

2008 Annual Report

Westport
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LETTER TO SHAREHOLDERS

To our shareholders,

This has been an excellent year for our company.

Building on our seven-year partnership with Cummins Inc. (Cummins), we continued to see strong revenue growth around the world from our medium duty engines for city buses and commercial vehicles such as refuse trucks and shuttles. We launched a new generation of engine technology, the ISL G, for these markets. We also launched commercial production of our liquefied natural gas (LNG) engine and fuel system for heavy duty truck applications. As many of you know, this project has been something we have worked hard to bring to market. Twelve years in the making, we are proud to see Kenworth LNG trucks at work today on our highways. The Clean Truck Program at the Ports of Long Beach and Los Angeles (the Ports) has attracted worldwide attention and will see a complete turnover of the almost 17,000 trucks serving those Ports over the next four years. The joint venture we formed with BC Gas in 1999 has emerged as the North American leader in LNG and compressed natural gas (CNG) refueling products and services, Clean Energy Fuels Corp. (Clean Energy), who completed their NASDAQ listing last year to support their ambitious expansion plans. We formed new joint ventures with partners in Europe and China. And last but certainly not least, we have seen many new customers try natural gas vehicles and be pleasantly surprised to discover that they deliver both environmental and economic benefits.

With best-in class engines and economic and environmental drivers supporting our value proposition, we are experiencing an unprecedented level of interest in our fuel system technology from customers and potential business partners alike. During fiscal 2008, we solidified our position as a leader in alternative fuel, low-emissions transportation technologies and, clearly, the future outlook for Westport is brighter than ever with substantial opportunities ahead.

We are proud of Westport's corporate and financial accomplishments during fiscal 2008, which include:

- Delivering 2,720 units in fiscal 2008 as compared to 2,001 units in fiscal 2007.
- Consolidated annual revenues increasing 18% to \$71.5 million in fiscal 2008 compared to \$60.5 million for fiscal 2007. In US dollar terms, revenues increased by 31% but the increase was significantly offset by the decline in the US dollar against the Canadian dollar.
- Reported net loss decreasing to \$10.3 million (\$0.12 per share) in fiscal 2008 compared to \$11.3 million (\$0.15 per share) for fiscal 2007. Net loss decreased primarily because of the successful monetization of previous investments including the sale of Clean Energy shares and the disposition of substantially all of Westport's shares of Wild River Resources Inc.
- Receiving formal certification from the United States Environmental Protection Agency (EPA) for 0.2g/bhp-hr oxides of nitrogen (NOx) and 0.01 g/bhp-hr particulate matter (PM) for the Cummins Westport ISL G engine, making the ISL G one of the first engines in the world to meet 2010 emissions.
- Receiving certification from the California Air Resources Board and the EPA for the Westport ISX G engine, based on the Cummins 15L ISX engine, at 0.8 g/bhp-hr NOx and 0.01 g/bhp-hr PM.
- The formation of a 49:51 equity joint venture with OMVL SpA (OMVL) of Italy, to design, produce and sell alternative fuel engines in the sub-5 liter class for global applications with Westport having a 49% interest in the profit or loss.
- Execution of an integrated assembly agreement with Kenworth Truck Company (Kenworth) to begin production of Kenworth T800 LNG trucks at its manufacturing facility in Renton, Washington, in early 2009.
- Announcing that Wal-Mart Stores, Inc. will introduce four LNG fueled Peterbilt 386 trucks into service at their distribution centre in Apple Valley, California.
- Announcing that Delhi Transport Corporation ordered 500 Tata low-floor buses equipped with the Cummins Westport B Gas International (BGI) engines.

How do we grow from here?

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 life-cycle cost advantages arising from favorable 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 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 focus on the following strategic pillars: profitably growing Cummins Westport Inc. (CWI), our 50:50 commercial joint venture with Cummins; successfully commercializing our LNG systems for heavy duty (Class 8) trucks in North America and Australia; developing new alliances and enabling new market segments globally and across applications; and maintaining our technology leadership with innovative ideas and collaborative research.

Cummins Westport Inc. (CWI) Business Unit Highlights

The CWI joint venture, formed in 2001, is focused on the development, marketing and sale of mid-range, spark-ignited (SI) natural gas or liquefied petroleum gas (LPG) engines for transit bus, shuttle and urban specialty vehicles such as refuse trucks.

For the year ended March 31, 2008, CWI revenues increased by 16% to \$67.3 million from \$58.0 million in the prior year. In US dollar terms, the increase was approximately 29%, with sales in all regions seeing double digit growth with revenues up 79% in Asia, 14% in North America, 38% in the rest of the world, and parts revenue up 36%. CWI contributed \$5.8 million after taxes and after taking into account Cummins' 50% share of net income compared to \$6.1 million in the prior year.

Launched in 2007, the ISL G natural gas engine has contributed a significant amount of growth in the CWI revenue stream and has been met with positive feedback from customers. Its fuel efficiency and torque characteristics make it an ideal engine for medium duty trucks across a variety of applications in short-haul port operations, as well as natural gas utilities and municipal fleets. In April 2008, CWI announced an order of 250 ISL G engines from San Diego Metropolitan Transit System. In May, 2008 Sterling Trucks of Redford, Michigan announced it had launched a new Sterling® Set-Back 113, its first natural gas vehicle, featuring the ISL G engine.

Westport Global Heavy-Duty Business Unit Highlights

Soaring fuel prices, one of the largest single expense items for heavy duty truck fleets, are significantly driving up the cost of doing business for fleet owners globally. Westport markets a product line of heavy duty fuel system solutions that incorporates the Company's proprietary HPDI technology that can help reduce fuel costs in comparison to diesel fuel and provide environmental benefits. Through HPDI technology, Westport can deliver a low-emission, natural gas-fuelled version of the latest original equipment manufacturer (OEM) diesel engine and match the base engine's efficiency and performance without changing the base engine design. Part of the complete heavy duty fuel system solutions are proprietary tank systems that carry the natural gas as LNG.

Orders for LNG heavy duty fuel systems grew substantially in fiscal 2008 with the Company's single largest port-related order to date being received in March 2008 through an order for 50 LNG heavy duty trucks from Southern Counties Express. During the fourth quarter of fiscal 2008, Westport witnessed increased interest in its products and services from fleet users, OEMs and governments. The Company was awarded US\$2.25 million in funding from the South Coast Air Quality Management District, the California Energy Commission and the Ports for development, demonstration, certification and commercialization of its 2010 LNG product.

The Ports have made significant strides in approvals and procedures to commence one of the largest clean truck projects in history to exchange and replace polluting trucks in the Southern California basin. The Clean Trucks Program detailed in the Clean Air Action Plan calls for drayage truck owners to scrap and replace approximately 16,800 polluting trucks working at the Ports, with the assistance of a Port-sponsored grant or loan subsidy. According to the Port of Long Beach website, no less than 50 percent of the Clean Trucks Program-financed trucks will run on alternative fuels proven to be cleaner than diesel, such as LNG. A recent Request for Proposal put out by the Ports has multiple bidders basing their proposal for LNG heavy duty trucks on Westport technology.

The Ports are currently receiving proposals for an administrator of the total grant and concession administrative programs under the Clean Trucks Program. According to Port documents, the contract for the administrator is expected to be granted at the end of June 2008. Westport is in contact with the Ports to offer any assistance that may help expedite sales under the Clean Trucks Program.

To meet anticipated volumes of Port and non-Port fleet orders, it was important to establish a partnership with a leading truck manufacturer to help produce the quantities anticipated from future orders. In January, 2008, Westport announced that Kenworth, a division of PACCAR Inc., will be beginning production in 2009 at its manufacturing facility in Renton, Washington of Kenworth T800 LNG trucks with Westport's LNG fuel system technology adapted for the Cummins ISX-15-liter engine. In order to support the Kenworth factory initiative, Westport intends to open a new LNG Fuel System Assembly Center in the Metro Vancouver area.

On the global front, Westport, which was previously 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), successfully completed this demonstration program with over 275,000 km of field experience at the end of March 2008. Moreover, Westport's LNG fuel system adapted to the 2008 Cummins ISX heavy duty engine has been certified to the 2008 Australian Design Rules (ADR 80/02 and ADR 30/01), enabling commercial sales in Australia.

Corporate Development and Technology Groups

Westport's Corporate Development and Technology Groups focus on developing emerging partnership and joint venture opportunities and market creation activities around the world. These groups are 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.

The Chinese Government approved the formation of our 50:50 joint venture with Beijing Tianhai Industry Co. (BTIC), a Sino-Korean company, to manufacture LNG fuel tanks for the global transportation market. The joint venture leverages both parents' resources for sales, engineering and operational personnel. In 2005, BTIC manufactured more than 1.5 million cylinders in their Beijing and Tianjin facilities. LNG tank production for automotive applications commenced in 2006. To date, all LNG tank production has been used by Westport as part of its LNG truck products. In the future, the joint venture intends to sell LNG tanks to other customers.

In October 2007, Westport and OMVL formed an equity joint venture to design, produce and sell alternative fuel engines in the sub-5 liter class for global applications. The new, jointly controlled company is headquartered in Vancouver and will exploit the global engineering, production and distribution strengths of OMVL and its parent company, SIT Group, to deliver engines worldwide. Westport will support the new venture through supply of technology, design, testing and market development services.

Licensing and intellectual property are key components to building a foundation in any technology-related company. As of March 31, 2008, Westport held 52 issued U.S. patents and 4 allowed U.S. patents, in addition to corresponding issued patents or pending patent applications in countries other than the United States.

Westport has accomplished a number of key milestones and objectives. Our ambition, our passion, our history and, most importantly, our talented people have helped build a platform to launch one of the most exciting technologies for alternative fuels. The opportunity to revolutionize the trucking industry with an economical alternative to diesel and to improve environmental conditions by cutting harmful emissions lies ahead. In the process, value can be created where it counts most, for our shareholders.

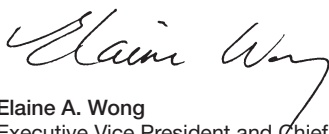
Sincerely,



David R. Demers
Chief Executive Officer



J. Michael Gallagher
President and Chief Operating Officer



Elaine A. Wong
Executive Vice President and Chief Financial Officer

SUSTAINABILITY REPORT

In preparation for disclosure of our social and environmental performance impacts, we launched our first sustainability report to an internal employee audience in the summer of 2007. We also sought guidance from Canadian Business for Social Responsibility (CBSR) and Shareholder Association for Research and Education (SHARE) to ensure that our report would be meaningful, transparent and systematic in approach.

The Global Reporting Initiative (GRI) provides a consistent means for companies to voluntarily report on the economic, environmental and social impacts of their business. In 2006, the GRI released the new G3 version of its guidelines to ensure the credibility, quality, and comparability of sustainability performance reports. Westport has self-declared this report to correspond to application Level C in the six-level grid of the GRI G3 guidelines.

Application Level C requires us to disclose our performance on ten core indicators and we have selected to focus our initial report on those pertaining to employee safety, environmental impacts and community engagement for our British Columbia based operations only. Forthcoming reports will include additional social and environmental indicators as well as the sustainability performance of our joint venture operations. We will also work to further develop auditable internal systems and processes to enable us to achieve third-party verification of our report.

This report is a starting point and has helped us to shape and define our approach to the sustainability impacts of our operations beyond the obvious environmental benefits of our technology.

GLOBAL REPORTING INITIATIVE SUSTAINABILITY INDICATOR INDEX SAFETY-ENVIRONMENT AND COMMUNITY PERFORMANCE

LEGEND:	We report on this indicator ●
	We partially report on this indicator ○

Economic Performance Indicators

EC1	Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments	●
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Social Performance Indicators (Occupational Health and Safety)

LA7	Standard injury, lost day and absentee rates and number of work-related fatalities	●
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Environmental Performance Indicators

EN3	Direct energy consumption by primary energy source	●
EN4	Indirect energy consumption by primary source	●
EN8	Total water withdrawal by source	○
EN16	Total direct and indirect greenhouse gas emissions	●
EN22	Total amount of waste by type and destination	○
EN23	Total number and volume of significant spills	●
EN28	Value of fines and non-monetary sanctions for environmental non-compliance	●

Social Performance Indicators (Community)

S01	Programs and practices to assess and manage impact of operations on local communities	●
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Occupational Health and Safety Performance

Health and safety performance is a key measure of an organization's duty of care. Westport employees have achieved world-class safety performance through their ongoing daily efforts to work safely, adherence to external regulations and internal policy, extensive risk assessments and a commitment to continuous safety improvement. We will continue to work to improve our safety management systems and drive towards our corporate goal of zero work-related injuries and illnesses.

Safety Incident	2008	2007	2006
Recordable Injury Frequency	0	2	0
Recordable Injury Rate ^[1]	0	1.24	0
Lost Time Injury Frequency	1	0	0
Lost Time Injury Rate ^[2]	0.54	0	0

[1] The recordable injury incident rate is the annualized rate of occupational injuries and illness per 100 employees. It is a calculation of the number of injuries x 200,000/employee hours worked.

[2] The lost time injury rate is a calculation of the total number of lost time injuries x 200,000/employee hours worked.

Table One: Safety Incident Rates by Fiscal Years Ended March 31 (unaudited)

Environmental Performance

Westport's core values include environmental stewardship and we recognize the important role of our operations in helping to create a safe and sustainable environment. Significant progress has been made to date to mitigate the impact of our facilities and technology development. We have now reached the critical stage of publicly disclosing and reporting our environmental achievements and challenges and setting internal targets for continuous improvement.

