be successful against competing technologies, especially diesel engines, they must offer advantages in one or more of these areas: emissions performance, fuel economy, engine performance, power density, engine and fuel system weight, and engine and fuel system price. There can be no assurance that our products will be able to offer advantages in all or any of these areas.

**Our products may not be commercially viable**

Our direct injection technology has been demonstrated in heavy-duty trucks, light-duty vehicles, and high horsepower applications. However, we do not know when or whether we will successfully complete development of commercially viable fuel systems for any of our target markets. There can be no assurance that engines using our fuel systems will perform as well as we expect, or that prototypes and commercial systems will be developed and sold in commercially viable numbers.

Our LNG fuel systems presently have higher initial capital costs than many established competing technologies, and manufacturing costs of some of our products at a commercial level have not yet been confirmed. If we are unable to produce fuel systems that are economically competitive, on a life cycle costs basis, in terms of price, reliability, and longevity, operators of commercial vehicle fleets and power generators will be unlikely to buy products containing our fuel systems.

**We are dependent on relationships with strategic partners**

Execution of our current strategy is dependent on cooperation with strategic partners for technology development, component supplies, manufacturing, and distribution. To be commercially viable, our fuel systems must be integrated into engines and our engines must be integrated into chassis manufactured by OEMs. We can offer no guarantee that existing technology agreements will be renewed or advanced into commercialization agreements, or that OEMs will manufacture engines with our fuel systems or chassis for our engines, or, if they do manufacture such products, that customers will choose to purchase them. Any integration, design, manufacturing, or marketing problems encountered by OEMs could adversely affect the market for our products and our financial results. In addition, there can be no assurance of the commercial success of any joint ventures in which we are, or will become, involved.

While we have negotiated supply agreements with various manufacturers, certain manufacturers may be the sole supplier of certain key components for our products. An inability to obtain adequate supplies of certain components could harm our ability to manufacture certain products or subject us to cancellation of orders or penalties for failed or late deliveries, which could have a material adverse on our business and financial results. The prices at which those supplies are available fluctuate and may increase significantly. Competitive pressure, however, may not allow us to increase the sales price of our products. Any such increases may therefore negatively affect our margins and financial condition.

Any change in our relationships with our strategic partners, whether as a result of economic or competitive pressures or otherwise, including any decision by our strategic partners to reduce their commitment to our products and technology in favour of competing products or technologies, or to bring to an end our various alliances, could have a material adverse effect on our business and financial results.

**We are dependent on our relationship with Cummins for CWI revenues and profits**

The majority of our revenues are currently derived from the operations of CWI, which, in turn, purchases all of its current and foreseeable engine products from Cummins-affiliated plants and distributors. Although the factories operate with modern technology and experienced management, there can be no assurance that the factory and distribution systems will always be able to perform on a timely and cost-effective basis. Any reduction in the manufacturing and distribution capabilities of Cummins-affiliated plants and distributors could have a material adverse effect on our business and financial results.

**Our limited production trials and field tests could encounter problems**

We are currently conducting, and plan to continue to conduct, limited production trials and field tests on a number of our products as part of our product development cycle. These trials and field tests may encounter problems and delays for a number of reasons, including the failure of our technology, the failure of the technology of others, the failure to combine these technologies properly, and the failure to maintain and service the test prototypes properly. Some of these potential problems and delays are beyond our control. Any problem or perceived problem with our limited production trials and field tests could hurt our reputation and the reputation of our products and delay their commercial launch.

**Warranty claims could diminish our margins**

There is a risk that the warranty accrual included in our cost of product revenue is not sufficient and that we may recognise additional expenses as a result of warranty claims in excess of our current expectations. Such warranty claims may necessitate a redesign, re-specification, or recall of our products, which, in turn, may have an adverse impact on our finances and on existing or future sales. Although we attempt to mitigate against these risks through our sales and marketing initiatives and our product development, quality assurance, support, and service programs, there can be no assurance that such initiatives and programs are adequate or that sales of our commercial products will continue to grow and contribute financially.

**We may have difficulty managing the expansion of our operations**

To support the launch, and increase sales and service, of our fuel system products, we may be required to expand the scope of our operations rapidly. This may include a need for a significant increase in employees and an increase in the size, or relocation, of our premises. Such rapid expansion may place a significant strain on our senior management team and other resources. In addition, we may be required to place more reliance on our strategic partners and suppliers, some of whom may not be capable of meeting our production demands in terms of quantity, quality, or cost. Difficulties in effectively managing the budgeting, forecasting, and other process control issues presented by such a rapid expansion could harm our business, prospects, results of operations, or financial condition.

**We could lose or fail to attract the personnel necessary to run our business**

Our success depends in large part on our ability, and that of our affiliates, to attract and retain key management, engineering, scientific, manufacturing, and operating personnel. As we develop additional capabilities we may require more skilled personnel. Recruiting personnel for the alternative fuel industry is highly competitive. Although to date we have been successful in recruiting and retaining qualified personnel, there can be no assurance that we will continue to attract and retain the personnel needed for our business. The failure to attract or retain qualified personnel could have a material adverse effect on our business.

**If we do not properly manage foreign sales and operations, our business could suffer**

We expect that a substantial portion of our future revenues will be derived from sales outside of Canada, and we operate in jurisdictions where we may lack sufficient expertise, local knowledge, or contacts. Establishment of an international market for our products may take longer and cost more to develop than we anticipate, and is subject to inherent risks, including unexpected changes in government policies, trade barriers, difficulty in staffing and managing foreign operations, longer payment cycles, and foreign exchange controls that restrict or prohibit repatriation of funds. As a result, if we do not properly manage foreign sales and operations, our business could suffer.

**We may not realise the anticipated benefits from joint ventures, investments, or acquisitions**

Our joint ventures, and any future joint venture, investment, or acquisition could expose us to certain liabilities, including those that we fail or are unable to identify during the acquisition process. In addition, joint ventures and acquisitions often result in difficulties in integration, and, if such difficulties were to occur, they could adversely affect our results. The integration process may also divert the attention of, and place significant demands on, our managerial resources, which may disrupt our current business operations. As a result, we may fail to meet our current product development and commercialization schedules.

**We depend on our intellectual property and our failure to protect that intellectual property could adversely affect our future growth and success**

Failure to protect our existing and future intellectual property rights could seriously harm our business and prospects, and may result in the loss of our ability to exclude others from practising our technology or our own right to practice our technologies. If we do not adequately ensure our freedom to use certain technology, we may have to pay others for rights to use their intellectual property, pay damages for infringement or misappropriation, and/or be enjoined from using such intellectual property. Our patents do not guarantee us the right to practice our technologies if other parties own intellectual property rights that we need in order to practice such technologies. Our patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope, and enforceability of a particular patent. There can be no assurance that:

- any of the rights we have under US or foreign patents owned by us or other patents that third parties license to us will not be curtailed, for example through invalidation, circumvention, challenge, being rendered unenforceable, or by license to others;
- we were the first inventors of inventions covered by our issued patents or pending applications or that we were the first to file patent applications for such inventions;
- any of our pending or future patent applications will be issued with the breadth of claim coverage sought by us, or be issued at all;
- our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technologies; or
- any of our trade secrets will not be learned independently by our competitors; or
- the steps we take to protect our intellectual property will be adequate.

In addition, effective patent, trademark, copyright, and trade secret protection may be unavailable, limited, or not applied for in certain foreign countries.

We also seek to protect our proprietary intellectual property, including intellectual property that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with our strategic partners and employees. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach or that such persons or institutions will not assert rights to intellectual property arising out of these relationships.