Energy:

Energy efficiency has a direct effect on operational costs and the environmental footprint of an organization can be shaped in part by its choice of energy sources. Increased technology development activities in fiscal 2008 particularly test cell durability work and fuel system testing explains the rise in both compressed natural gas (CNG) and liquefied natural gas (LNG) consumption respectively.

In 2003, we partnered with Terasen Gas to design and build a gas injection system to return the quantity of LNG used for pump and tank testing back to the pipeline. There was a strong business and environmental case to support this installation as Terasen pays us for the returned natural gas and it has resulted in the significant reduction of greenhouse gas emissions from our operations.

Energy Source	2008 (GJ)	2007 (GJ)	2006 (GJ)
Diesel	2,200.89	1,252.17	624.95
Other Testing Fuels ^[3]	38.33	93.56	95.30
Liquefied Natural Gas	15,625.24	13,511.31	10,989.69
Compressed Natural Gas	20,508.94	12,503.98	10,234.06
LNG Sold to Terasen	(11,122.11)	(10,803.40)	(9,736.92)
Total Energy Consumption	27,251.29	16,557.62	12,207.08

[3] Other fuels used for engine testing or operations including hydrogen, butane, ethane, and propane.

Table Two: Total Direct Energy Consumption by Fiscal Years Ended March 31 (unaudited)

In June 2007, Westport became a BC Hydro Power Smart Partner. Power Smart Partners are leading business customers working towards positively impacting their bottom line via the adoption of energy efficient practices to manage consumption in a more sustainable manner. Westport has prepared an energy management plan detailing targets and initiatives to improve electrical efficiency and reduce consumption.

	2008 (GJ)	2007 (GJ)	2006 (GJ)
Electrical Consumption	8,403.05	6,870.58	7,603.17

Table Three: Annual Indirect Energy Consumption by Fiscal Years Ended March 31 (unaudited)

Water:

Only the largest industries in British Columbia have water meters with data logging capability and the city of Vancouver does not currently provide meters to industrial or commercial customers. Our calculations indicate that Westport facilities cumulatively have an average daily rate of water use of approximately 13.5m³ per day. We have made significant efforts to conserve and recirculate water in both domestic and process applications. Water conserving domestic appliances have been installed at all locations and the much larger quantities of process water generally flow in a closed-loop system.

Greenhouse Gas Emissions:

Westport technologies enable our customers to reduce the greenhouse gas emissions associated with their fleet operations and it is critical that we understand our own carbon footprint. The Greenhouse Gas Protocol developed by the World Business Council on Sustainable Development (WBCSD) is the globally accepted standard for GHG emissions accounting. The organizational boundary of this inventory includes all of Westport's Vancouver-based facilities and includes both scope one and scope two emissions ^[a].

[a] Scope One Direct Emissions encompass both liquefied and compressed natural gas, diesel, propane, butane and ethane and fuel used in company vehicles. Scope Two Indirect Emissions include emissions associated with the purchase and use of electricity.

	2008 (Tonnes CO₂ Equivalent)	2007 (Tonnes CO₂ Equivalent)	2006 (Tonnes CO₂ Equivalent)
Total Scope 1 Direct Emissions	1,563.59	948.13	693.21
Total Scope 2 Indirect Emissions	253.00	206.00	223.00
Total GHG Impact	1,816.59	1,154.13	916.21

Table Four: Greenhouse Gas Inventory for Westport Operations ^[b]
(unaudited)

Increased technology development activities in fiscal 2008 and the addition of the Westport Assembly Centre explain the increase in greenhouse gas emissions. This inventory has enabled us to develop systems to compile and track emissions data and identify meaningful internal reduction targets.

Waste Generation and Diversion:

Waste reduction, reuse and recycling programs are well-established and well-maintained. Our Facilities team has developed internal systems for tracking waste diversion rates and we are able to quantify the amounts of waste recycled via our hazardous waste program, scrap materials collection and office waste initiatives.

Using generic formulas based on bin size and frequency of collection, we estimate that Westport generates more than 160 tonnes of waste annually. A recent internal audit has enabled us to more accurately quantify the amount of waste generated and consolidate the number of dumpsters thereby providing an impetus to divert rather than dispose of as much waste as possible. These improvements will facilitate the reporting of actual waste quantities in future reports.

Environmental Compliance:

We consider compliance with applicable federal, provincial, and municipal regulations to be a baseline environmental performance standard and believe that leading organizations must go beyond minimum environmental requirements.

	2008	2007	2006
Number of Significant Environmental Spills	0	0	0

Table Five: Total Number and Volume of Significant Environmental Spills
(unaudited)

Since its inception in 1996, Westport has not received any fines or non-monetary sanctions for environmental non-compliance.

	2008	2007	2006
Fines and Sanctions for Environmental Non-Compliance	0	0	0

Table Six: Value of Fines and Non-Monetary Sanctions for Environmental Non-Compliance (unaudited)

Community Engagement

We recognize that communities and the sustainability of specific locales or areas are significantly impacted by an organization’s activities. Westport’s geographic location, with our technical facilities adjacent to homes, schools and other businesses requires us to monitor and manage the potentially adverse impacts our operations might have on our immediate neighbors. It is important for us to respond to community concerns regarding Westport facilities, infrastructure, noise levels and environmental impacts in a timely manner. In the past fiscal year, we worked to reduce noise levels associated with our LNG pump testing in response to a concern raised by a commercial neighbor in the immediate vicinity of our testing facility.

Our employees demonstrate an active desire to contribute to our community. Westport has supported the United Way of the Lower Mainland with a spirited and employee-driven workplace campaign since 2002. Since that time, Westport employees have donated more than \$200,000 to the United Way and our campaigns have been recognized as leading efforts in the British Columbia high-tech sector.

IMPACT is an employee leadership team established to drive community engagement and community enrichment. Launched in 2007, IMPACT brings together the various volunteer activities, events and initiatives that Westport employees were already involved with into one coordinated effort. IMPACT’s vision of community is broad and encompasses the actual communities in which we live and work, our immediate neighbors and our workplace. IMPACT has an ambitious and inspiring mandate to have its activities leave a positive and measurable impact on the community. IMPACT initiatives and its four platforms of Give, Learn, Help, and Teach will be profiled in more detail on www.westport.com.

[b] The GHG Protocol methodology used at this time only includes emissions associated with fuel consumption and not energy and emissions associated with fuel production, distribution and transport.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2008 (the "Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to Westport, including our Financial Statements and Annual Information Form, is available on SEDAR at www.sedar.com. This MD&A is dated May 16, 2008 and all amounts herein are expressed in Canadian dollars, unless otherwise stated.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and technology strategies, working capital requirements, timing of completion of our assembly centre, intentions of partners and potential customers, 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.

BUSINESS OVERVIEW

Headquartered in Vancouver, Canada, Westport is engaged in the research, development and marketing of high performance, low-emission engines and fuel systems that 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 and life-cycle costs characteristics 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 life-cycle cost advantages arising from favorable 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 focus on the following 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 globally and across applications; and maintaining our technology leadership with innovative ideas and collaborative research.

CWI

Our first strategic pillar, CWI, is focused on the development, marketing and sale of medium duty, spark-ignited ("SI") 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 produces engines in the United States, India and China through facilities owned and operated by Cummins and its affiliates. CWI has dominant market share in the North America natural gas transit market and is seeing increasing growth in the specialty vehicle markets such as refuse with the launch of the ISL-G engine in mid-2007 and with the increase in diesel fuel costs compared to natural gas.

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, when the joint venture was re-launched to focus on SI products, CWI revenues, expressed in US dollars to exclude foreign exchange distortions, have grown at more than 30% compounded annually on a calendar year basis while pre-tax operating profits have increased by approximately 450% in the same period. In the year ended March 31, 2008, in Canadian dollars and after taking into account Cummins' 50% share, CWI contributed \$3.0 million on a pre-tax basis. 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. CWI's assets, liabilities, revenue and expenses are disclosed separately in note 18 of our Financial Statements.

LNG Systems for Heavy-Duty Trucks

Our second strategic 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 in order 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. We are currently focused on markets in North America and Australia and on fleets with high fuel usage, return to depot fuelling, and access to natural gas fuel at a discount to diesel.

Corporate Development and Technology Activities

We are also focused 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, 2008, we also held an approximate 3% investment interest in Clean Energy Fuels Corp. ("Clean Energy"), a publicly listed company and North America's largest provider of natural gas fuel and service infrastructure for vehicles. As at the date of this MD&A, we also hold a 50% interest in BTIC Westport Inc ("BWI"), a joint venture with BTIC, which sells and markets LNG tanks for natural gas fuelled vehicles globally, and a 49% interest in Juniper Engines Inc. ("Juniper"), a 49:51 venture with OMLV SpA.

SELECTED ANNUAL FINANCIAL INFORMATION

Selected Statements of Operations Data for Fiscal Years Ended March 31, 2006 to 2008 <i>(expressed in thousands of Canadian dollars, except for per share amounts, shares outstanding, and units shipped)</i>	2008	2007	2006
Units shipped	2,720	2,001	1,327
Total revenue	71,536	60,480	43,552
Gross margin	22,513	22,099	14,910
GM %	31%	37%	34%
Net loss	(10,315)	(11,307)	(16,860)
Net loss per share – basic and diluted ^[1]	(0.12)	(0.15)	(0.23)
Weighted average shares outstanding	88,087,882	75,174,826	74,228,495
Cash and short-term investments	22,762	23,081	7,832
Total assets	78,940	59,633	29,500
Long-term financial liabilities ^[2]	5,762	22,648	3,497
Cash used in operations before changes in non-cash working capital	(17,594)	(11,325)	(8,661)
CWI income for the year after taxes	11,632	12,114	3,186
JV Partner's share of CWI income	5,816	6,057	1,593

^[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 Partners' share of net assets of joint ventures.

OVERVIEW OF FISCAL 2008 RESULTS

In the fiscal year ended March 31, 2008, revenues increased to \$71.5 million from \$60.5 million in fiscal 2007, a year over year increase of 18%. Our products and parts are priced in US dollars and are accordingly affected by fluctuations in the US to Canadian dollar exchange rate. In US dollar terms, consolidated revenues increased by approximately 31% but the increase was offset by the decline in the US dollar against the Canadian dollar. In Canadian dollar terms, CWI revenues increased by 16% to \$67.3 million from \$58.0 million in the prior year. In US dollar terms, CWI's increase was approximately 29% with sales in all regions seeing double digit growth with product revenues up 79% in Asia, up 14% in North America, and up 38% in the rest of the world, and parts revenue up 36%. Non-CWI revenues were \$4.2 million with the sale of 36 LNG systems for heavy-duty trucks accounting for \$3.1 million of the total.

Our net loss for the year ended March 31, 2008 was \$10.3 million, or \$0.12 per share, compared to \$11.3 million, or \$0.15 per share for the year ended March 31, 2007. Net loss decreased by \$1.0 million primarily because of a \$2.5 million increase in gains from the sale of long-term investments and a \$0.7 million decrease in interest on long-term debt and amortization of discount offset by increases in foreign exchange loss of \$1.4 million and increased expenses. In the year ended March 31, 2008, we recognized \$8.0 million in gains and \$1.3 million in future income tax expense from the sale of Clean Energy shares and \$2.7 million from the disposition of substantially all of our shares of Wild River Resources Inc. ("Wild River") compared to \$8.1 million in gains associated with the Wild River transaction in the year ended March 31, 2007. Interest on long-term debt and amortization of discount decreased by \$0.7 million with the conversion of the convertible debt issued to Perseus L.L.C. ("Perseus") in July, 2007. CWI's income before income taxes for fiscal 2008 was \$6.0 million, down from \$8.9 million in fiscal 2007 primarily because of a \$1.8 million accrual primarily taken to resolve a customer specific issue associated with a now discontinued product. CWI's future income tax recovery increased from \$3.5 million in fiscal 2007 to \$5.9 million in fiscal 2008 with the recognition of CWI's remaining tax losses. CWI contributed \$5.8 million after taxes and after taking into account Cummins' 50% share of net income compared to \$6.1 million in the prior year.

As at March 31, 2008, our cash and short term investments balance was \$22.8 million compared to \$23.1 million at the end of fiscal 2007. During the year, we sold 746,275 shares of Clean Energy for proceeds of \$11.2 million. We also sold substantially all of our shares in Wild River for proceeds of \$6.7 million, which were applied against our related limited recourse bank loan of \$6.7 million, fully repaying the related loan. During the year, we also negotiated a limited recourse loan, repayable only from certain receipts of sales of LNG systems, from Clean Energy for US\$6.0 million to allow us to produce approximately 75 LNG systems in anticipation of deliveries to Ports of Los Angeles and Long Beach (the "Ports") customers in calendar 2008. As at March 31, 2008, we had 73 completed LNG units in finished goods inventory and 2 units substantially completed. Although funding for these units was approved in October, 2007, the Ports' process releasing the funds has taken longer than anticipated.

On July 26, 2007, Perseus, through its affiliates, exercised the conversion option on the approximately \$22.1 million of secured, subordinated convertible notes (the "Notes") held by them in order to acquire approximately 16.5 million common shares of Westport, which were then sold to third parties with all proceeds going to Perseus and its affiliates. As an inducement for Perseus's conversion of the Notes, we agreed to pay them, in cash or in shares, an amount equal to 50% of the interest that would otherwise have been payable on the Notes, on December 31, 2007 and June 30, 2008, had the Notes not been converted. On conversion, the long-term debt portion of \$13.3 million and value of the conversion option of \$7.6 million were moved to share capital and the inducement, which was allocated to the conversion option based on the relative fair values of the debt and equity features of the Notes, was charged directly to accumulated deficit. During the year ended March 31, 2008, we recognized \$1.0 million in interest on long-term debt and amortization of discount expense and we issued 156,816 shares to settle \$0.5 million of the amounts payable to Perseus, net of any applicable taxes. As at March 31, 2008, we had \$0.4 million of inducement fee payable.