Certain intellectual property has been licensed to us on a non-exclusive basis from third parties who may also license such intellectual property to others, including our competitors. If necessary or desirable, we may seek further licenses under the patents or other intellectual property rights of others. However, we can give no assurances that we will obtain such licenses or that the terms of any offered licenses will be acceptable to us. The failure to obtain or renew a license from a third party for intellectual property we use at present could cause us to incur substantial liabilities and to suspend the manufacture, shipment of products, or our use of processes requiring such intellectual property.

**We could become engaged in intellectual property litigation that may negatively affect our business**

While we are not currently engaged in any intellectual property litigation, we could become subject to lawsuits in which it is alleged that we have infringed the intellectual property rights of others or in which the scope, validity, and enforceability of our intellectual property rights is challenged. In addition, we may commence lawsuits against others who we believe are infringing upon our rights. Our involvement in intellectual property litigation could be time consuming and result in significant expense to us, diversion of resources, and delays or stoppages in the development, production, and sales of products or intellectual property, whether or not any claims have merit or such litigation is resolved in our favour. In the event of an adverse outcome as a defendant in any such litigation, we may, among other things, be required to:

- pay substantial damages;
- cease the development, manufacture, use, sale, or importation of products that infringe upon other patented intellectual property;
- expend significant resources to develop or acquire non-infringing intellectual property;
- discontinue processes incorporating infringing technology; or
- obtain licenses to the infringing intellectual property.

Any such result could require the expenditure of substantial time and other resources and could have a material adverse effect on our business and financial results.

**We could become liable for environmental damages resulting from our research, development, or manufacturing activities**

The nature of our business and products exposes us to potential claims and liability for environmental damage, personal injury, loss of life, and damage to or destruction of property. Our business is subject to numerous laws and regulations that govern environmental protection and human health and safety. These laws and regulations have changed frequently in the past and it is reasonable to expect additional and more stringent changes in the future. Our operations may not comply with future laws and regulations, and we may be required to make significant unanticipated capital and operating expenditures. If we fail to comply with applicable environmental laws and regulations, governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits, and private parties may seek damages from us. Under those circumstances, we might be required to curtail or cease operations, conduct site remediation or other corrective action, or pay substantial damage claims. In addition, depending on the nature of the claim, our current insurance policies may not provide sufficient or any coverage for such claims.

**We could become subject to product liability claims**

Our business exposes us to potential product liability claims that are inherent in natural gas, propane, and hydrogen and products that use these gases. Natural gas, propane, and hydrogen are flammable gases and therefore potentially dangerous products. We also produce fuel processors that generate hydrogen from certain raw fuels, which are also flammable. Any accidents involving our products or other natural gas, propane, or hydrogen-based products could materially impede widespread market acceptance and demand for our engines and fuel systems. In addition, we may be subject to a claim by end-users or others alleging that they have suffered property damage, personal injury or death because our products did not perform adequately. Such a claim could be made whether or not our products perform adequately under the circumstances. From time to time, we may be subject to product liability claims in the ordinary course of business and we carry a limited amount of product liability insurance for this purpose. However, our current insurance policies may not provide sufficient or any coverage for such claims, and we cannot predict whether we will be able to maintain our insurance coverage on commercially acceptable terms.

**Our share price may fluctuate**

The stock market in general, and the market prices of securities of technology companies in particular, can be extremely volatile, and fluctuations in our share price may be unrelated to our operating performance. Our share price could be subject to significant fluctuations in response to many factors, including: actual or anticipated variations in our results of operations; the addition or loss of customers; announcements of technological innovations, new products or services by us or our competitors; changes in financial estimates or recommendations by securities analysts; conditions or trends in our industry; our announcements of significant acquisitions, strategic relationships, joint ventures or capital commitments; additions or departures of key personnel; general market conditions; and other events or factors, many of which may be beyond our control.

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The consolidated financial statements presented here have been prepared by management in accordance with Canadian generally accepted accounting principles. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility.

The company has implemented a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are appropriately authorised, assets are safeguarded, and financial records are properly maintained to provide accurate and reliable financial statements.

The Board of Directors, through its Audit Committee, oversees management's responsibility for financial reporting and internal control. The Audit Committee is comprised of three directors who are not involved in the daily operations of the Company.

The duties of the committee include the review of the system of internal controls, and of any relevant accounting, auditing and financial matters. The Audit Committee meets on a regular basis with management and the Company's independent auditors to ensure itself that its duties have been properly discharged. The Audit Committee reports its findings to the Board for consideration in approving the financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, who were appointed by the shareholders, and have full and unrestricted access to the Audit Committee. The independent auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.



**David R. Demers**  
Chief Executive Officer  
May 4, 2007



**J. Michael Gallagher, Ph.D.**  
President and Chief Operating Officer,  
May 4, 2007



**Elaine A. Wong, CA**  
Chief Financial Officer and Vice President, Finance  
May 4, 2007

## AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Westport Innovations Inc. as at March 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



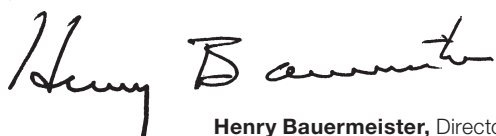
Chartered Accountants  
Vancouver, Canada  
May 4, 2007

**WESTPORT INNOVATIONS INC. – CONSOLIDATED BALANCE SHEETS**
*(Expressed in Canadian Dollars. March 31, 2007 and 2006.)*

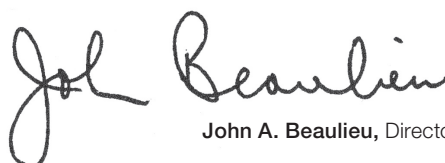
	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,702,350	\$ 1,045,752
Short-term investments	21,378,852	6,786,182
Accounts receivable	10,880,580	6,136,760
Inventories [note 3]	2,815,993	852,945
Prepaid expenses	783,297	721,583
Current portion of future income tax asset [note 16]	1,778,400	-
	39,339,472	15,543,222
Long-term investments [note 4]	13,114,807	9,133,876
Equipment, furniture, and leasehold improvements [note 5]	3,862,870	3,960,173
Intellectual property [note 6]	718,913	863,223
Deferred charges [note 7]	920,163	-
Future income tax asset [note 16]	1,677,244	-
	\$ 59,633,469	\$ 29,500,494
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,030,223	\$ 3,270,553
Deferred revenue	364,884	1,425,328
Demand instalment loan [note 8]	1,612,917	2,506,935
Current portion of long-term debt [note 9]	6,816,418	169,227
Current portion of warranty liability	3,823,758	3,117,881
Current portion financial instruments [note 12]	-	4,100,060
	18,648,200	14,589,984
Warranty liability	3,147,381	2,652,221
Financial Instruments [note 12]	4,000,000	-
Long-term debt [note 9]	13,780,832	150,433
Other long-term obligations [note 10]	1,719,534	694,557
Joint Venture Partner's share of net assets from joint venture [note 17]	7,719,001	1,661,664
Shareholders' equity:		
Share capital [note 13]:		
Authorised:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
75,686,085 (2006 – 74,391,779) common shares	232,830,193	231,180,069
Other equity instruments [note 14]	12,352,113	2,359,483
Additional paid in capital	5,300,955	4,770,252
Deficit	(239,864,740)	(228,558,169)
	10,618,521	9,751,635
Commitments and contingencies [notes 11 and 18]		
Subsequent event [note 4(a)]		
	\$ 59,633,469	\$ 29,500,494

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



**Henry Bauermeister**, Director



**John A. Beaulieu**, Director

**WESTPORT INNOVATIONS INC. – CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT***(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)*

	2007	2006
Product revenue	\$ 47,195,072	\$ 29,932,153
Parts revenue	13,285,360	13,620,224
	60,480,432	43,552,377
Cost of revenue and expenses:		
Cost of revenue	38,381,347	28,642,133
Research and development [notes 14 and 15]	21,890,956	16,938,502
General and administrative [note 14]	6,881,529	4,866,227
Sales and marketing [note 14]	7,077,471	5,849,127
Foreign exchange gain	(102,416)	(92,591)
Depreciation and amortization	1,409,741	2,752,409
Bank charges, interest, and other	408,172	313,896
	75,946,800	59,269,703
Loss before undernoted	(15,466,368)	(15,717,326)
Interest on long-term debt and amortization of discount	(1,718,400)	-
Interest and other income	763,614	449,955
Gain on sale and dilution of interest in subsidiary [note 4(b)]	8,120,485	-
Loss before income taxes and Joint Venture Partner's share of income from joint venture	(8,300,669)	(15,267,371)
Income tax recovery (expense) [note 16]:		
Current	(404,208)	-
Future	3,455,644	-
	3,051,436	-
Loss before Joint Venture Partner's share of income from joint venture	(5,249,233)	(15,267,371)
Joint Venture Partner's share of net income from joint venture [note 17]	(6,057,338)	(1,592,794)
Loss for the year	(11,306,571)	(16,860,165)
Deficit, beginning of year	(228,558,169)	(211,698,004)
Deficit, end of year	\$ (239,864,740)	\$ (228,558,169)
Basic and diluted loss per share [note 13(e)]	\$ (0.15)	\$ (0.23)
Weighted average common shares outstanding	75,174,826	74,228,495

See accompanying notes to consolidated financial statements.

**WESTPORT INNOVATIONS INC. – CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)*

	2007	2006
Cash flows from operations:		
Loss for the year	\$ (11,306,571)	\$ (16,860,165)
Items not involving cash:		
Depreciation and amortization	1,409,741	2,752,409
Stock-based compensation expense	2,089,656	2,933,842
Accretion of TPC warrants	571,428	1,142,857
Future income tax recovery	(3,455,644)	-
Change in deferred lease inducements	(164,077)	(153,971)
Gain on sale and dilution of interest in subsidiary	(8,120,485)	-
Joint Venture Partner's share of net income from joint venture	6,057,338	1,592,794
Interest on long-term debt and amortization of discount	1,663,077	-
Other	(69,497)	(69,113)
	(11,325,034)	(8,661,347)
Changes in non-cash operating working capital:		
Accounts receivable	(4,743,820)	(96,734)
Inventories	(1,963,048)	628,568
Prepaid expenses	(61,714)	(169,352)
Accounts payable and accrued liabilities	2,352,935	(1,196,108)
Deferred revenue	128,610	(1,213,988)
Warranty liability	1,201,037	(958,751)
	(14,411,034)	(11,667,712)
Cash flows from investments:		
Purchase of equipment, furniture, and leasehold improvements	(1,174,626)	(396,106)
Proceeds on disposition of equipment, furniture, and leasehold improvements	11,946	92,854
Proceeds on the sale (used in purchase) of short-term investments, net	(14,592,670)	13,184,695
Purchase of long-term investments	(51,000)	-
Proceeds on disposition of long-term investments	605,000	-
Proceeds from sale of interest in subsidiary	4,197,875	-
Transaction costs incurred	(764,185)	-
	(11,767,660)	12,881,443
Cash flows from financing:		
Issue of demand instalment loan	-	1,235,000
Repayment of demand instalment loan	(894,018)	(980,785)
Increase in bank loan	7,346,280	-
Repayment of bank loan	(605,000)	-
Repayment of other long-term debt	(184,560)	(742,000)
Issuance of convertible notes	22,092,000	-
Finance costs incurred	(914,567)	-
Share issue costs	(4,843)	-
	26,835,292	(487,785)
Increase in cash and cash equivalents	656,598	725,946
Cash and cash equivalents, beginning of year	1,045,752	319,806
Cash and cash equivalents, end of year	\$ 1,702,350	\$ 1,045,752
Supplementary information:		
Interest paid	\$ 379,060	\$ 221,736
Non-cash transactions:		
Purchase of equipment, furniture, and leasehold improvements by assumption of capital lease obligation	-	260,149
Shares issued on exercise of performance share units	555,089	801,135
Shares issued for settlement of financial instruments	601,993	-
Shares issued for settlement of interest on convertible notes	497,885	-

See accompanying notes to consolidated financial statements.

# WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)

## 1. NATURE OF OPERATIONS:

Westport Innovations Inc. (the "Company") was incorporated under the Business Corporations Act (Alberta) on March 20, 1995.

The Company is involved in the research, development, and commercialization of environmental technologies, including high-pressure direct injection ("HPDI") combustion technology that allows diesel engines to operate on cleaner burning gaseous fuels such as natural gas without sacrificing performance or fuel economy. The Company also has a joint venture interest in Cummins Westport Inc. ("CWI"), a joint venture with Cummins Inc. ("Cummins"), founded in 2001 [note 17]. CWI develops, supports, and markets a comprehensive product line of low-emission, high performance engines and ancillary products using proprietary intellectual property developed by the Company and Cummins.

These consolidated financial statements have been presented on a going concern basis, which assumes the realisation of assets and the settlement of liabilities in the normal course of operations. To date, the Company has financed its operations primarily by equity and debt financing and margins on the sale of products and parts. If the Company does not have sufficient funding from internal or external sources, it may be required to delay, reduce or eliminate certain research and development programs, and forego acquisition of certain equipment. The future operations of the Company are dependent upon its ability to produce, distribute, and sell an economically viable product to attain profitable operations.

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### (a) Basis of presentation:

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and CWI. Intercompany accounts and transactions have been eliminated.

Interests in Variable Interest Entities ("VIE") are consolidated by the Company if the Company is the primary beneficiary. The Company has identified CWI as a VIE and determined that the Company is the primary beneficiary. Accordingly, the Company has consolidated CWI. The other 50% interest held by Cummins is reflected as "Joint Venture Partner's share of net assets from joint venture" in these consolidated financial statements.

These financial statements are presented in accordance with Canadian generally accepted accounting principles.

### (b) Cash and cash equivalents:

Cash and cash equivalents includes cash and term deposits with maturities of ninety days or less when acquired.

### (c) Short-term investments:

Short-term investments, consisting principally of investment grade commercial paper, are recorded at cost plus accrued interest.

### (d) Inventories:

The Company's inventory consists of the Company's fuel system products, parts, work-in-progress, and CWI engine products. Inventories are recorded at the lower of cost and net realisable value. Cost of engine product inventory is determined on a specific identification basis. Cost of fuel system products and parts inventory is determined on a weighted average cost basis. The cost of fuel system product inventories and work-in-progress include materials, labour, and production overhead. An inventory obsolescence provision is provided to the extent cost of inventory exceeds net realisable value. In establishing the amount of inventory obsolescence provision, management estimates the likelihood that inventory carrying values will be affected by changes in market demand and technology, which would make inventory on hand obsolete.

### (e) Equipment, furniture, and leasehold improvements:

Equipment, furniture, and leasehold improvements are stated at cost. Depreciation is provided as follows:

Assets	Basis	Rate
Computer equipment and software	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Machinery and equipment	Straight-line	8 years
Leasehold improvements	Straight-line	Lease term

### (f) Long-term investments:

The Company accounts for long-term investments in entities which are not consolidated using the equity method to the extent that the Company has significant influence over the investee's strategic operating, financing, and investing policies. Under the equity method, the Company's proportionate share of income or loss is included in the statement of operations and any dividends received are recorded as a reduction of the investment. All other long-term investments are accounted for using the cost method, whereby income is recognised in the statement of operations only to the extent dividends are received during the year. All long-term investments are currently carried at cost. Long-term investments are reduced to their fair value only to the extent that the loss in value is other than temporary.