On October 26, 2007, we announced the formation of a 49:51 equity joint venture with OMVL SpA, an Italian company that designs, manufactures and markets complete fueling systems for new vehicles and for the aftermarket conversion of engines from gasoline (petrol) to CNG and LPG. The new venture will design, produce and sell alternative fuel engines in the sub-5 liter class for global applications. As required under the terms of the Juniper joint venture agreement, we invested \$1.5 million on April 1, 2008, giving us 49% of future profits and losses.

OVERVIEW OF FISCAL 2008 RESULTS (CONTINUED)

In January, 2008, we announced that the Kenworth Truck Company ("Kenworth"), a division of PACCAR Inc., will begin production in 2009 of Kenworth T800 LNG trucks with our LNG fuel system technology adapted for the Cummins ISX-15-liter engine at its manufacturing facility in Renton, Washington. In order to support the Kenworth factory initiative, we are investing approximately \$3.5 million in a new LNG Fuel System Assembly Center in the Metro Vancouver area, which is expected to be completed in the summer of 2008. The Kenworth initiative is being undertaken to support volume orders of LNG systems for port and non-port customers with the Ports of Los Angeles and Long Beach currently targeting replacement of approximately 8,400 diesel trucks by 2011 with LNG trucks with a planned phase out date of older diesel trucks starting October 1, 2008.

In fiscal 2007, 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 successfully completed this demonstration program with approximately 275,000 kilometers of field experience at the end of March, 2008 and following successful engine testing, Westport's LNG fuel system adapted to the 2008 Cummins ISX heavy-duty engine was certified to the 2008 Australian Design Rules (ADR 80/02 and ADR 30/01), enabling commercial sales in Australia to begin.

During the fourth quarter of fiscal 2008, we saw increased interest in our products and services from fleet users, OEMs and governments. We were awarded an aggregate of US\$2.25 million in funding from the South Coast Air Quality Management District (SCAQMD), the California Energy Commission (CEC) and the Ports of Los Angeles and Long Beach for development, demonstration, certification and commercialization of our 2010 LNG product. Related to the clean truck initiatives being undertaken by the ports of Los Angeles and Long Beach, Southern Counties Express placed an initial order for 50 LNG trucks. Outside of port activities, CWI received a 250 unit order for its ISL-G engine from San Diego Metropolitan Transit System. In February, 2008, we announced that Wal-Mart Stores, Inc., will be introducing four LNG fuelled Peterbilt 386 trucks into service in California in the summer of 2008. The deployment was partially funded by the Mojave Desert Air Quality Management District's ("MDAQMD") Mobile Source Emission Reductions Competitive Bidding Program. Subsequent to March 31, 2008, Sterling Trucks of Redford, Michigan launched the new Sterling® Set-Back 113, its first natural gas vehicle, featuring the Cummins Westport ISL G engine.

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 VIEs are consolidated by the company that is the primary beneficiary. We have identified CWI and BWI as VIEs and determined that we are the primary beneficiary in both cases. Accordingly, we consolidate CWI and BWI, reflecting 100% of their assets, liabilities, revenues and expenses in our consolidated financial statements and showing the 50% interest held by our joint venture partners, Cummins and BTIC, as "Joint Venture Partners' share of net income from joint ventures".

Warranty Liability

Estimated warranty costs are recognized 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. 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

Our primary source of revenue is the sale of CWI SI engines, kits and parts, and LNG systems. Product revenue is recognized, net of estimated costs of returns, allowances, and sales incentives, when the products are shipped and title passes to the customers and collection is reasonably assured. Product 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 recognized as the services are performed. Amounts received in advance of revenue recognition are recorded as deferred revenue. Parts revenue is recognized as the parts are sold.

Inventory Valuation

Inventory consists of fuel systems, component parts, work-in-progress, finished goods 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

Long-term investments are designated as available for sale and recorded at their fair value to the extent a reliable fair value is determinable. Changes in fair value are recognized in accumulated other comprehensive income. A decline in value that is considered other than temporary is recognized in net loss for the period.

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.

ADOPTION OF NEW ACCOUNTING STANDARDS

Our accounting policies are substantially unchanged from the prior fiscal year ended March 31, 2007 except as noted below.

Financial Instruments

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

Under Section 3855, financial assets and liabilities, including derivative instruments, are initially recognized 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 recognized 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 recognized 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 recognized in other comprehensive income.

We adopted this section effective April 1, 2007. Short-term and long-term investments have been classified as "available for sale" and, except where fair value is not determinable, are being measured at fair value with changes in fair value included in other comprehensive income until the investments are sold. As the result of adopting Section 3855, long-term investments increased by \$20.4 million as at April 1, 2007. The net, after tax adjustment to Accumulated Other Comprehensive Income ("AOCI") in shareholders, was \$17.0 million. We also recognized an adjustment of \$3.4 million to accumulated deficit related to the tax benefit of prior year loss carry forwards recognized to offset the future tax liability generated by the adjustment to the accounting basis of the investments. We also added a separate statement entitled "Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)" and added the caption "Accumulated other comprehensive income (loss)" to the shareholders' equity section of our balance sheet. Other comprehensive loss for the year ended March 31, 2008, was \$16.5 million, which includes our net loss of \$10.3 million, a reclassification from unrealized gains, net of taxes of \$1.3 million, to net income of \$6.8 million related to investments sold and an unrealized gain, net of taxes of \$0.2 million on available for sale securities of \$0.6 million. From time to time, we also sell Clean Energy call options, which give the counterparty the right, but not the obligation to acquire one of our Clean Energy shares for an agreed upon strike price on or before the expiration date. In the fourth quarter of fiscal 2008, we sold 1,000 call option lots, representing 100,000 shares with an average strike price of US\$17.50, for net proceeds of \$0.1 million, which is included in interest and other income. All of these options expired without being exercised. As at the date of this MD&A, we had 1,750 open call option lots, representing 175,000 shares, with an average strike price of US\$15.14 and expiring in June, 2008.

Comprehensive Income

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

Hedging

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

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

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

International Financial Reporting Standards ("IFRS")

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS-IASB") over a transitional period to be completed by 2011. We will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011.

Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB.

The International Accounting Standards Board currently has projects underway that are expected to result in new pronouncements that continue to evolve IFRS-IASB, and, as a result, IFRS-IASB as at the transition date is expected to differ from its current form. We are in the process of assessing the impacts on us of the Canadian convergence initiative.

Financial instruments

In December 2006, the CICA issued Section 3862 and Section 3863 of the CICA Handbook, *Financial Instruments—Disclosures* and *Financial Instruments—Presentation*, respectively. Generally, the new sections will replace Section 3861, *Financial Instruments—Disclosure and Presentation*. These sections establish standards for the presentation of financial instruments and non-financial derivatives and identify the information that should be disclosed about them. Both sections are effective for us on April 1, 2008 and are expected to result in more extensive disclosures in the Company's annual and interim financial statements.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS (CONTINUED)

Capital Disclosures

In December 2006, the CICA issued Section 1535, *Capital Disclosures* which establishes disclosure requirements about the company's objectives, policies and processes for managing capital, as well as quantitative information about capital. This section is effective for us on April 1, 2008 and is expected to result in more extensive disclosures in our annual and interim financial statements.

Inventories

In June 2007, the CICA issued Section 3031, *Inventories*, which replaces the existing Section 3030, establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead, requires impairment testing and expands the disclosure requirements. In certain circumstances, the new section will also permit the reversal of previous write-downs. This standard is effective April 1, 2008 for us. We are currently evaluating the impact of the adoption of this new standard on our consolidated financial statements.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. We are currently evaluating the impact of the adoption of this new standard on the measurement, recognition, presentation and disclosure of our intangible assets in our consolidated financial statements.

Financial Statement Presentation

In May 2007, the Accounting Standards Board ("AcSB") amended Section 1400, *General Standards of Financial Statement Presentation*, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments are effective for annual periods beginning after January 1, 2008. We plan to adopt this new guidance effective April 1, 2008. These standards may impact our disclosures but is not expected to impact our financial position, results of operations or cash flows.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Our disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosures. We have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. 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, 2008. 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.

During the year ended March 31, 2008, we implemented certain inventory modules of our enterprise resource planning system to allow us to more efficiently track cost of sales. However, our primary internal controls and processes over inventory remained unchanged. We also automated parts of our warranty tracking processes for LNG systems and are in the process of reviewing requirements for a sales order system. No material changes were made in our internal controls over financial reporting during the year ended March 31, 2008. We expect that our financial reporting policies, processes and systems will continue to evolve as we continue to launch product at increasing volume levels and partner with various OEMs and other partners.

RESULTS FROM OPERATIONS

Product revenue for the year ended March 31, 2008 was \$55.2 million, up \$8.0 million, or 17%, from \$47.2 million in the prior fiscal year, on total CWI and LNG product shipments of 2,720 units compared to 2,001 units in the prior year. CWI product revenue was up 14% to \$51.0 million compared to \$44.7 million in fiscal 2007. In US dollar terms, CWI product revenue increased US\$10.5 million, or by 27%, up US\$3.9 million in North America, US\$4.2 million in Asia and US\$2.4 million elsewhere. However, in Canadian dollar terms, the increase was offset by a 12% decline in the average US to Canadian dollar exchange rate during the year.

Our geographical and product mix will vary from year to year depending on where our customers are in their order cycles and their locations. In fiscal 2008, sales to Asia were driven primarily by shipments to China for Beijing Public Transit and for export in Chinese buses. North American growth was driven primarily by the launch of the ISL-G in the year and increased demand for our product in refuse and other specialty applications while revenues internationally increased due to growth in activities in India and increased sales to Europe. Non-CWI revenues grew from \$2.4 million to \$4.2 million with 36 LNG shipments in the year compared to eight in the prior year, offsetting a \$0.5 million decrease in engineering services and other revenue.

For the year ended March 31, 2007, product revenue was \$47.2 million up 58% from fiscal 2006 revenues of \$29.9 million and 1,327 units shipped. Increased revenues reflected strong CWI sales activities in North America and Asia with revenues from Asia accounting for 13% of revenues compared to 4% in fiscal 2006. CWI also recognized 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 eight 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.

RESULTS FROM OPERATIONS (CONTINUED)

Parts revenue for the years ended March 31, 2008 and 2007 were \$16.3 million and \$13.3 million, respectively. The 23% increase is attributable to distributors stocking new parts for the newly launched ISL-G engine, modifications related to the L-Gas engine, an increasing and aging engine population, product mix and timing, offset by declines in the US dollar. For the year ended March 31, 2007, parts revenue compared to fiscal 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 had increased slightly year over year. Parts revenue is a function of engine population, failure rates and price.

Cost of revenue for the year ended March 31, 2008 was \$49.0 million compared to \$38.4 million in the prior year. Included in CWI's cost of revenue of \$45.5 million and \$36.2 million for fiscal years 2008 and 2007 were net positive adjustments to warranty of \$1.3 million and \$1.4 million respectively. Non-CWI cost of revenues were \$3.5 million and \$2.2 million.

Cost of revenues for the years ended March 31, 2007 and 2006 was \$38.4 million and \$28.6 million, respectively, with the \$9.8 million increase consistent with the \$16.9 million increase in year over year revenues. Warranty adjustments amounted to \$1.8 million in fiscal 2006 reflecting actual claims experience being better than the expected experience at time of sale.

Cost of revenue includes production costs and the associated warranty. Estimated warranty costs are recognized 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. We review our warranty provision quarterly and make adjustments based on the latest information available at that time. These adjustments reflect our growing claims data for CWI products, which enables us to better estimate our warranty liability. However, with the launch of new products such as the HPDI LNG systems and the new ISL-G engine, we expect warranty numbers to continue to fluctuate, sometimes significantly, from quarter to quarter. Adjustments to the warranty provision are recorded in cost of revenues.

Revenue <i>(expressed in thousands of Canadian dollars except for units)</i>	Fiscal years ended March 31		
	2008	2007	2006
Unit shipments	2,720	2,001	1,327
Product revenue	55,238	47,195	29,932
Parts revenue	16,298	13,285	13,620
	71,536	60,480	43,552

Product Revenue by Geographic Region <i>(as a percentage of revenue dollars)</i>	Fiscal years ended March 31		
	2008	2007	2006
North America	66%	72%	82%
Asia	18%	13%	4%
Rest of the World	16%	15%	14%

Gross margin was \$22.5 million and \$22.1 million for the years ended March 31, 2008 and 2007, respectively, compared to \$14.9 million for the year ended March 31, 2006. Gross margin percentages were 31%, 37% and 34% for those years, respectively. Comparing fiscal 2008 to 2007, gross margin percentage declined primarily because of product and geographical mix and with parts, kits and LNG systems generally selling at lower margins on a percentage basis relative to CWI engines and smaller engines generally having lower margins than larger engines. CWI gross margin percentages also declined in the year with the launch of the ISL-G engine, which, being a new product, launched with more aggressive pricing and a conservative warranty estimates than its predecessors, the C-Gas Plus and L-Gas. On non-CWI products, foreign exchange reduced LNG systems margins in the year with inventories purchased when the US dollar was stronger and sales occurring when the US dollar was weaker. Gross margins improved three percentage points between fiscal 2006 and 2007 primarily because of product and geographical mix.