### (g) Research and development costs:

Research costs are expensed as incurred and are recorded net of government funding received or receivable. Development costs are deferred only if they meet certain stringent criteria generally related to technical feasibility, market definition, and financing availability for future development; otherwise they are expensed as incurred. Related investment tax credits reduce research and development expenses in the same year in which the related expenditures are charged to earnings, provided there is reasonable assurance the benefits will be realised. As at March 31, 2007 and 2006, no development costs had been deferred.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):****(h) Government assistance:**

The Company periodically applies for financial assistance under available government incentive programs which is recorded in the period it is received or receivable. Government assistance relating to the purchase of equipment, furniture, and leasehold improvements is reflected as a reduction of the cost of such assets. Government assistance related to research and development activities is recorded as a reduction of the related expenditures.

**(i) Intellectual property:**

Intellectual property, consisting primarily of the cost of acquired patents, licenses, and other intellectual property, is amortized over their estimated useful lives, which currently does not exceed seven years.

**(j) Impairment of long-lived assets:**

The Company reviews for impairment of long-lived assets, including equipment, furniture, and leasehold improvements and intellectual property, to be held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such conditions exist, assets are considered impaired if the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

**(k) Warranty liability:**

Estimated warranty costs are recognised at the time the Company sells its products, and are included in cost of revenue. The Company provides warranty coverage on products sold for a period of two years from the date the products are put into service by customers. Warranty liability represents the Company's best estimate of warranty costs expected to be incurred during the warranty period. Furthermore, the current portion of warranty liability represents the Company's best estimate of the costs to be incurred in the next twelve month period. The Company uses historical failure rates and cost to repair defective products together with information on known product issues to estimate the warranty liability. The ultimate amount payable by the Company and the timing will depend on actual failure rates and cost to repair failures of its products. Since many of the Company's products are new in the market, historical data may not necessarily reflect actual costs to be incurred and exposes the Company to the potential for significant fluctuations in the warranty liability.

**(l) Extended warranty:**

The Company sells extended warranty contracts which provide coverage in addition to the basic two year coverage. Proceeds from the sale of these contracts are deferred and amortized over the extended warranty period commencing at the end of the basic warranty period. On a periodic basis, management reviews the estimated warranty costs expected to be incurred related to these contracts and recognises a loss to the extent such costs exceed the related deferred revenue.

**(m) Revenue recognition:**

Product and parts revenue is recognised, net of estimated costs of returns, allowances, and sales incentives, when the products are shipped and title passes to the customers. Revenue also includes fees earned from performing research and development activities for third parties, as well as for granting technology licenses to third parties. Revenue from research and development activities is recognised as the services are performed. Revenue from technology licenses is recognised over the duration of the licensing agreement. Amounts received in advance of revenue recognition are recorded as deferred revenue.

**(n) Income taxes:**

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between the accounting and tax basis of the assets and liabilities and for loss carry forwards, and are measured using the tax rates expected to apply when these tax assets and liabilities are recovered or settled. The effect on future tax assets and liabilities of a change in tax rate is recognised in income in the period that includes the substantive enactment date. A valuation allowance is recorded against any future income tax asset if it is not "more likely than not" that the benefit of these assets will be realised.

**(o) Stock-based compensation plans:**

The Company has a stock option plan, which is described in note 13(c). The Company accounts for stock-based compensation related to stock options granted to employees and directors using the fair value method and recognises stock-based compensation in results from operations over the vesting period. The Company has an employee share purchase plan, which is described in note 13(d). The Company matches the employees' contribution and recognises this cost as an expense in the period it is incurred.

The Company has a Performance Share Unit ("PSU") Plan as described in note 14. The value of the units is calculated based on the market price of the Company's common shares on the date of grant and is recorded as compensation expense in the period earned, which generally is the period over which the PSU's vest.

**(p) Post-retirement benefits:**

The Company has implemented a group registered retirement savings plan ("RRSP") in which full-time employees of the Company are eligible to participate. Eligible employees may make contributions up to their personal eligible contribution room under the Canadian Income Tax Act. The Company contributes up to a maximum combined total of 5% of the employee's regular base pay to the RRSP and/or the employee share purchase plan and recognises this cost as an expense in the period it is incurred. During the year ended March 31, 2007, the Company recognised \$355,887 (2006 – \$317,113) of expense associated with the RRSP.

**WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)***(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)***2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):****(q) Foreign currency:**

Monetary items denominated in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in results from operations.

**(r) Use of estimates:**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Significant areas requiring the use of estimates include amortization of equipment, furniture, and leasehold improvements, the determination of future cash flows and discount rates for impairment of long-lived assets, valuation of long-term investments, valuation of future income tax assets and the accrual of warranty liability. Actual results could differ from estimates used in the preparation of the consolidated financial statements.

**(s) Loss per share:**

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share is computed similarly to basic loss per share, except that the weighted average number of shares outstanding are increased to include additional shares from the assumed exercise of conversion options, stock options, warrants, and performance share units, if dilutive. For stock options, warrants, and performance units, the number of additional shares is calculated by assuming that outstanding stock options, warrants, and performance share units were exercised at the beginning of the year or when granted and that the proceeds from such exercises were used to repurchase shares of common stock at the average market price during the period. For conversion options, the Company uses the if converted method which assumes that the conversion of options are exercised at the beginning of the year or when granted.

**(t) Comparative amounts:**

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

**3. INVENTORIES:**

	2007	2006
Parts	\$ 2,360,124	\$ -
Work-in-progress	455,869	-
Engine inventory	-	852,945
	\$ 2,815,993	\$ 852,945

**4. LONG-TERM INVESTMENTS:**

	2007	2006
Clean Energy Fuels Corp. (a)	\$ 9,133,876	\$ 9,133,876
Wild River Resources Ltd. (b)	3,980,931	-
	\$ 13,114,807	\$ 9,133,876

**(a)** As at March 31, 2007, the Company owned an approximate 6% (2006 – 8%) interest in Clean Energy Fuels Corp. (“CEFC”) prior to CEFC’s initial public offering and carries this investment at cost. Subsequent to March 31, 2007, CEFC priced its initial public offering of 10,000,000 common shares at US\$12 per share, diluting the Company’s interest in CEFC to approximately 5%. CEFC is an owner and operator of natural gas refuelling facilities.

**(b)** The Company also has a 15.86% (2006 – 100%) interest in Wild River Resources Ltd. (“WRRL”) (formerly Westport Research Inc. (“WRI”), a wholly owned subsidiary of the Company prior to June 13, 2006), an oil and gas company, and carries this investment at cost. On June 13, 2006, the Company entered into an agreement with Matco Capital Ltd. (“Matco”), an unrelated party, to reorganise WRI. As part of the reorganisation, the Company substantially transferred all of the assets, liabilities, and operations of WRI to another wholly owned subsidiary of the Company which carries on the business previously carried on by WRI. WRI was then renamed WRRL. Pursuant to the agreement with Matco, the Company sold 45% of its investment in WRRL to Matco for cash consideration. This transaction resulted in a net gain of \$3,891,376. Subsequently, on February 8, 2007, WRRL issued shares to third parties further diluting the Company’s interest from 55% to 17.38%. This transaction resulted in a net dilution gain of \$4,004,461. The Company sold a further 1.52% interest in WRRL for a gain of \$224,648 reducing its investment to 15.86% of the outstanding shares of WRRL. Effective February 8, 2007, the Company no longer controls WRRL. Accordingly, the Company no longer consolidates WRRL and accounts for this investment on a cost basis.

**WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)***(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)***5. EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS:**

2007	Cost	Accumulated depreciation	Net book value
Computer equipment and software	\$ 5,142,232	\$ 4,742,707	\$ 399,525
Furniture and fixtures	1,181,947	1,066,546	115,401
Machinery and equipment	19,882,210	16,905,893	2,976,317
Leasehold improvements	8,149,345	7,777,718	371,627
	\$ 34,355,734	\$ 30,492,864	\$ 3,862,870
2006	Cost	Accumulated depreciation	Net book value
Computer equipment and software	\$ 4,945,991	\$ 4,677,347	\$ 268,644
Furniture and fixtures	1,163,256	1,010,545	152,711
Machinery and equipment	19,709,074	16,554,947	3,154,127
Leasehold improvements	8,021,813	7,637,122	384,691
	\$ 33,840,134	\$ 29,879,961	\$ 3,960,173

As at March 31, 2007, equipment with a cost of \$223,743 (2006 – \$464,394) and a net book value of \$100,956 (2006 – \$252,246) is held under capital lease.

**6. INTELLECTUAL PROPERTY:**

	2007	2006
Intellectual property acquired from:		
University of British Columbia	\$ 1,550,000	\$ 1,550,000
Edge Technologies, Inc.	750,100	750,100
GVH [note 12(b)]	1,697,214	1,697,214
Other	324,080	324,080
	4,321,394	4,321,394
Accumulated amortization	(3,602,481)	(3,458,171)
Intellectual property, net of amortization	\$ 718,913	\$ 863,223

**7. DEFERRED CHARGES:**

Deferred charges relate to the expenses associated with the issue of convertible notes [note 9(c)] and the Matco transaction [notes 4(b) and 9(b)] and will be expensed over the term of the convertible notes or in the period the Company disposes of its remaining 15.86% interest in WRRL, as applicable.

**8. DEMAND INSTALMENT LOAN:**

The Company has a credit facility for maximum borrowings of \$13,000,000. Borrowings may be drawn in the form of demand instalment loans, lease financing, letters of credit, foreign exchange contracts, corporate credit cards, and operating lines of credit. Outstanding amounts of the demand instalment loans drawn under this credit facility bear interest at prime and are repayable over a 60-month period. As at March 31, 2007, the outstanding amount payable of \$1,612,917 is included in current liabilities as it is repayable on demand by the bank.

**9. LONG-TERM DEBT:**

	2007	2006
Capital lease obligations (a)	\$ 135,100	\$ 319,660
Bank loan (b)	6,741,280	-
Subordinated convertible notes (c)	13,720,870	-
	20,597,250	319,660
Current portion	6,816,418	169,227
	\$ 13,780,832	\$ 150,433

**WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)***(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)***9. LONG-TERM DEBT (CONTINUED):**

- (a) The Company has capital lease obligations which have terms of two to five years at interest rates ranging from 1.15% to 6.17%. The capital lease obligations require the following minimum annual payments during the respective fiscal years:

2008	\$	75,138
2009		53,973
2010		4,895
2011		3,672
		137,678
Amount representing interest		(2,578)
	\$	135,100

- (b) Under the terms of the agreement with Matco [note 4(b)], Matco facilitated access to a limited recourse credit facility up to \$7,346,280. Interest was payable at prime plus 1% until December 31, 2006, after which time the interest is payable by Matco. Repayments of the amount drawn under this credit facility will be made only from the proceeds related to the sale by the Company of its interest in WRRL and any remaining balance outstanding under the credit facility is due on or before January 31, 2008. During the year, the Company drew the maximum available under the credit facility of \$7,346,280 and re-paid \$605,000 to March 31, 2007, leaving a balance of \$6,741,280. If no further proceeds are received from the sale of the Company's interest in WRRL by December 31, 2007, Matco is obligated to acquire the Company's remaining shares in WRRL for \$6,741,280 which will be used to repay any amounts remaining under the credit facility.

- (c) On June 12, 2006, the Company agreed to issue up to \$22,092,000 in five year secured, subordinated convertible notes with a coupon rate of 8% to funds managed by Perseus, L.L.C. ("Perseus"), a private equity fund management group. The notes were issued in two tranches of \$13,800,000 and \$8,292,000, respectively, with the closings of the first tranche having been completed on June 12, 2006 and July 14, 2006 and the second tranche closing on January 16, 2007. Interest is payable semi-annually in arrears on June 30 and December 31, in additional notes or shares, at the Company's option, for the first two years. After the first two years, interest will be calculated at a rate of 8% on the outstanding principal amount only for the number of trading days in the period on which the share price is below \$3.00 and is payable semi-annually in cash, additional convertible notes or shares at the Company's option. The number of shares to be issued if interest is paid in shares will be based on the market price of the common shares on the date interest is due. The first tranche is convertible to common shares at a conversion price of \$1.30 at any time during the term of the notes and the second tranche is convertible to common shares at a conversion price equal to \$1.40. At the time of issuance of the notes, the noteholder also received warrants to acquire, at an exercise price equal to the conversion price of the accompanying notes, common shares of the Company equal to 25% of the number of common shares into which the notes were convertible. The warrants expire four years from the date of issuance and include a cashless exercise provision which would allow the noteholder to receive the number of common shares having a value equal to the net gain that would be realised by the noteholder had the warrant been exercised for cash and the related shares sold at the market price on the date the option is exercised. Any warrants converted under the cashless exercise provision will be cancelled.

On June 12, 2006, the Company issued \$5,500,000 of the first tranche of notes and 1,062,115 warrants. On July 14, 2006, the Company issued the remaining \$8,300,000 of the first tranche of notes and 1,593,173 warrants. On January 16, 2007, the Company issued \$8,292,000 of the second tranche of notes and 1,479,375 warrants. Of the \$22,092,000 cash proceeds received in the year, the Company assigned \$7,568,465 to the conversion option, \$1,420,302 to the warrants and \$13,103,233 to the convertible notes. The amount assigned to the convertible notes is being accreted to the principal amount using the effective interest rate method over the term to maturity.

During the year, \$553,208 of interest was paid to Perseus of which \$55,323 was paid in cash and \$497,885 paid in common shares. On March 31, 2007, interest of \$406,735 was payable to Perseus and included in accounts payable and accrued liabilities.

**10. OTHER LONG-TERM OBLIGATIONS:**

	2007	2006
Deferred lease inducements (a)	\$ 530,480	\$ 694,557
Deferred revenue (b)	1,189,054	-
	\$ 1,719,534	\$ 694,557

- (a) The Company renegotiated its existing long-term lease agreements for its corporate offices and research facilities in 2004 and 2005 which included certain lease inducements. These inducements included leasehold improvements and other costs funded by the lessor and periods with reduced rental payments. The amounts related to leasehold improvements funded by the lessor are amortized on a straight-line basis over the term of the lease as a reduction to rent expense. For lease contracts with escalating lease payments, total rent expense for the lease term is expensed on a straight line basis over the lease term. The difference between amounts expensed and amounts paid is recorded as an increase or reduction in deferred lease inducements.
- (b) The Company receives cash in advance including upfront fees, customer deposits, fees for research and development activities, and extended warranty contracts which are included in deferred revenue and are recognised into earnings over the contract period, as research and development activities are completed or over the warranty period as applicable.

## WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)

### 11. GOVERNMENT ASSISTANCE:

From time to time, the Company enters into agreements for financial assistance with government agencies. During the years ended March 31, 2007 and 2006, government assistance of \$5,150,357 and \$8,689,159, respectively, was received or receivable by the Company, which has been recorded as a reduction of related research and development expenditures [note 15].