Research and development expenses, net of program funding, increased \$1.1 million, or 5%, in fiscal 2008 to \$23.0 million from \$21.9 million in the prior year. CWI net research and development expenses decreased by \$0.5 million with the launch of the ISL-G during the year and the weaker US dollar lowering the cost of labour and materials. Non-CWI net expenses increased by \$1.6 million with investments made in the year in 2007 LNG North America and Australia product development and current product support offsetting decreases in development costs associated with our Isuzu program, which formally ended in fiscal 2007, and costs related to getting our LNG tank and pump systems commercial ready in fiscal 2007. Government funding also decreased from \$5.2 million in fiscal 2007 to \$3.7 million in fiscal 2008 with funding from Technology Partnerships Canada down \$0.9 million as a result of maximum funding levels reached in the year and with CWI funding down \$1.0 million with the ISL-G product development completed. Funding related to the Australian demonstration project increased by \$0.6 million.

Net research and development expenses 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 product development and our Canadian government funded 401 demonstration substantially completed in 2006;
- Increased CWI research and development activities (\$1.5 million) related primarily to the ISL-G engine which was 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 except percentages)</i>	Fiscal years ended March 31			Year over year change		
	2008	2007	2006	2008	2007	2006
Research and development expenses	26,684	27,041	25,628	-1%	6%	5%
Program funding	(3,658)	(5,150)	(8,689)	-29%	-41%	45%
Research and development expenses, net	23,026	21,891	16,939	5%	29%	-8%

RESULTS FROM OPERATIONS (CONTINUED)

General and administrative expenses for the year ended March 31, 2008 were \$6.0 million compared to \$6.9 million in the prior year. The \$0.9 million decrease relates primarily to a \$1.0 million decrease in stock based compensation. In fiscal 2007, certain milestones associated with performance share units granted in fiscal years 2005 and 2006 were met, thereby triggering the vesting of those performance share units and the resulting expense.

For the year ended March 31, 2007, general and administrative expenses increased by \$2.0 million from \$4.9 million in fiscal 2006 with annual compensation and stock based compensation up \$0.8 million in fiscal 2007 and the balance relating 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 for the years ended March 31, 2008 and 2007 were \$10.6 million and \$7.1 million, respectively, with an accrual of \$1.8 million taken by CWI to resolve customer operational issues accounting for approximately half of the \$3.5 million increase. Other CWI sales and marketing expenses increased by \$0.5 million with the launch of the ISL-G engine. Non-CWI sales and marketing costs increased by \$1.2 million as we ramped up business development activities in California, Europe and China.

In the year ended March 31, 2007, sales and marketing expenses increased to \$7.1 million from \$5.8 million in fiscal 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 and losses primarily reflect the realized net gains and losses on foreign currency transactions and the net unrealized gains and losses on our net US dollar denominated assets and liabilities, which are mainly comprised of accounts receivable, and warranty liability. For the year ended March 31, 2008, we recognized a foreign exchange loss of \$1.3 million with the Canadian dollar appreciating by 12% against the US dollar during the year. As at March 31, 2008, we were in a net US dollar asset position with US dollar cash and receivables, primarily related to CWI, offsetting US dollar payables and warranty liability. The Canadian dollar was relatively unchanged as at March 31, 2007 compared to March 31, 2006 resulting in foreign exchange gains of approximately of \$0.1 million in those fiscal years.

Depreciation and amortization for the years ended March 31, 2008, 2007 and 2006 were \$1.6 million, \$1.4 million and \$2.8 million, respectively. Between 2006 and 2007, depreciation and amortization expense decreased by \$1.3 million primarily as the result of certain intellectual property, equipment and furniture becoming fully amortized in the year ended March 31, 2007 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. Depreciation increased from fiscal 2007 to fiscal 2008 by \$0.1 million reflecting depreciation and amortization of capital expenditures being made in the period offset by assets becoming fully depreciated.

Interest on long-term debt and amortization of discount of \$1.0 million and \$1.7 million in the years ended March 31, 2008 and 2007 related to the interest and the accretion on the Notes issued to funds managed by Perseus. Prior to the notes being converted in July, 2007, interest was being accrued at 8% per annum and was 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 also required 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 were shown on the balance sheet as at March 31, 2007, under "Other equity instruments" and the amount allocated to the debt of \$13.1 million was included in "Long-term debt" and was being accreted to its face value using the effective interest rate method.

Interest and other income for the years ended March 31, 2008, 2007 and 2006 were \$1.3 million, \$0.8 million and \$0.5 million, respectively. Amounts include interest income on cash and short-term investments as well as gains from the sale of equipment and income earned from the sale of Clean Energy options.

Gain on sale of long-term investments in fiscal 2008 of \$10.7 million relates to the sale of Clean Energy shares (\$8.0 million) and of our remaining interest in Wild River (\$2.7 million). In fiscal 2007, the \$8.1 million related to the gain, net of expenses, on the sale of 45% of our interest in Wild River and the dilution gain arising when we reduced our ownership from 55% to 16% and we changed our accounting for Wild River from the consolidation method to the cost method.

Income tax recovery for the years ended March 31, 2008 and 2007 were \$4.5 million and \$3.1 million, respectively. Current income tax expense, representing cash taxes payable in the year, were \$0.2 million and \$0.4 million for fiscal 2008 and 2007, respectively, and future income tax recoveries were \$4.7 million and \$3.5 million for those same periods, respectively. Future income tax recoveries and expenses arise on the recognition of temporary differences between the carrying amounts and the tax bases of our assets and liabilities. In the years ended March 31, 2008 and 2007, CWI recognized future income tax recoveries of \$5.9 million and \$3.5 million, respectively, arising from the recognition of future income tax assets associated with its loss carryforwards. Prior to fiscal 2007, these losses were fully offset by a valuation allowance. However, as CWI has shown a consistent history of profitability and we expect that CWI will continue to generate taxable income in the future, thereby utilizing those losses, a portion of its loss carryforwards were recognized in fiscal 2007 and the balance fully recognized in fiscal 2008.

In the year ended March 31, 2008, we also recognized a \$1.3 million future income tax expense associated with the gains on sale of available for sale investments previously recognized in AOCI. As we have sufficient tax basis in the shares of Clean Energy and other available for sale investments and sufficient losses to offset any related taxes payable, we also recognized an adjustment to our Deficit of \$3.4 million related to the tax benefit of prior year loss carryforwards recognized to offset the future tax liability generated by the adjustment to the accounting basis of the investments on adoption of CICA Handbook section 3855, *Financial Instruments—Measurement and Presentation*. Future income tax expense of \$2.2 million related to mark to market adjustments on available for sale assets has been included in Accumulated Other Comprehensive Income and will be recognized in net income or loss when the remaining shares are sold and the related gain recognized.

Joint Venture Partners' share of income from joint ventures of \$5.6 million in fiscal 2008 reflects Cummins' 50% share of CWI's net income after tax, or \$5.8 million, and also includes BTIC's 50% share of BWI's net operating loss in the period, or \$0.3 million. For the year ended March 31, 2007, Cummins' share of CWI's net income 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's net income was \$1.6 million, representing 50% of CWI's net income for the year.

CAPITAL REQUIREMENTS, RESOURCES, AND LIQUIDITY

As at March 31, 2008, our cash, cash equivalents and short-term investment position was \$22.8 million, a decrease of \$0.3 million from the end of fiscal 2007. Cash and cash equivalents consist of guaranteed investment certificates, bankers acceptances, and term deposits with maturities of 90 days or less when acquired. Short-term investments consist of investment grade commercial paper. We invest primarily in short-term paper issued by Schedule 1 Canadian banks, R1 high rated corporations and governments. While we do not hold asset backed securities directly, these parties may be exposed in varying degrees to asset backed securities and US sub-prime mortgages. We continually monitor our portfolio and diversify our investments.

For the year ended March 31, 2008, our cash used in operations was \$15.8 million with loss for the year adjusted for items not involving cash and before changes in non-cash working capital of \$17.6 million, a non-GAAP measure, and changes in working capital contributing \$1.8 million. We also purchased \$1.7 million in equipment, furniture and leasehold improvements. During the fourth quarter of fiscal 2008, Cummins entered into a loan agreement with CWI and borrowed \$6.8 million. We expect going forward that Cummins will continue to borrow funds equal to its share 50% share of CWI's cash each quarter. During the year ended March 31, 2008, we funded our operations and purchases of equipment, furniture and leasehold improvements through the sale of our Clean Energy shares (\$11.3 million), by drawing on our bank line (\$4.2 million, net of repayments), through our unsecured, limited recourse loan with Clean Energy for \$6.0 million and through proceeds received on the exercise of employee share options (\$1.0 million, net of share issuance costs). We also disposed of non-essential assets for \$0.6 million and received \$0.4 million from BTIC for their 50% share of BWI. In addition, we sold substantially all of our shares in Wild River for proceeds of \$6.7 million, which were applied against our related limited recourse bank loan of \$6.7 million, thereby fully repaying the loan.

Changes in working capital for the year ended March 31, 2008 were impacted positively by cash inflows from lower accounts receivable (\$3.9 million) with the collection of amounts owing from the Industrial Technologies Office's Technology Partnerships Canada ("TPC") program as at March 31, 2007, lower amounts owing from Cummins as at March 31, 2008 compared to March 31, 2007 with CWI's fourth quarter 2008 net profit numbers down compared to the fourth quarter of fiscal 2007 and timing of government related funding and collections; higher accounts payable and accrued liabilities of \$2.4 million primarily related to CWI policy accruals of approximately \$1.8 million; and higher warranty liabilities from the sale of CWI engines and LNG systems during the year. Working capital was negatively impacted by cash outflows related to net inventory additions of \$6.2 million. The \$1.7 million spent on equipment, furniture and leasehold improvements in the year ended March 31, 2008 related primarily to machinery and equipment (\$0.7 million) for testing and production, our Assembly Centre (\$0.6 million), and information technology systems (\$0.4 million).

In order to support the Kenworth factory initiative of our LNG systems, we are opening a new LNG Fuel System Assembly Centre in the Metro Vancouver area in the summer of 2008. This initiative is expected to increase capital costs by approximately \$3.5 million, of which \$0.5 million has already been incurred, with funding coming from existing cash resources and existing credit facilities. We also expect increases in working capital for inventory purposes. On April 1, 2008, we invested \$1.5 million into our joint venture with OMYL.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI profits, borrowings under our credit facility and proceeds from the sale of our investment in Clean Energy, valued at \$18.7 million as at March 31, 2008, to fund our committed milestones and obligations for our current programs. We will also continue to look to partners and governments to help fund our investments on commercially acceptable terms. However, there are no guarantees that we will be successful in obtaining third party funding on acceptable terms or at all. Our \$13 million credit facility with our bank has been drawn down by our demand instalment loan of \$5.8 million and a \$0.6 million letter of credit and is subject to and limited by financial covenants, which may prevent us from drawing against the full amount of the line. During the year, we re-negotiated the interest rate payable on our credit facility from prime to prime minus 0.25% for borrowings up to \$5 million. Further rate reductions apply if borrowings exceed \$5 million. Clean Energy's common stock is listed on the NASDAQ Global Market and its share price is subject to fluctuations with changes in its business, general economic factors and/or market conditions, which may impact our capital requirements. As at the date of this MD&A, we owned approximately 1 million shares of Clean Energy.

Westport's capital requirements will vary depending on a number of factors, including the timing and size of orders for our LNG systems, our ability to successfully launch product on time, our supply chain and manufacturing requirements, our success in executing our business plan, relationships with current and potential strategic partners, commercial sales and margins, product reliability, progress on research and development activities, capital expenditures and working capital requirements. We also review investment and acquisition opportunities on a regular basis for technologies, businesses and markets that would complement our own products or assist us in our commercialization plans. Significant new orders, expanded engine programs, acquisitions or investments could require additional funding. If such additional funding is not available to us, if expected orders do not materialize or are delayed, or if we have significant overspending in our programs, we may be required to delay, reduce or eliminate certain research and development activities, reduce or cancel inventory orders, and possibly forego new program, acquisition or investment opportunities. Any of those circumstances could potentially result in a delay of the commercialization of our products in development and could have an adverse effect on our business, results of operations, liquidity and financial condition.

This "Capital Requirements, Resources, and Liquidity" section contains certain forward looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Readers are encouraged to read the "Forward Looking Statements and Basis of Presentation" sections of this MD&A which discusses forward-looking statements and the "Risks and Uncertainties" section of this MD&A and of our Annual Information Form.

SHARES OUTSTANDING

For the years ended March 31, 2008, 2007 and 2006, the weighted average number of shares used in calculating the loss per share was 88,087,882, 75,174,826 and 74,228,495, respectively. Shares, share options and performance share units outstanding and exercisable as at the following dates are shown below:

	March 31, 2008		May 16, 2008	
	Number	Weighted average exercise price	Number (unaudited)	Weighted average exercise price (unaudited)
Shares outstanding	95,959,485	n/a	96,046,425	n/a
Share options				
Outstanding	4,325,297	\$1.99	4,237,220	\$2.00
Exercisable	2,916,539	\$2.22	2,828,462	\$2.24
Performance share units				
Outstanding	3,790,468	n/a	3,790,468	n/a
Exercisable	1,940,470	n/a	1,940,470	n/a

During the year ended March 31, 2008, we granted 250,000 stock options and 1,938,650 performance share units, of which 1,188,650 related to amounts granted under the Company's long-term incentive program and 750,000 related to the Company's retention plan for key employees. All 4,134,663 warrants related to the Perseus convertible debt were exercised on a cashless basis into 2,338,669 common shares during the fiscal year ended March 31, 2008, and accordingly, no warrants are outstanding as at March 31, 2008.