Included in the above amounts is funding of \$2,204,590 (2006 – \$2,623,346) from Industry Canada's Industrial Technologies Office (formerly Technology Partnerships Canada) ("TPC") and \$3,779,040 remains receivable from TPC at March 31, 2007 (2006 – \$1,574,450). Under the terms of the original TPC funding agreement entered into on March 27, 2003, TPC will fund 30% of the eligible costs of, among other research projects, the adaptation of the Company's technology to diesel engines with a scheduled project completion date of March 31, 2006. During the year, the Company was in discussions to extend the project completion date and extend the agreement by two years. In the fourth quarter of fiscal 2007, TPC substantially completed its review of the proposed amended statement of work and approval has been received from TPC. Under the amended terms of the agreement, from fiscal 2009 to fiscal 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of \$1,350,000 or 0.33% of the Company's annual gross revenue from all sources, provided that gross revenue exceeds \$13,500,000 in any of the aforementioned fiscal years. The royalty payment period may be extended until the earlier of March 31, 2018 or until cumulative royalties total \$28,189,000. In addition, the Company is required to provide TPC with common share purchase warrants having a value of \$4,000,000 as at September 30, 2008 calculated based on the Black-Scholes option pricing model. The value of the warrants have been accreted on a straight-line basis to September 30, 2006, the original issuance date, as a charge to research and development expenses.

The Company is also obligated to pay royalties to the Government of Canada's Department of Natural Resources and British Columbia's Green Economy Development Fund relating to funding received in prior years. The royalty to the Department of Natural Resources is 1% of future revenue from engines for power generators until the earlier of ten years from the project completion date (August 30, 2004) or when cumulative royalties total \$1,000,000. As at March 31, 2007, there have been no revenue from the sales of engines for power generators and, therefore, no royalty payments have been paid or are payable. The royalty to the Green Economy Development Fund is 0.75% of gross revenue received by the Company on certain natural gas fuel systems and the obligation will cease on the earlier of the seventh anniversary of the funding contribution date (April 10, 2001) or when the cumulative royalties paid by the Company equal \$800,000. As at March 31, 2007, no royalties have been paid or are payable.

### 12. FINANCIAL INSTRUMENTS:

	March 31, 2007	March 31, 2006
Value assigned to TPC warrants (a)	\$ 4,000,000	\$ 3,428,571
Shares to be issued (b)	-	671,489
	\$ 4,000,000	\$ 4,100,060
Current portion	-	4,100,060
	\$ 4,000,000	\$ -

#### (a) TPC warrants:

Under the terms of the agreement with TPC, the Company has an obligation to issue warrants with a fair value of \$4,000,000 based on the Black-Scholes option pricing model. The value of these warrants was recognised on a straight-line basis from the date of the original agreement to September 30, 2006, the original issuance date. For the year ended March 31, 2007, accretion totalling \$571,428 (2006 – \$1,142,857) has been included in research and development expenses. The Company negotiated a two year extension to the TPC agreement and, as a result, will not issue the warrants until September 30, 2008. Accordingly, the amount has been classified as a long-term liability as at March 31, 2007.

#### (b) Shares to be issued:

Under the terms of the agreement with GVH Entwicklungsgesellschaft für Verbrennungsmotoren und Energietechnik mbH ("GVH") the Company had an obligation to pay certain milestone payments to GVH through issuance of shares. The entire obligation was settled during the year.

### 13. SHARE CAPITAL:

#### (a) Authorised:

Unlimited common shares, no par value

Unlimited preferred shares issuable in series, no par value

# WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)

## 13. SHARE CAPITAL (CONTINUED):

### (b) Issued and outstanding:

	Number of shares	Amount
Balance, March 31, 2005	73,964,088	\$ 230,378,934
Performance share units exercised for no additional consideration	427,691	801,135
Balance, March 31, 2006	74,391,779	231,180,069
Shares issued to GVH [note 12(b)]	609,104	601,993
Performance share units exercised for no additional consideration	283,682	555,089
Shares issued for settlement of accrued interest [note 9(c)]	401,520	497,885
Share issue costs	-	(4,843)
Balance, March 31, 2007	75,686,085	\$ 232,830,193

### (c) Share options:

The Company has an incentive share option plan for employees, directors, officers, and consultants. The options are granted with an exercise price not less than the market price of the Company's common shares on the date immediately prior to the date of grant. The exercise period of the options may not exceed eight years from the date of grant and, subject to certain exceptions, vest in three equal annual amounts on the anniversary date of the grant. Vesting periods of the options are at the discretion of the board of directors and may be based on fixed terms, achieving performance milestones or reaching specified share price targets.

A summary of the status of the Company's share option plan as of March 31, 2007 and 2006 and changes during the years then ended is presented as follows:

	2007		2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	4,968,563	\$ 2.05	2,402,415	\$ 3.63
Granted	585,872	1.18	3,178,218	1.48
Cancelled / expired	(325,442)	(2.82)	(612,070)	(5.24)
Outstanding, end of year	5,228,993	\$ 1.91	4,968,563	\$ 2.05
Options exercisable, end of year	1,479,465	\$ 2.98	1,544,266	\$ 3.22

The following table summarises information about share options outstanding at March 31, 2007:

Range of exercise prices	Number outstanding, March 31, 2007	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable, March 31, 2007	Weighted average exercise price
\$0.92 to \$1.40	930,419	7.0	\$ 1.19	186,809	\$ 1.14
\$1.50 to \$1.55	2,905,259	6.0	1.51	239,339	1.50
\$1.62 to \$2.22	679,202	4.9	1.88	339,204	1.83
\$2.61 to \$3.94	362,978	3.6	3.31	362,978	3.31
\$4.14 to \$5.89	240,569	2.6	4.80	240,569	4.80
\$7.00 to \$8.35	110,566	3.2	7.72	110,566	7.72
\$0.92 to \$8.35	5,228,993	5.65	\$ 1.91	1,479,465	\$ 2.98

The fair value of the options granted was determined using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield – nil% (2006 – nil%); expected stock price volatility – 59% (2006 – 65%); risk free interest rate – 4.79% (2006 – 4.20%); expected life of options – 5 years (2006 – 5 years). The weighted average grant date fair value was \$0.70 for options granted for the year ended March 31, 2007 (2006 – \$0.87). During the year ended March 31, 2007, the Company recognised \$530,704 (2006 – \$1,851,684) in stock-based compensation related to stock options.

### (d) Employee share purchase plan:

The Company has an employee share purchase plan ("ESPP") in which full-time employees of the Company are eligible to participate. Eligible employees may make contributions to the ESPP of up to 10% of their regular base pay. The Company contributes up to a maximum combined total of 5% of the employee's regular base pay to the employee's RRSP and/or ESPP. Shares contributed to the ESPP are purchased by the Company on a semi-monthly basis on the open market. Shares purchased on behalf of the employee with the employee's contribution vest with the employee immediately. Shares purchased with the Company's contribution vest on December 31st of each year, so long as the employee is still employed with the Company.

### (e) Loss per share:

Diluted loss per share does not differ from basic loss per share as the impact of dilutive securities, including all conversion options, stock options, warrants, and performance share units, is anti-dilutive.

**WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)***(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)***14. OTHER EQUITY INSTRUMENTS:**

	2007	2006
Value assigned to Performance Share Units	\$ 3,363,346	\$ 2,359,483
Value assigned to warrants [note 9(c)]	1,420,302	-
Value assigned to conversion options [note 9(c)]	7,568,465	-
	\$ 12,352,113	\$ 2,359,483

Value assigned to performance share units ("Units") relates to Units granted pursuant to the Company's 2003 Performance Share Unit Plan ("2003 Unit Plan") as amended and restated (the "Amended and Restated Unit Plan"). At the Company's 2006 annual general meeting, the shareholders of the Company ratified and approved the Amended and Restated Unit Plan and reserved 7,500,000 common shares under this plan. The Amended and Restated Unit Plan is in addition to the Performance Share Unit Plan approved by the shareholders on September 10, 2001 (the "2001 PSU Plan"). Each performance share issued pursuant to the Amended and Restated Unit Plan or the 2001 PSU Plan is exercisable into one common share of the Company for no additional consideration. Any employee, contractor, director or executive officer of the Company who is selected by the Board of Directors of the Company is eligible to participate in the Amended and Restated Unit Plan. The Executive and Senior Management Total Compensation Program sets out provisions where the Units will be granted to the Company's executive management if performance milestones are achieved as determined at the discretion of the Human Resources and Compensation Committee of the Company's Board of Directors in consultation with the Company's management. These performance milestones are focused on achievement of key cash management, profitability, and revenue growth objectives. Vesting periods for each Unit granted pursuant to the Amended and Restated Unit Plan is at the discretion of the Board of Directors and may include time based, share price or other performance targets.