SUMMARY OF THE QUARTERLY RESULTS AND DISCUSSION OF THE FOURTH QUARTER 2008

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

Selected Quarterly Operations Data (unaudited) <i>(for the three months ended)</i>	Jun 30 2006	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008
Units shipped	341	414	629	617	533	867	801	519
Average foreign exchange rate (C\$:US\$)	\$ 1.11	\$ 1.12	\$ 1.14	\$ 1.17	\$ 1.10	\$ 1.04	\$ 0.98	\$ 1.00
<i>(expressed in thousands of Canadian dollars except per share)</i>								
Product revenue	\$ 7,644	\$ 10,327	\$ 13,568	\$ 15,656	\$ 11,842	\$ 16,639	\$ 15,488	\$ 11,269
Parts revenue	\$ 2,978	\$ 3,401	\$ 3,248	\$ 3,658	\$ 3,888	\$ 4,530	\$ 3,822	\$ 4,058
Total revenue	\$ 10,622	\$ 13,728	\$ 16,816	\$ 19,314	\$ 15,730	\$ 21,169	\$ 19,310	\$ 15,327
Gross margin	\$ 4,037	\$ 4,776	\$ 5,398	\$ 7,888	\$ 5,338	\$ 6,053	\$ 6,554	\$ 4,568
	38%	35%	32%	41%	34%	29%	34%	30%
Net income (loss) for the period	\$ (5,420)	\$ (1,840)	\$ (5,778)	\$ 1,731	\$ (4,724)	\$ (4,867)	\$ 7,401	\$ (8,125)
Earnings (loss) per share:								
Basic	\$ (0.07)	\$ (0.02)	\$ (0.08)	\$ 0.02	\$ (0.06)	\$ (0.05)	\$ 0.08	\$ (0.09)
Diluted	\$ (0.07)	\$ (0.02)	\$ (0.08)	\$ 0.02	\$ (0.06)	\$ (0.05)	\$ 0.07	\$ (0.09)
Cash from (used in) operations before changes in non-cash operating working capital	\$ (3,685)	\$ (3,760)	\$ (4,448)	\$ 568	\$ (3,372)	\$ (2,645)	\$ (3,339)	\$ (8,238)
Company's 100% share of CWI net income (loss)	\$ 1,528	\$ 1,392	\$ 806	\$ 8,389	\$ 1,160	\$ 2,412	\$ 8,870	\$ (810)
Joint Venture Partner's share of CWI net income (loss)	\$ 764	\$ 696	\$ 403	\$ 4,194	\$ 580	\$ 1,206	\$ 4,435	\$ (405)

Our revenues and operating results can vary significantly from quarter to quarter depending on the timing of product deliveries, product mix, product launch dates, research and development project cycles, timing of related government funding and foreign exchange impacts. Net loss has and can vary significantly from one quarter to another depending on operating results, gains and losses from investing activities, stock-based compensation awards, recognition of tax benefits and other similar events.

Net income (loss) for the three month periods ending September 30, 2006 through to the quarter ending September 30, 2007 include interest and amortization related to the Notes issued to Perseus, which were converted July 26, 2007. Upon conversion, the Notes were retired and interest and amortization ceased. In the three months ended September 30, 2006, we also recognized a net gain of \$3.9 million on the sale of 45% of WRI.

Consolidated net income for the three months ended December 31, 2007 was \$7.4 million, or \$0.08 earnings per share (\$0.07 on a fully diluted basis), compared to a net loss of \$5.8 million, or \$0.08 loss per share, for the three months ended December 31, 2006. Included in net income for the three months ended December 31, 2007 is a gain on the sale of long-term investments of \$9.4 million, including a \$6.7 million gain on the sale of approximately 600,000 of our 2 million shares of Clean Energy, and a \$2.7 million gain on the sale of substantially all of our shares of Wild River. CWI also recognized \$5.9 million in future income tax benefits, 50% of which, after deducting our joint venture partner's share, is included in our net income number. Excluding the effects of the gains and our share of the tax benefit, our net loss for the third quarter was \$5.0 million.

SUMMARY OF THE QUARTERLY RESULTS AND DISCUSSION OF THE FOURTH QUARTER 2008 (CONTINUED)
Three months ended March 31, 2008 and 2007

Our total consolidated revenues for the three months ended March 31, 2008 were down \$4.0 million to \$15.3 million from \$19.3 million in the same period in fiscal 2007 with product revenues down \$4.4 million and parts revenue up \$0.4 million. CWI product revenues were down \$3.7 million primarily as the result of a delay in the completion of the integration of the ISL-G at an OEM, which caused planned deliveries to slip into fiscal 2009 and timing of customer deliveries. Non-CWI product revenues also decreased by \$0.7 million with 8 LNG systems shipped in the fourth quarter of fiscal 2007. The Canadian dollar also appreciated by approximately 15% fourth quarter fiscal 2008 over fiscal 2007, reducing revenues in Canadian dollar terms.

Net loss for the three months ended March 31, 2008 was \$8.1 million compared to net income of \$1.7 million in the three months ended March 31, 2007. Gross margin decreased by \$3.3 million on lower revenues, and gross margin percentages decreased from 41% in the fourth quarter of fiscal 2007 to 30% in fiscal 2008 as the result of product mix and a \$0.8 million warranty adjustment taken by CWI in fiscal 2007. In the fourth quarter of fiscal 2008, CWI also made a special \$1.4 million accrual to support customer operational issues associated with a discontinued product. As a result, CWI's loss before taking into account Cummins' share was \$0.8 million compared to net income of \$8.4 million, including recognition of future income tax recovery of \$3.4 million, in the fourth quarter of fiscal 2007. Non-CWI net loss in the fourth quarter of fiscal 2008 was \$7.7 million, which includes a \$1.3 million future income tax expense associated with the gains recognized on the sale of long-term investments. In anticipation of increased demand for our LNG products, we have increased expenses related to sales and marketing, supply chain and engineering efforts related to OEM integration. In the fourth quarter of fiscal 2007, non-CWI net loss was \$2.5 million, which included \$2.2 million in funding from TPC and reversal of a royalty accrual of \$1.3 million on receipt of the approved extension in our funding contract. We also recognized a \$4.2 million gain on the dilution of our interest in Wild River which was offset by \$2.0 million in non-cash stock-based compensation and annual bonuses.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Minimum Annual Payments Due by Period <i>(expressed in thousands of Canadian dollars)</i>	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Capital lease obligations	54	8	-	-	62
Operating leases	1,298	2,518	2,056	636	6,508
Total contractual commitments	1,352	2,526	2,056	636	6,570

Contractual Commitments

Capital lease obligations related primarily to office equipment, have terms of two to five years and have interest rates ranging from 1.15% to 6.17%. 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, 2008, we had \$5.8 million in a demand instalment loan outstanding, up \$4.2 million from \$1.6 million as at March 31, 2007. The loan is drawn against our line of credit of \$13 million and bears interest at prime less 0.25% for amounts under \$5.0 million with further rate reductions applying above \$5.0 million. The loan is being amortized over five years.

OMVL

As required under our signed joint venture agreement with OMVL, we contributed \$1.5 million to the venture on April 1, 2008 in exchange for our 49% of the entity.

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 a result of our government partnerships, we recognized \$3.7 million in government funding in fiscal 2008, \$5.2 million in 2007 and \$8.7 million 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.

CONTINGENT OFF-BALANCE SHEET ARRANGEMENTS (CONTINUED)

Government Funding (continued)

As at March 31, 2008, no royalties have been paid or were payable under these agreements. We are in discussions with TPC to extend the work phase of our agreement by another year. If TPC does not accept our request for an extension, we expect to begin accruing royalties with a minimum of \$1.35 million starting in fiscal 2009 with actual payment due in fiscal 2010. If we are successful in our request, royalties will begin to accrue in fiscal 2010 and our obligation to issue \$4 million of warrants will be deferred to September, 2009 from September, 2008.

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. 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, liquidity, 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, liquidity, 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 and we may need to raise additional capital.

We may be unable to raise additional capital

Execution of our business plan and our commercial viability could be jeopardized if we are unable to raise additional funds for our commercialization plans, to fund working capital, 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.

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 research and development programs is difficult to predict, and may cause quarter to quarter variations in financial results. In addition, due to our early stage of commercialization, we cannot accurately predict our future revenues or results of operations. We are also subject to normal operating risks such as credit risks, foreign currency risks and global and regional economic conditions. 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.

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

Although we are seeing strong growth in CWI revenues and interest from the Ports of Los Angeles and Long Beach, municipalities and private fleets, 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; the ability to successfully build the refuelling infrastructure necessary for our systems; regulatory requirements; availability of government incentives; customer perceptions of the safety of our products; and customer reluctance to try a new product.

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 currently benefit from government incentives to facilitate demand for our products and fund our research and development programs and these incentives may not be renewed or may be redirected

While some of our customers and potential customers have made successful applications for government incentives to assist them in converting their vehicles to natural gas engines, there is no guarantee that such incentives will continue to be available. Today our LNG systems customers and potential customers in the United States may have access to local, state and federal incentives through programs and initiatives such as the federal Highway and Energy Bills, which provide fuel and tax credits, and grants available from Carl Moyer and South Coast Air Quality Management District. If these and other similar incentive programs are discontinued or are no longer available to our customers and potential customers, it may have a detrimental effect on our sales. There are also no guarantees that the Ports of Los Angeles and Long Beach will carry out or be able to fund their Clean Air Action Plan.

In addition, from time to time we enter into agreements with government agencies to fund our research and development programs. 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.

BUSINESS RISKS AND UNCERTAINTIES (CONTINUED)**Fuel price differentials are hard to predict and may be less favorable in the future**

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.

Our growth rate is 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 relationship with 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 do not 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. Incumbent industry participants with a vested interest in gasoline and diesel, many of which have substantially greater resources than we do, may invest significant time and money in an effort to influence environmental regulations in ways that delay or repeal requirements for clean vehicle emissions. If these 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, including from incumbent technologies. 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 cleaner diesel engines, bio-diesel, 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.

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 practicing 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 U.S. 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;
- 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.

BUSINESS RISKS AND UNCERTAINTIES (CONTINUED)**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.

Certain of 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 be successful in the commercialization of products for any of our target markets. There can be no assurance that engines using our direct injection technology will perform as well as we expect, or that prototypes and commercial systems will be developed and sold in commercially viable numbers.

Our HPDI LNG systems presently have higher initial capital costs than many established competing technologies, and manufacturing costs of some of our products at a large-scale 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, 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.

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 relationships with our suppliers

While we have negotiated supply agreements with various manufacturers and have entered into strategic supply agreements with BTIC and Cryostar, certain of these manufacturers may presently be the sole supplier of key components for our products and we are dependent on their ability to source materials, manage their capacity, workforce and schedules. In particular, we are dependent on sole suppliers for our injectors, tanks, and pumps for our HPDI LNG systems and their ability to ramp up capacity and maintain quality and cost to support our production requirements. For a number of reasons, including but not limited to shortages of parts, labour disruptions, lack of capacity and equipment failure, a supplier may fail to supply materials or components that meet our quality, quantity or cost requirements or to supply any at all. If we are not able to resolve these issues or obtain substitute sources for these materials or components in a timely manner or on terms acceptable to us, our ability to manufacture certain products may be harmed and we may be subjected to cancellation of orders or penalties for failed or late deliveries, which could have a material adverse effect on our business and financial results. Our products also use steel and other materials that have global demand. The prices and quantities 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. We mitigate these risks by seeking secondary suppliers, by carrying inventory, and by locking in long-term pricing when possible. There are no guarantees, however, that we will be successful in securing alternative suppliers or that our inventory levels will be sufficient for our production requirements.

BUSINESS RISKS AND UNCERTAINTIES (CONTINUED)**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, commercial launch activities 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 and we are working on scaling up our production capabilities. These trials, production readiness activities 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.

We may have difficulty managing the expansion of our operations

To support the launch, and increase sales and service, of our LNG 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 and changes to our information systems, processes and policies. Such rapid expansion may place a significant strain on our senior management team, support teams, information technology platforms 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.

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 recognize 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.

Although CWI products have shown improvements in warranty experience over the past few years and we continue to work to improve our products, there are no guarantees that this trend will continue or that it will not reverse. New products may have different performance characteristics from previous products. In addition, we have limited field experience with our HPDI LNG systems from which to make our warranty accrual estimates.

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.

We have foreign currency risk

While a majority of our revenues, cost of sales, expenses and warranty balances are all denominated in US dollars, 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. For example, for fiscal 2008, the decline of the US dollar offset the increase in our revenues. We have not entered into foreign exchange contracts to hedge against gains and losses from foreign currency fluctuations. From fiscal 2002 to fiscal 2007, on average, the US dollar has declined 28% against the Canadian dollar. From fiscal 2007 to fiscal 2008, on average, the US dollar depreciated a further 12%.

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. Given the highly specialized nature of our products, these personnel must be highly skilled and have a sound understanding of our industry, business or our technology. Recruiting personnel for the alternative fuel industry is also 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.

BUSINESS RISKS AND UNCERTAINTIES (CONTINUED)**We may not realize 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. Additionally, we may not be able to find suitable joint venture partners, investments or acquisitions, which could adversely affect our business strategy.

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.

NON-GAAP MEASURES

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

Cash Flows from Operations Before Changes in Non-Cash Operating Working Capital <i>(expressed in thousands of Canadian dollars)</i>	2008	2007	2006
Cash flows from operations:			
Loss for the year	\$ (10,315)	\$ (11,307)	\$ (16,860)
Items not involving cash:			
Depreciation and amortization	1,550	1,410	2,752
Stock-based compensation expense	664	2,089	2,934
Accretion of TPC warrants	-	571	1,143
Future income tax recovery	(4,691)	(3,455)	-
Change in deferred lease inducements	(251)	(164)	(154)
Gain on sale of long-term investments	(10,659)	(8,120)	-
Joint Venture Partners' share of net income from joint ventures	5,564	6,057	1,593
Interest on long-term debt and amortization of discount	690	1,663	-
Other	(146)	(69)	(69)
Cash flows from operations before changes in non-cash operating working capital	\$ (17,594)	\$ (11,325)	\$ (8,661)

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 authorized, 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.

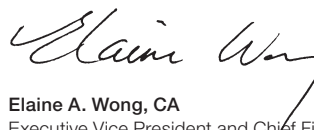
The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, who were appointed by the shareholders, and have full and unrestricted access to the Audit Committee. The independent auditors' report outlines the scope of their examination and their opinion on the consolidated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



David R. Demers
Chief Executive Officer
May 9, 2008



J. Michael Gallagher, Ph.D.
President and Chief Operating Officer
May 9, 2008



Elaine A. Wong, CA
Executive Vice President and Chief Financial Officer
May 9, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Westport Innovations Inc. as at March 31, 2008 and 2007 and the consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended March 31, 2008. 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, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2008 in accordance with Canadian generally accepted accounting principles.




Chartered Accountants
Vancouver, Canada
May 9, 2008

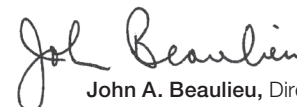
CONSOLIDATED BALANCE SHEETS

<i>(expressed in thousands of Canadian dollars)</i>	March 31, 2008	March 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,560	\$ 1,702
Short-term investments	15,202	21,379
Accounts receivable	7,028	10,881
Loan receivable [note 18(a)]	6,774	-
Inventories [note 4]	9,020	2,816
Prepaid expenses	1,033	783
Current portion of future income tax assets [note 17]	4,944	1,778
	51,561	39,339
Long-term investments [note 5]	18,754	13,115
Equipment, furniture, and leasehold improvements [note 6]	3,685	3,863
Intellectual property [note 7]	574	719
Deferred charges [note 3(a)]	-	920
Future income tax asset [note 17]	4,366	1,677
	\$ 78,940	\$ 59,633
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,470	\$ 6,030
Deferred revenue	205	365
Demand instalment loan [note 8]	5,776	1,613
Short-term debt [note 9]	5,995	-
Current portion of long-term debt [note 10]	54	6,816
Current portion of warranty liability	4,899	3,824
Obligation to issue warrants [note 13]	4,000	-
	29,399	18,648
Warranty liability	4,258	3,147
Obligation to issue warrants [note 13]	-	4,000
Long-term debt [note 10]	8	13,781
Other long-term liabilities [note 11]	1,496	1,720
Joint Venture Partners' share of net assets of joint ventures [note 18]	13,983	7,719
	49,144	49,015
Shareholders' equity:		
Share capital:		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
95,959,485 (2007 – 75,686,085) common shares	258,202	232,830
Other equity instruments [note 15]	3,079	12,352
Additional paid in capital	5,097	5,301
Deficit	(247,460)	(239,865)
Accumulated other comprehensive income	10,878	-
	29,796	10,618
Commitments and contingencies [notes 12 and 19]		
Subsequent events [notes 19(c) and 20(d)]		
	\$ 78,940	\$ 59,633

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


Henry Bauermeister, Director


John A. Beaulieu, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(expressed in thousands of Canadian dollars, except share and per share amounts)</i> <i>Years ended March 31, 2008, 2007, and 2006</i>	2008	2007	2006
Product revenue	\$ 55,238	\$ 47,195	\$ 29,932
Parts revenue	16,298	13,285	13,620
	71,536	60,480	43,552
Cost of revenue and expenses:			
Cost of revenue	49,023	38,381	28,642
Research and development [notes 14(c) and 16]	23,026	21,891	16,939
General and administrative [note 14(c)]	6,033	6,882	4,866
Sales and marketing [note 14(c)]	10,550	7,077	5,849
Foreign exchange loss (gain)	1,287	(102)	(93)
Depreciation and amortization	1,550	1,410	2,752
Bank charges, interest, and other	280	408	314
	91,749	75,947	59,269
Loss before undernoted	(20,213)	(15,467)	(15,717)
Interest on long-term debt and amortization of discount [note 10(c)]	(986)	(1,718)	-
Interest and other income	1,316	764	450
Gain on sale of long-term investments [notes 5(a) and 5(b)]	10,659	8,120	-
Loss before income taxes and Joint Venture Partners' share of income from joint ventures	(9,224)	(8,301)	(15,267)
Income tax recovery (expense) [note 17]:			
Current	(218)	(404)	-
Future	4,691	3,455	-
	4,473	3,051	-
Loss before Joint Venture Partners' share of income from joint ventures	(4,751)	(5,250)	(15,267)
Joint Venture Partners' share of net income from joint ventures [note 18]	(5,564)	(6,057)	(1,593)
Loss for the year	\$ (10,315)	\$ (11,307)	\$ (16,860)
Basic and diluted loss per share	\$ (0.12)	\$ (0.15)	\$ (0.23)
Weighted average common shares outstanding – Basic and diluted	88,087,882	75,174,826	74,228,495

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

<i>(expressed in thousands of Canadian dollars, except share amounts) Years ended March 31, 2008, 2007, and 2006</i>	Common shares	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income	Total shareholders' equity	Comprehensive loss
Balance, March 31, 2005	73,964,088	\$ 230,379	\$ 2,078	\$ 2,919	\$ (211,698)	\$ -	\$ 23,678	\$ -
Issue of performance share units for no additional consideration	427,691	801	(801)	-	-	-	-	-
Stock-based compensation	-	-	1,802	1,852	-	-	2,934	-
Net loss	-	-	-	-	(16,860)	-	(16,860)	-
Balance, March 31, 2006	74,391,779	231,180	2,359	4,771	(228,558)	-	9,752	-
Shares issued for intellectual property	609,104	602	-	-	-	-	602	-
Issue of common shares on exercise of performance share units	283,682	555	(555)	-	-	-	-	-
Shares issued for settlement of accrued interest	401,520	498	-	-	-	-	498	-
Share issue costs	-	(5)	-	-	-	-	(5)	-
Value of warrants issued with long-term debt and conversion options	-	-	8,989	-	-	-	8,989	-
Stock-based compensation	-	-	1,559	530	-	-	2,089	-
Net loss	-	-	-	-	(11,307)	-	(11,307)	-
Balance, March 31, 2007	75,686,085	232,830	12,352	5,301	(239,865)	-	10,618	-
Transitional adjustment on adoption of new accounting standards for financial instruments, net of tax of \$3,370 [note 3(a)]	-	-	-	-	3,483	17,032	20,515	-
Balance, April 1, 2007	75,686,085	232,830	12,352	5,301	(236,382)	17,032	31,133	-
Issue of common shares on exercise of stock options	812,085	1,967	-	(762)	-	-	1,205	-
Issue of common shares on exercise of performance share units	211,341	390	(390)	-	-	-	-	-
Issue of common shares on conversion of subordinated convertible notes and settlement of accrued interest [note 10(c)]	16,911,305	21,759	(7,569)	-	(763)	-	13,427	-
Issue of common shares on exercise of warrants	2,338,669	1,420	(1,420)	-	-	-	-	-
Share issue costs	-	(164)	-	-	-	-	(164)	-
Stock-based compensation	-	-	106	558	-	-	664	-
Unrealized gain on available for sale securities, net of tax of \$182	-	-	-	-	-	645	645	645
Reclassification of net realized gains on available for sale securities to net loss, net of tax of \$1,345	-	-	-	-	-	(6,799)	(6,799)	(6,799)
Net loss	-	-	-	-	(10,315)	-	(10,315)	(10,315)
Balance, March 31, 2008	95,959,485	\$ 258,202	\$ 3,079	\$ 5,097	\$ (247,460)	\$ 10,878	\$ 29,796	\$ (16,469)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(expressed in thousands of Canadian dollars)</i> <i>Years ended March 31, 2008, 2007, and 2006</i>	2008	2007	2006
Cash flows from operations:			
Loss for the year	\$ (10,315)	\$ (11,307)	\$ (16,860)
Items not involving cash:			
Depreciation and amortization	1,550	1,410	2,752
Stock-based compensation expense	664	2,089	2,934
Accretion of TPC warrants	-	571	1,143
Future income tax recovery	(4,691)	(3,455)	-
Change in deferred lease inducements	(251)	(164)	(154)
Gain on sale of long-term investments	(10,659)	(8,120)	-
Joint Venture Partners' share of net income from joint ventures	5,564	6,057	1,593
Interest on long-term debt and amortization of discount	690	1,663	-
Other	(146)	(69)	(69)
Changes in non-cash operating working capital:			
Accounts receivable	3,853	(4,744)	(97)
Inventories	(6,204)	(1,963)	629
Prepaid expenses	(250)	(62)	(169)
Accounts payable and accrued liabilities	2,343	2,353	(1,197)
Deferred revenue	(133)	129	(1,214)
Warranty liability	2,186	1,201	(959)
	(15,799)	(14,411)	(11,668)
Cash flows from investments:			
Purchase of equipment, furniture, and leasehold improvements	(1,690)	(1,175)	(396)
Proceeds on disposition of equipment, furniture, and leasehold improvements	609	12	93
Sale (purchase) of short-term investments, net	6,725	(14,593)	13,185
Purchase of long-term investments	-	(51)	-
Disposition of long-term investments	17,977	605	-
Loan receivable	(6,774)	-	-
Sale of interest in subsidiary	-	4,198	-
Contributions from joint venture partner	425	-	-
Deferred transaction costs incurred	-	(764)	-
	17,272	(11,768)	12,882
Cash flows from financing:			
Issue of demand instalment loan	5,000	-	1,235
Repayment of demand instalment loan	(837)	(894)	(981)
Increase in short-term debt	5,995	-	-
Increase in bank loan	-	7,346	-
Repayment of bank loan	(6,741)	(605)	-
Repayment of other long-term debt	(73)	(185)	(742)
Issuance of convertible notes	-	22,092	-
Finance costs incurred	-	(915)	-
Shares issued for cash	1,205	-	-
Share issue costs	(164)	(5)	-
	4,385	26,834	(488)
Increase in cash and cash equivalents	5,858	656	726
Cash and cash equivalents, beginning of year	1,702	1,046	320
Cash and cash equivalents, end of year	\$ 7,560	\$ 1,702	\$ 1,046

<i>(expressed in thousands of Canadian dollars)</i> <i>Years ended March 31, 2008, 2007, and 2006</i>	2008	2007	2006
Supplementary information:			
Interest paid	\$ 473	\$ 379	\$ 222
Taxes paid	479	15	-
Non-cash transactions:			
Purchase of equipment, furniture, and leasehold improvements by assumption of capital lease obligation	-	-	260
Shares issued on exercise of performance share units	390	555	801
Shares issued for acquisition of intellectual property	-	602	-
Shares issued on conversion of debt [note 10(c)]	21,115	-	-
Shares issued for settlement of interest on convertible notes [note 10(c)]	644	498	-
Shares issued on cashless exercise of warrants	1,420	-	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in thousands of Canadian dollars except share and per share amounts)
Years ended March 31, 2008, 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"), formed in 2001 [note 18(a)]. 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 realization 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 commercialization efforts or to delay, reduce or eliminate certain research and development programs and forego acquisition of certain inventory or 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 variable interest entities for which the Company is considered the primary beneficiary. Intercompany balances and transactions have been eliminated.

Interests in variable interest entities are consolidated by the Company if the Company is the primary beneficiary. The Company has identified CWI and BTIC Westport Inc. ("BWI") as variable interest entities and determined that the Company is the primary beneficiary. Accordingly, the Company has consolidated these entities. The other 50% interest held by the Company's joint venture partners is reflected as "Joint Venture Partners' share of net assets of joint ventures" 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 of investment grade commercial paper, banker acceptances, bearer deposit notes, guaranteed investment certificates and other term deposits are considered available for sale and recorded at fair value with changes in fair value recognized in accumulated other comprehensive income.

(d) Inventories:

The Company's inventory consists of the Company's fuel system products (finished goods), work-in-progress and parts. Inventories are recorded at the lower of cost and net realizable value. Cost is determined based on the lower of standard cost which approximates weighted average cost and net realizable value. The cost of fuel system product inventories and work-in-progress include materials, labour and production overhead. An inventory obsolescence provision is provided to the extent cost of inventory exceeds net realizable 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:

Long-term investments are designated as available for sale and recorded at their fair value to the extent a reliable fair value is determinable. Changes in fair value are recognized in accumulated other comprehensive income. A decline in value that is considered other than temporary is recognized in net loss for the period.

(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 realized. As at March 31, 2008 and 2007, 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 recognized 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.

(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 recognizes a loss to the extent such costs exceed the related deferred revenue.

(m) Revenue recognition:

Product and parts revenue is recognized, 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 technology licenses fees from third parties. Revenue from research and development activities is recognized as the services are performed. Revenue from technology license fees is recognized over the duration of the licensing agreement. Amounts received in advance of the revenue recognition criteria being met 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 recognized 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 realized.

(o) Stock-based compensation plans:

The Company has a stock option plan, which is described in note 14(a). The Company accounts for stock-based compensation related to stock options granted to employees and directors using the fair value method and recognizes stock-based compensation in results from operations over the vesting period. The Company has an employee share purchase plan, which is described in note 14(b). The Company matches the employees' contribution and recognizes 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(c). 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 recognizes this cost as an expense in the period it is incurred. During the year ended March 31, 2008, the Company recognized \$418 (2007 – \$356; 2006 – \$317) of expense associated with the RRSP.

(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.

(expressed in thousands of Canadian dollars except share and per share amounts)
Years ended March 31, 2008, 2007, and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(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. For all periods presented, diluted loss per share does not differ from basic loss per share as the impact of dilutive securities is anti-dilutive.