The value assigned to issued Units and the amounts accrued are recorded as other equity instruments. As Units are exercised and the underlying shares are issued from treasury of the Company, the value is reclassified to share capital. During the year ended March 31, 2007, the Company recognised \$1,558,952 (2006 – \$1,082,158) of stock-based compensation associated with the 2001 PSU Plan and the Amended and Restated Unit Plan.

The stock-based compensation associated with the Unit plans and the stock option plan as described in note 13(c) is included in operating expenses as follows:

	2007	2006
Research and development	\$ 348,212	\$ 1,603,525
General and administrative	1,494,242	946,025
Sales and marketing	247,202	384,292
	\$ 2,089,656	\$ 2,933,842

A summary of the status of the PSU's issued under the 2001 PSU Plan and the 2003 PSU Plan as of March 31, 2007 and 2006, and changes during the years then ended is as follows:

	Units
Outstanding, March 31, 2005	1,041,897
Units exercised	(427,691)
Units granted	816,919
Outstanding, March 31, 2006	1,431,125
Units exercised	(283,682)
Units granted	915,716
Outstanding, March 31, 2007	2,063,159

As at March 31, 2007, 1,763,162 PSU's are vested and exercisable.

**15. RESEARCH AND DEVELOPMENT EXPENSES:**

Research and development expenses are recorded net of program funding received or receivable. For the years ending March 31, 2007 and 2006, the following research and development expenses had been incurred and program funding received or receivable:

	2007	2006
Research and development expenses	\$ 27,041,313	\$ 25,627,661
Program funding	(5,150,357)	(8,689,159)
Research and development	\$ 21,890,956	\$ 16,938,502

In 2007, program funding is comprised mainly of funding from TPC, the Hydrogen Early Adopters Program, Sustainable Development Technology Canada, National Renewable Energy Laboratory, South Coast Air Quality Management District, and the Australian Greenhouse Office which was used to fund research and demonstration projects including the adaptation of the Company's technologies to diesel engines. In 2006, program funding is comprised mainly of funding from TPC, National Renewable Energy Laboratory, and South Coast Air Quality Management District.

# WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)

## 16. INCOME TAXES:

- (a) The Company's income tax recovery differs from that calculated by applying the combined Canadian federal and provincial statutory income tax rates for manufacturing and processing companies of 34.1% (2006 – 34.5%) as follows:

	2007	2006
Loss before income taxes and Joint Venture Partner's share of income from joint venture	\$ 8,300,669	\$ 15,267,371
Expected income tax recovery	\$ 2,830,528	\$ 5,248,637
Reduction (increase) in income taxes resulting from:		
Non-deductible interest on long-term debt and amortization of discount	(210,615)	-
Non-deductible stock-based compensation	(712,573)	(1,011,589)
Non-deductible expenses	(375,340)	(425,958)
Change in enacted rates	(5,692,054)	(191,879)
Foreign tax rate differences	(526,731)	(168,383)
Change in valuation allowance	7,738,221	(3,450,828)
	\$ 3,051,436	\$ -

- (b) The tax effects of the significant temporary differences which comprise tax assets and liabilities, at March 31, 2007 and 2006 are as follows:

	2007	2006
Future tax assets:		
Net operating loss carry forwards	\$ 19,365,441	\$ 36,049,145
Scientific research and development expenditures carry forwards	-	27,377,225
Long-term investments	4,100,068	807,778
Intellectual property	2,123,134	849,233
Equipment, furniture, and leasehold improvements	291,976	3,488,532
Financing and share issue costs	189,751	452,273
Warrant liability	2,437,678	2,267,650
Deferred revenue	497,377	-
Capital lease obligations	42,894	109,004
Total gross future tax assets	29,048,319	71,400,840
Valuation allowance	(25,592,675)	(71,400,840)
Total future tax asset	\$ 3,455,644	\$ -
Allocated as follows:		
Current future tax asset	1,778,400	-
Long term future tax asset	1,677,244	-
Total future tax asset	\$ 3,455,644	\$ -

In determining the valuation allowance, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realised. The ultimate realisation of future tax assets is dependent on the generation of income during the future periods in which those temporary differences become deductible. Since evidence does not exist that the future income tax assets will be fully realised, a valuation allowance has been recorded. A portion of the valuation allowance related to CWI has been reversed as CWI has generated taxable income for two consecutive tax years and the Company expects that CWI will generate taxable income in the future.

Current tax expense consists of \$404,208 payable outside of Canada. Future income tax recovery relates to temporary differences in the United States.

- (c) The Company has non-capital loss carry forwards in Canada available to offset future taxable income which expire as follows:

2008	\$ 56,635
2009	1,504,498
2010	2,235,179
2014	2,703,304
2015	2,508,377
2026	2,354,294
2027	15,184,941
	\$ 26,547,228

CWI has net operating loss carry forwards in the United States totalling \$31,247,704 of which \$12,193,160 expire in 2022, \$17,208,028 expire in 2023, and \$1,846,516 expire in 2024.

- (d) The Company has no unclaimed scientific and experimental and investment tax credits.

# WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)

## 17. INVESTMENT IN CUMMINS WESTPORT INC.:

The Company entered into a joint venture with Cummins on March 7, 2001. The joint venture, CWI, was formed to explore a range of product and technology opportunities using natural gas as the primary fuel. The Company provided personnel, financing, and key technologies for the venture, while Cummins provided an existing product line, manufacturing, product distribution, and customer service functions, as well as key management and engineering personnel.

From inception until December 31, 2003, the Company was responsible for all capital contributions to fund operations. Initially and to December 31, 2003, the Company owned 100% of the common shares and Cummins owned 100% of the non-participating preferred shares which were convertible into common shares for no consideration at the option of Cummins.

On December 16, 2003, the Company and Cummins amended the joint venture agreement to have CWI focus on and develop markets for alternative fuel engines. In addition, the two companies signed a Technology Partnership Agreement that creates a flexible arrangement for future technology development between Cummins and the Company. Under the terms of the amended joint venture agreement, Cummins exercised the conversion feature of the preferred shares effective January 1, 2004. However, the Company remained responsible for funding the profit and loss of CWI through CWI's fiscal 2004 year which ran from January 1 to December 31, 2004. Based on its economic interest in CWI, the Company continued to consolidate 100% of the results of operations from CWI until December 31, 2004.

Subsequent to December 31, 2004, Cummins shares equally in the profits and losses of CWI. However, the Company has determined that CWI is a VIE and that the Company is the primary beneficiary. Accordingly, the Company continues to consolidate CWI with Cummins' share of CWI's income and losses included as "Joint Venture Partner's share of net income from joint venture".