3. ACCOUNTING CHANGES:

(a) Adoption of new accounting standards:

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

Comprehensive Income:

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

Financial Instruments:

Under Section 3855, financial assets and liabilities, including derivative instruments, are initially recognized 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 recognized in the consolidated statement of operations 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 recognized in the consolidated statement of operations for the period unless the instrument is a cash flow hedge and hedge accounting applies in which case changes in fair value are recognized in other comprehensive income.

Upon adoption of this new standard, the Company designated its short and long-term investments as available for sale financial assets and recognized these investments at their fair value to the extent a reliable fair value was determinable. On April 1, 2007, the Company recorded these investments at their fair value of \$20,402. The net, after tax, adjustment to AOCI in shareholders' equity was \$17,032. The Company also recognized an adjustment to opening retained earnings of \$3,370 related to the tax benefit of prior year loss carry forwards recognized to offset the future tax liability generated by the adjustment to the accounting basis of the investments. Investments in private companies are recorded at cost as a reliable fair value is not available for such investments. When the investments are sold or otherwise disposed of, gains or losses will be recorded in the consolidated statement of operations.

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

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

3. ACCOUNTING CHANGES (CONTINUED):**(a) Adoption of new accounting standards (continued):***Financial Instruments (continued):*

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

Hedges:

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

(b) Future accounting changes:*Financial instruments:*

In December 2006, the CICA issued Section 3862, *Financial instruments—Disclosures* and Section 3863, *Financial Instruments—Disclosures and Financial Instruments—Presentation*. Generally, the new sections replace Section 3861, *Financial Instruments—Disclosure and Presentation*. These sections establish standards for the presentation of financial instruments and non-financial derivatives and identify the information that should be disclosed about them.

Both sections are effective for the Company on April 1, 2008 and are expected to result in more extensive disclosures in the Company's annual and interim financial statements.

Capital disclosures:

In December 2006, the CICA issued Section 1535 of the CICA Handbook, *Capital Disclosures*, which establishes standards for disclosing information about an entity's capital and how it is managed. This section is effective for the Company on April 1, 2008 and is expected to result in more extensive disclosures in the Company's annual and interim financial statements.

Inventory:

In June 2007, the CICA issued Section 3031 of the CICA Handbook, *Inventories*, which establishes standards for the determination of inventory cost and its subsequent recognition as an expense, including any write-down to net realizable value. In certain circumstances, the new section will also permit the reversal of previous write-downs. This section is effective for the Company on April 1, 2008. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements.

Goodwill and Intangible Assets:

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and the recognition, measurement and presentation of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This section is effective for the Company on April 1, 2008. The Company is currently evaluating the impact of the adoption of this new standard on the recognition, measurement, presentation and disclosure of its intangible assets in the consolidated financial statements.

Financial Statement Presentation:

In May 2007, the Accounting Standards Board ("AcSB") amended Section 1400, *General Standards of Financial Statement Presentation*, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments are effective for the Company on April 1, 2008. These standards may impact our disclosure but is not expected to impact our financial position, results of operations or cash flows.

International Financial Reporting Standards:

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board over a transitional period to be completed by 2011. The Company will be required to report under IFRS effective for interim and annual financial statements relating to its fiscal year beginning on April 1, 2011.

Adoption of IFRS will impact all areas of financial accounting and reporting. The Company is in the process of assessing the impacts of the Canadian convergence initiative.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in thousands of Canadian dollars except share and per share amounts)
Years ended March 31, 2008, 2007, and 2006

4. INVENTORIES:

	2008	2007
Finished goods	\$ 4,407	\$ -
Parts	4,136	2,360
Work-in-progress	477	456
	\$ 9,020	\$ 2,816

5. LONG-TERM INVESTMENTS:

	2008	2007
Clean Energy Fuels Corp. (a)	\$ 18,693	\$ 9,134
Wild River Resources Ltd. (b)	41	3,981
Prometheus Energy Co. (c)	20	-
	\$ 18,754	\$ 13,115

(a) As at March 31, 2008, the Company owned an approximate 3% (2007 – 6%) interest in Clean Energy Fuels Corp. (“CEFC”), an owner and operator of natural gas refuelling facilities. During the year ended March 31, 2008, the Company sold 746,275 shares of CEFC for net proceeds of \$11,236 resulting in a gain on sale of \$8,005. As at March 31, 2008, the Company owned 1,363,071 shares of CEFC which have been valued at a closing market price of \$13.71 per share (US\$13.36 per share) on March 31, 2008. As at March 31, 2007, prior to adoption of Section 3855 [note 3(a)], this investment was carried at cost.

(b) The Company has an approximate 0.2% (2007 – 15.86%) 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. On June 13, 2006, the Company entered into an agreement with Matco Capital Ltd. (“Matco”), an unrelated party, to reorganize WRI. As part of the reorganization, 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. Pursuant to the agreement with Matco, the Company sold 45% of its investment in WRI to Matco for cash consideration. This transaction resulted in a net gain of \$3,891. Subsequently, on February 8, 2007, WRI, renamed 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. The Company sold a further 1.52% interest in WRRL in 2007 for a gain of \$225 reducing its investment to 15.86% of the outstanding shares of WRRL. Effective February 8, 2007, the Company no longer controlled WRRL. Accordingly, the Company no longer consolidates WRRL and accounts for this investment on a cost basis.

On adoption of Section 3855 on April 1, 2007, the Company reclassified the remaining balance of the deferred charges associated with this investment of \$146 to the cost base of WRRL. During the year ended March 31, 2008, the Company disposed of substantially all of its shares in WRRL for \$6,741, resulting in a gain on disposal of \$2,654. The proceeds from the sale were used to repay a bank loan of \$6,741 [note 10(b)]. As at March 31, 2008, the Company carries this investment at cost as the Company cannot determine with sufficient reliability the fair value of WRRL due to the absence of a readily available market for the shares of WRRL.

(c) The Company owns 147,072 shares of Prometheus Energy Co., a public company that produces, sells and distributes liquid natural gas, which have been valued at the closing market price of \$0.13 per share on March 31, 2008.

6. EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS:

2008	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 5,670	\$ 5,035	\$ 635
Furniture and fixtures	1,307	1,090	217
Machinery and equipment	17,434	14,984	2,450
Leasehold improvements	8,329	7,946	383
	\$ 32,740	\$ 29,055	\$ 3,685

2007	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 5,142	\$ 4,742	\$ 400
Furniture and fixtures	1,182	1,067	115
Machinery and equipment	19,882	16,906	2,976
Leasehold improvements	8,149	7,777	372
	\$ 34,355	\$ 30,492	\$ 3,863

As at March 31, 2008, equipment with a cost of \$224 (2007 – \$224) and a net book value of \$34 (2007 – \$101) is held under capital lease.

7. INTELLECTUAL PROPERTY:

	2008	2007
Cost	\$ 4,321	\$ 4,321
Accumulated amortization	(3,747)	(3,602)
	\$ 574	\$ 719

The intellectual property will be amortized over its expected remaining useful life of four years at an annual amortization expense of \$145.

8. DEMAND INSTALMENT LOAN:

The Company has a credit facility for maximum borrowings of \$13,000. 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 less 0.25% for borrowings up to \$5,000 with further rate reductions for amounts in excess of \$5,000. The principal amount is repayable over a 60-month period. At March 31, 2008, the outstanding amount payable of \$5,776 is included in current liabilities as it is repayable on demand by the bank.

9. SHORT-TERM DEBT:

The Company entered into an agreement with Clean Energy Finance, LLC ("CEF"), a wholly owned subsidiary of CEFC, whereby CEF may advance the Company up to US\$6,000 to produce approximately 75 LNG systems. The loan is non-interest bearing, unsecured and repayable on receipt of proceeds from the sale of these units. As at March 31, 2008, \$5,995 (US\$5,840) has been advanced to the Company.

10. LONG-TERM DEBT:

	2008	2007
Capital lease obligations (a)	\$ 62	\$ 135
Bank loan (b)	-	6,741
Subordinated convertible notes (c)	-	13,721
	62	20,597
Current portion	54	6,816
	\$ 8	\$ 13,781

(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:

2009	\$ 54
2010	5
2011	4
	63
Amount representing interest	1
	\$ 62

(b) Under the terms of the agreement with Matco [note 5(b)], Matco facilitated access to a limited recourse credit facility for up to \$7,346. Interest was payable at prime plus 1% until December 31, 2006, after which time the interest was payable by Matco. Repayments of the amount drawn under this credit facility was required only from the proceeds of the sale by the Company of its interest in WRRL and any remaining balance outstanding under the credit facility was due on or before January 31, 2008. During 2007, the Company drew the maximum available under the credit facility of \$7,346 and re-paid \$605 prior to March 31, 2007, leaving a balance of \$6,741. In 2008, the Company repaid the remaining balance from the proceeds of the sale of shares in WRRL.

(c) On June 12, 2006, the Company agreed to issue up to \$22,092 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 \$13,807 and \$8,285, respectively. Interest was 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 would 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 traded below \$3.00 and would be payable semi-annually in cash, additional convertible notes or shares at the Company's option. The number of shares to be issued if interest was paid in shares was based on the market price of the common shares on the date interest is due. The first tranche was convertible to common shares at a conversion price of \$1.30 at any time during the term of the notes and the second tranche was 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 realized 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 would be cancelled.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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10. LONG-TERM DEBT (CONTINUED):

(c) (continued)

During 2007, the Company received the full proceeds of \$22,092 on issue of the notes and issued 4,134,633 warrants. Of the \$22,092 cash proceeds received, the Company assigned \$7,568 to the conversion option, \$1,420 to the warrants and \$13,103 to the convertible notes. The amount assigned to the convertible notes was being accreted to the principal amount using the effective interest rate method over the term to maturity.

On July 26, 2007, Perseus LLC ("Perseus") exercised their conversion option and converted the full \$22,092 of the principal amount of the subordinated convertible notes into 16,538,653 common shares pursuant to the terms of such subordinated convertible notes. As part of this transaction, the Company agreed to pay an inducement amount to Perseus on each of December 31, 2007 and June 30, 2008, equal to 50% of the aggregate interest payment which Perseus would otherwise have been entitled to receive had the entire principal amount of the subordinated convertible notes been outstanding on such dates. In accordance with EIC-96, "Accounting for early extinguishment of convertible securities through (1) early redemption or repurchase and (2) induced early conversion", the Company charged the inducement fee of \$763 to accumulated deficit and recorded the inducement fee payable along with \$121 in accrued interest in accounts payable. On conversion, \$13,258 of long-term debt, representing the carrying value of the notes on July 26, 2007, and the carrying value of the conversion option of \$7,569 previously included in other equity instruments were reclassified to share capital.

\$385 of the inducement fee was paid during the year ended March 31, 2008 of which \$95 was paid in cash and \$288 was paid in common shares. As at March 31, 2008, inducement payable of \$378 was included in accounts payable.

During the year ended March 31, 2008, \$968 (2007 – \$553) of interest was paid to Perseus of which \$324 (2007 – \$55) was paid in cash and \$644 (2007 – \$498) paid in common shares.

During the year ended March 31, 2008, all of the 4,134,633 warrants were exercised using the cashless exercise provisions resulting in the issuance of 2,338,669 common shares.

11. OTHER LONG-TERM LIABILITIES:

	2008	2007
Deferred lease inducements (a)	\$ 280	\$ 531
Deferred revenue (b)	1,216	1,189
	\$ 1,496	\$ 1,720

(a) Deferred lease inducements include 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 of revenue recognition criteria being met, including upfront fees, customer deposits, fees for research and development activities and extended warranty contracts, which are included in deferred revenue and are recognized into earnings over the contract period, as research and development activities are completed or over the warranty period as applicable.

12. GOVERNMENT ASSISTANCE:

From time to time, the Company enters into agreements for financial assistance with government agencies. During the years ended March 31, 2008, 2007 and 2006, government assistance of \$3,658, \$5,150 and \$8,689, respectively, was received or receivable by the Company, which has been recorded as a reduction of related research and development expenditures [note 16].

Included in the above amounts is funding of \$1,351 (2007 – \$2,205; 2006 – \$2,623) from Industry Canada's Industrial Technologies Office (formerly Technology Partnerships Canada) ("TPC") and \$946 remains receivable from TPC at March 31, 2008 (2007 – \$3,779; 2006 – \$1,574). Under the terms of the original TPC funding agreement entered into on March 27, 2003, TPC funded 30% of the eligible costs of, among other research projects, the adaptation of the Company's technology to diesel engines to the original scheduled project completion date of March 31, 2006. In fiscal 2007, TPC substantially completed its review of a proposed amended statement of work and approval was received from TPC extending the completion date to March 31, 2008. 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 or 0.33% of the Company's annual gross revenue from all sources, provided that gross revenue exceeds \$13,500 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. In addition, the Company is required to provide TPC with common share purchase warrants having a value of \$4,000 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. As at March 31, 2008, 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. As at March 31, 2008, no royalties have been paid or are payable.

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Years ended March 31, 2008, 2007, and 2006

13. OBLIGATION TO ISSUE WARRANTS:

Under the terms of the agreement with TPC, the Company has an obligation to issue warrants as at September 30, 2008 with a fair value of \$4,000 based on the Black-Scholes option pricing model. The value of these warrants was recognized 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, 2008, accretion totalling nil (2007 – \$571; 2006 – \$1,143) has been included in research and development expenses.

14. STOCK OPTIONS AND OTHER STOCK-BASED PLANS:

(a) 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. 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, 2008, 2007 and 2006 and changes during the years then ended is presented as follows:

	2008		2007		2006	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of year	5,228,993	\$ 1.91	4,968,563	\$ 2.05	2,402,415	\$ 3.63
Granted	250,000	2.66	585,872	1.18	3,178,218	1.48
Exercised	(812,085)	1.51	-	-	-	-
Cancelled / expired	(341,611)	2.35	(325,442)	2.82	(612,070)	5.24
Outstanding, end of year	4,325,297	\$ 1.99	5,228,993	\$ 1.91	4,968,563	\$ 2.05
Options exercisable, end of year	2,916,539	\$ 2.22	1,479,465	\$ 2.98	1,544,266	\$ 3.22

Range of exercise prices	Number outstanding, March 31, 2008	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable, March 31, 2008	Weighted average exercise price
\$0.92 to \$1.40	781,472	7.1	\$ 1.19	426,479	\$ 1.15
\$1.50 to \$1.55	2,113,292	6.0	1.51	1,149,527	1.51
\$1.62 to \$3.05	817,907	5.5	2.10	777,907	2.10
\$3.06 to \$3.94	332,967	4.3	3.39	282,967	3.45
\$4.14 to \$5.89	128,665	2.7	4.89	128,665	4.89
\$7.00 to \$8.80	150,994	2.8	6.71	150,994	6.71
\$0.92 to \$8.80	4,325,297	5.8	\$ 1.99	2,916,539	\$ 2.22

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% (2007 – nil%, 2006 – nil%); expected stock price volatility – 56.14% (2007 – 59%, 2006 – 65%); risk free interest rate – 3.71% (2007 – 4.79%, 2006 – 4.20%); expected life of options – 4 years (2007 – 5 years, 2006 – 5 years). The weighted average grant date fair value was \$1.25 for options granted for the year ended March 31, 2008 (2007 – \$0.70, 2006 – \$0.87). During the year ended March 31, 2008, the Company recognized \$558 (2007 – \$530; 2006 – \$1,852) in stock-based compensation related to stock options.

(b) 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.

(c) Performance share units:

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in thousands of Canadian dollars except share and per share amounts)
 Years ended March 31, 2008, 2007, and 2006

14. STOCK OPTIONS AND OTHER STOCK-BASED PLANS (CONTINUED):**(c) Performance share units (continued):**

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, 2008, the Company recognized \$106 (2007 – \$1,559; 2006 – \$1,082) 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 14(a) is included in operating expenses as follows:

	2008	2007	2006
Research and development	\$ 87	\$ 348	\$ 1,604
General and administrative	465	1,494	946
Sales and marketing	112	247	384
	\$ 664	\$ 2,089	\$ 2,934

A summary of the status of the PSU's issued under the 2001 PSU Plan and the amended and restated Unit Plan as of March 31, 2008, 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
Units exercised	(211,341)
Units granted	1,938,650
Outstanding, March 31, 2008	3,790,468

As at March 31, 2008, 1,940,470 PSU's are vested and exercisable.

15. OTHER EQUITY INSTRUMENTS:

	2008	2007
Value assigned to Performance Share Units [note 14(c)]	\$ 3,079	\$ 3,364
Value assigned to warrants [note 10(c)]	-	1,420
Value assigned to conversion options [note 10(c)]	-	7,568
	\$ 3,079	\$ 12,352

16. RESEARCH AND DEVELOPMENT EXPENSES:

Research and development expenses are recorded net of program funding received or receivable. For the years ending March 31, 2008, 2007 and 2006, the following research and development expenses had been incurred and program funding received or receivable:

	2008	2007	2006
Research and development expenses	\$ 26,684	\$ 27,041	\$ 25,628
Program funding [note 12]	(3,658)	(5,150)	(8,689)
Research and development	\$ 23,026	\$ 21,891	\$ 16,939

(expressed in thousands of Canadian dollars except share and per share amounts)
Years ended March 31, 2008, 2007, and 2006

17. 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 33.3% (2007 – 34.1%; 2006 – 34.5%) as follows:

	2008	2007	2006
Loss before income taxes and Joint Venture Partners' share of income from joint ventures	\$ 9,224	\$ 8,301	\$ 15,267
Expected income tax recovery	\$ 3,075	\$ 2,831	\$ 5,249
Reduction (increase) in income taxes resulting from:			
Non-deductible interest on long-term debt and amortization of discount	(141)	(211)	-
Non-deductible stock-based compensation	(221)	(713)	(1,012)
Non-deductible expenses	(45)	(375)	(426)
Change in enacted rates	(1,508)	(5,692)	(192)
Foreign tax rate differences	(426)	(527)	(168)
Change in valuation allowance	3,739	7,738	(3,451)
	\$ 4,473	\$ 3,051	\$ -

- (b) The tax effects of the significant temporary differences which comprise tax assets and liabilities, at March 31, 2008 and 2007, are as follows:

	2008	2007
Future tax assets:		
Net operating loss carry forwards	\$ 19,188	\$ 19,365
Long-term investments	626	4,100
Intellectual property	2,116	2,123
Equipment, furniture, and leasehold improvements	813	292
Financing and share issue costs	273	190
Warranty liability	3,205	2,438
Deferred revenue	439	497
Capital lease obligations	18	43
Total gross future tax assets	26,678	29,048
Valuation allowance	(17,368)	(25,593)
Total future tax asset	\$ 9,310	\$ 3,455
Allocated as follows:		
Current future tax assets	\$ 4,944	\$ 1,778
Long term future tax asset	4,366	1,677
Total future tax asset	\$ 9,310	\$ 3,455

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 realized. The ultimate realization 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 realized, a valuation allowance has been recorded. All of the valuation allowance related to CWI has been reversed as CWI has generated taxable income for three consecutive tax years and the Company expects that CWI will generate taxable income in the future.

Current tax expense for the year ended March 31, 2008 of \$218 (2007 – \$404, 2006 – nil) is payable outside of Canada. Future income tax recovery of \$5,855 relates to temporary differences in the United States and future tax expense of \$1,164 relates to tax expense in Canada related to gains on sale of available for sale investments previously recognized in AOCI.

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

2009	\$ 1,504
2010	2,235
2014	2,703
2015	2,508
2026	2,354
2027	15,171
2028	21,785
	\$ 48,260

CWI has net operating loss carry forwards in the United States totalling \$15,362 of which \$13,713 expire in 2023, and \$1,649 expire in 2024.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(expressed in thousands of Canadian dollars except share and per share amounts)
Years ended March 31, 2008, 2007, and 2006

18. INVESTMENT IN JOINT VENTURES:

	2008	2007
Cummins Westport Inc. (a)	\$ 13,809	\$ 7,719
BTIC Westport Inc. (b)	174	-
	\$ 13,983	\$ 7,719

(a) 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 Partners' share of net income from joint ventures".

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

	2008	2007
Current assets:		
Cash and cash equivalents	\$ 137	\$ 43
Short-term investments	13,713	8,017
Accounts receivable	3,503	5,771
Loan receivable	6,774	-
Prepaid expenses	108	354
Current portion of future income tax asset	4,944	1,778
	29,179	15,963
Future income tax asset	4,366	1,677
Equipment, furniture, and leasehold improvements	166	184
	\$ 33,711	\$ 17,824
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,131	\$ 761
Deferred revenue	69	303
Current portion of warranty liability	4,689	3,767
	\$ 6,889	\$ 4,831
Long-term liabilities:		
Warranty liability	\$ 3,985	\$ 3,091
Deferred revenue	386	-
	\$ 4,371	\$ 3,091

The loan receivable above of \$6,774 was loaned to Cummins under a demand loan agreement, with interest accruing monthly at the three month prime corporate paper rate. The loan is unsecured.

18. INVESTMENT IN JOINT VENTURES (CONTINUED):**(a) Cummins Westport Inc. (continued):**

	2008	2007	2006
Product revenue	\$ 50,999	\$ 44,746	\$ 28,634
Parts revenue	16,298	13,285	13,620
	67,297	58,031	42,254
Cost of revenue and expenses:			
Cost of revenue	45,490	36,195	27,344
Research and development	7,562	8,074	6,577
General and administrative	1,088	856	1,249
Sales and marketing	6,447	4,216	4,006
	60,587	49,341	39,176
Income before undernoted	6,710	8,690	3,078
Interest and investment income	793	112	-
Effect of foreign currency translation	(1,518)	61	108
Income before income taxes	5,985	8,863	3,186
Income tax recovery (expense):			
Current	(208)	(204)	-
Future	5,855	3,455	-
	5,647	3,251	-
Income for the year	\$ 11,632	\$ 12,114	\$ 3,186
Joint Venture Partner's share of net income from joint venture	(5,816)	(6,057)	(1,593)
Company's share of income	\$ 5,816	\$ 6,057	\$ 1,593

(b) BTIC Westport Inc.:

On July 21, 2006, the Company and Beijing Tianhai Industry Co. Ltd. ("BTIC") of Beijing, China formed BWI to market liquefied natural gas ("LNG") fuel tanks for vehicles. Through the 50:50 joint venture agreement and related license and supply agreements, BTIC and Westport share equally in the profits on products developed and sold by the joint venture. Headquartered in Beijing, China, BWI sells tanks for installation on any vehicle, regardless of the natural gas engine manufacturer. During the year ended March 31, 2008, the Company contributed \$425 (US\$400) to the formation of this joint venture.

The consolidated financial statements include 100% of the assets, liabilities, revenue and expenses of BWI since the Company has determined that BWI is a variable interest entity and that the Company is the primary beneficiary. Accordingly, the Company consolidates BWI and BTIC's share of BWI's income and losses is included in "Joint venture partners' share of income from joint ventures". For the year ended March 31, 2008, the Company's share of loss from BWI was \$252.

19. COMMITMENTS AND CONTINGENCIES:**(a)** The Company has obligations under operating lease arrangements which require the following minimum annual payments during the respective fiscal years:

2009	\$ 1,298
2010	1,265
2011	1,253
2012	1,254
2013	802
Thereafter	636
	\$ 6,508

For the year ended March 31, 2008, the Company incurred operating lease expense of \$876 (2007 – \$795; 2006 – \$990).

(b) The Company has an outstanding letter of credit of \$600.

(expressed in thousands of Canadian dollars except share and per share amounts)
Years ended March 31, 2008, 2007, and 2006

19. COMMITMENTS AND CONTINGENCIES (CONTINUED):

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

20. FINANCIAL INSTRUMENTS:

(a) Fair values:

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

The Company's short and long term investments are recorded at fair value except for its interest in WRRL which is carried at cost [note 5(b)].

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 short-term debt are not materially different from its carrying value based on market rates of interest.

The fair value of the Company's subordinated convertible notes as described in note 10(c) was not determinable with sufficient reliability due to the absence of a readily available market for similar instruments.

The carrying value of the Company's obligation to issue warrants as described in note 13 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 and loan receivable. 31% (2007 – 50%) of accounts receivable relates to government grants receivable and 46% (2007 – 43%) is due from Cummins relating to proceeds for the sale of products collected by Cummins on the Company's behalf. The loan receivable is due from Cummins.

(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 realized and a significant portion of the expenses incurred by CWI, and recorded by the Company, are denominated in United States dollars. The warranty liability and short-term debt are 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.

(d) Derivative instruments:

From time to time, the Company sells call options which give the counterparty the right, but not the obligation, to acquire shares of CEFC owned by the Company for an agreed on strike price on or before a specific expiration date. The Company marks these options to market at each balance sheet date with the change in fair value recognized in interest and other income. During the year ended March 31, 2008, the Company sold 1,000 call option lots, representing 100,000 shares, with an average exercise price of US\$17.50 for net proceeds of \$71. All of the options sold expired without exercise and no options were outstanding at March 31, 2008. Subsequent to March 31, 2008, the Company sold a further 1,750 call option lots, representing 175,000 shares, with an average exercise price of US\$15.14 expiring on June 20, 2008.

21. 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, 2008, 66% (2007 – 72%; 2006 – 82%) of the Company's revenue was from sales in North America, 18% (2007 – 13%; 2006 – 4%) from sales in Asia, and 16% (2007 – 15%; 2006 – 14%) from sales elsewhere.

SHAREHOLDER INFORMATION

WESTPORT DIRECTORS

John A. Beaulieu ^{[1][2][3]}

Chairman of the Board of Directors, Westport Innovations Inc.
Vancouver, Washington, USA

Warren J. Baker, Ph.D. ^{[3][4]}

President, California Polytechnic State University
Avila Beach, California, USA

Henry F. Bauermeister Jr., CPA ^{[1][2]}

Corporate Director, Former President of Cummins Mid-America
Lee's Summit, Missouri, USA

David R. Demers ^[4]

Chief Executive Officer and Director, Westport Innovations Inc.
West Vancouver, British Columbia, Canada

J. Michael Gallagher, Ph.D.

President, Chief Operating Officer, and Director, Westport Innovations Inc.
Vancouver, British Columbia, Canada

Dezső J. Horváth, Ph.D. ^{[1][2][3][4]}

Dean of the Schulich School of Business, York University
Toronto, Ontario, Canada

Andrew J. Littlefair ^[4]

President, Chief Executive Officer, and Director, Clean Energy Fuels Corp.
Newport Beach, California, 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

Jonathan E. Burke

Vice President, Corporate Development
Vancouver, British Columbia, Canada

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

Anthony R. Picarello

Vice President, Global Heavy-Duty Sales and Marketing
Chandler, Arizona, USA

Duane A. Radcliffe

Vice President, Organizational Development
Vancouver, British Columbia, Canada

Ian J. Scott

President, Juniper Engines Inc.
Vancouver, British Columbia, Canada

Nicholas C. Sonntag

Executive Vice President, Corporate Development
and President, Westport Asia
Gibsons, British Columbia, Canada / Beijing, China

Elaine A. Wong, CA

Executive Vice President and Chief Financial Officer
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 Tuesday, July 8th, 2008 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>.

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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.

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