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:

	2007	2006
Current assets:		
Cash and cash equivalents	\$ 42,761	\$ 146,656
Short-term investments	8,017,357	-
Accounts receivable	5,770,970	2,766,068
Inventory	-	852,945
Prepaid expenses	354,050	219,659
Current portion of future income tax asset	1,778,400	-
	15,963,538	3,985,328
Future income tax asset	1,677,244	-
Equipment, furniture, and leasehold improvements	183,521	60,249
	\$ 17,824,303	\$ 4,045,577
Current liabilities:		
Accounts payable and accrued liabilities	\$ 760,538	\$ 511,196
Deferred revenue	302,679	1,383,363
Current portion of warranty liability	3,767,183	3,117,881
	\$ 4,830,400	\$ 5,012,440
Long-term liabilities:		
Warranty liability	\$ 3,090,805	\$ 2,652,221
Product revenue	\$ 44,745,842	\$ 28,633,983
Parts revenue	13,285,360	13,620,224
	58,031,202	42,254,207
Cost of revenue and expenses:		
Cost of revenue	36,195,405	27,343,963
Research and development	8,073,503	6,576,840
General and administrative	855,949	1,249,168
Sales and marketing	4,215,866	4,005,743
	49,340,723	39,175,714
Income before undernoted	8,690,479	3,078,493
Interest and investment income	111,794	-
Effect of foreign currency translation	62,063	107,095
Income before taxes	8,864,336	3,185,588
Current income tax expense	(205,304)	-
Future income tax recovery	3,455,644	-
Income for the year	\$ 12,114,676	\$ 3,185,588
Joint Venture Partner's share of net income from joint venture	(6,057,338)	(1,592,794)
Company's share of income	\$ 6,057,338	\$ 1,592,794

## WESTPORT INNOVATIONS INC. – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Canadian Dollars. Years ended March 31, 2007 and 2006.)

### 18. COMMITMENTS AND CONTINGENCIES:

- (a) The Company has obligations under operating lease arrangements which require the following minimum annual payments during the respective fiscal years:

2008	\$	1,077,629
2009		904,444
2010		175,567
2011		101,654
2012		97,500
Thereafter		219,375
	\$	2,576,169

- (b) The Company has an outstanding letter of credit of \$600,000.
- (c) Under the Company's signed Joint Venture Agreement with Beijing Tianhai Industry Co. Ltd., the Company is committed to contributing US\$400,000 to the formation of a joint venture.

### 19. FINANCIAL INSTRUMENTS:

(a) **Fair values:**

The carrying amounts reported in the balance sheets for cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of these instruments. The carrying value of the warranty obligation represents management's best estimate of its fair value.

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 value of the Company's demand instalment loan and other long-term debt obligations is not materially different from its carrying value based on market rates of interest.

Clean Energy Fuels Corp., as described in note 4(a) is now listed on the NASDAQ and the Company's investment has an estimated fair value as at March 31, 2007 of approximately \$29,225,000.

The fair value of the Company's long-term investment in WRRL, a private company, as described in note 4(b) is not determinable with sufficient reliability due to the absence of a readily available market for the shares of WRRL.

The fair value of the Company's subordinated convertible notes as described in note 9(c) is not determinable with sufficient reliability due to the absence of a readily available market for similar instruments.

The fair value of the Company's financial instruments as described in note 12 represents management's best estimate of its fair value.

(b) **Concentrations of credit risk:**

The Company is exposed to credit risk only with respect to uncertainties as to timing and amount of collectability of accounts receivable. 50% (2006 – 57%) of accounts receivable relates to government grants receivable and 43% (2006 – 38%) is due from Cummins relating to proceeds for the sale of products collected by Cummins on the Company's behalf.

(c) **Foreign currency risk:**

Foreign currency risk is the risk to the Company's results from operations that arises from fluctuations in foreign currency exchange rates. All of the revenue realised and a significant portion of the expenses incurred by CWI, and recorded by the Company, are denominated in United States dollars. The warranty liability is also denominated in United States dollars. The Company has not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations.

### 20. 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 year ended March 31, 2007, 72% (2006 – 82%) of the Company's revenue was from sales in North America, 13% (2006 – 4%) from sales in Asia, and 15% (2006 – 14%) from sales elsewhere.

## WESTPORT DIRECTORS

John A. Beaulieu <sup>[1][2][3]</sup>  
Chairman of the Board of Directors, Westport Innovations Inc.  
Vancouver, Washington, USA

Warren J. Baker, Ph.D. <sup>[3][4]</sup>  
President, California Polytechnic State University  
Avila Beach, California, USA

Henry F. Bauermeister Jr., CPA <sup>[1][2]</sup>  
Corporate Director, Former President of Cummins Mid-America  
Lee's Summit, Missouri, USA

David R. Demers <sup>[4]</sup>  
Chief Executive Officer and Director, Westport Innovations Inc.  
West Vancouver, British Columbia, Canada

John C. Fox <sup>[4]</sup>  
Senior Managing Director, Perseus, LLC  
Falls Church, Virginia, USA

Dezső Horváth, Ph.D. <sup>[1][2][3][4]</sup>  
Dean of the Schulich School of Business, York University  
Toronto, Ontario, Canada

Kenneth M. Socha <sup>[2]</sup>  
Senior Managing Director, Perseus, LLC  
Bethesda, Maryland, USA

- [1] Member of Audit Committee
- [2] Member of Human Resources and Compensation Committee
- [3] Member of Nominating and Corporate Governance Committee
- [4] Member of Strategy Committee

## WESTPORT MANAGEMENT

David R. Demers  
Chief Executive Officer  
West Vancouver, British Columbia, Canada

J. Michael Gallagher, Ph.D.  
President and Chief Operating Officer  
Vancouver, British Columbia, Canada

K. Bruce Hodgins, P.Eng.  
Vice President, Market Development  
Delta, British Columbia, Canada

Melih Ogmen, Ph.D.  
Vice President, Heavy-Duty Operations  
Port Moody, British Columbia, Canada

Patric Ouellette, Ph.D., P.Eng.  
Chief Technology Officer and Vice President, Heavy-Duty Engineering  
Vancouver, British Columbia, Canada

Ian J. Scott  
Vice President, Emerging Markets and Business Development  
Vancouver, British Columbia, Canada

Nicholas C. Sonntag  
President, Westport Asia  
Gibsons, British Columbia, Canada / Beijing, China

Elaine A. Wong, CA  
Chief Financial Officer and Vice President, Finance  
Vancouver, British Columbia, Canada

## CORPORATE INFORMATION

### Westport Shareholder Services

Shareholders with questions about their account—including change of address, lost stock certificates, or receipt of multiple mailouts and other related inquiries—should contact our Transfer Agent and Registrar:

Computershare Investor Services Inc.  
510 Burrard Street, 3rd Floor  
Vancouver, British Columbia, Canada V6C 3B9  
Tel: 604.661.9400  
Fax: 604.661.9549

### Legal Counsel

Bennett Jones LLP – Calgary, Alberta, Canada

### Auditors

KPMG LLP Chartered Accountants  
Vancouver, British Columbia, Canada

### Stock Listing

The Toronto Stock Exchange: WPT

### Annual Meeting

The Westport Innovations Inc. Annual Meeting of Shareholders will be held on Thursday, July 19th, 2007 at 2:00 p.m. (Pacific) at the Delta Vancouver Airport Hotel, 3500 Cessna Drive, Richmond, B.C.

### Westport on the Internet

Topics featured in this Annual Report can be found via the Westport website at <http://www.westport.com>. Financial results, Annual Information Form, news, services, and other activities can also be found via that address or on SEDAR at <http://www.sedar.com>. Shareholders and other interested parties can also sign up to receive regular email bulletins at <http://www.westport.com/investor/email.php>. More information on the Cummins Westport line of products can be found at <http://www.cumminswestport.com>.

### Contact Information / Corporate Offices

101 - 1750 West 75th Avenue  
Vancouver, British Columbia, Canada V6P 6G2  
Tel: 604.718.2000  
Fax: 604.718.2001  
Email: [invest@westport.com](mailto:invest@westport.com)  
Web: [www.westport.com](http://www.westport.com)

This document contains forward-looking statements about Westport's business, operations, technology development, and/or about the environment in which it operates, which are based on Westport's estimates, forecasts, and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, or are beyond Westport's control. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Westport disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

**[www.westport.com](http://www.westport.com)**

please  recycle