

Consolidated Financial Statements  
(Expressed in Canadian dollars)

**WESTPORT INNOVATIONS INC.**

Three months ended June 30, 2007 and 2006

# WESTPORT INNOVATIONS INC.

Consolidated Balance Sheets  
(Expressed in thousands of Canadian dollars)

	June 30, 2007	March 31, 2007
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,436	\$ 1,702
Short-term investments	18,470	21,379
Accounts receivable	9,895	10,881
Inventories (note 3)	3,067	2,816
Prepaid expenses	638	783
Current portion of future income tax asset	1,626	1,778
	35,132	39,339
Long-term investments (note 4)	31,326	13,115
Equipment, furniture and leasehold improvements	34,317	34,356
Accumulated depreciation	(30,604)	(30,493)
	3,713	3,863
Intellectual property	4,321	4,321
Accumulated amortization	(3,638)	(3,602)
	683	719
Deferred charges	-	920
Future income tax asset	1,533	1,677
	\$ 72,387	\$ 59,633
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,949	\$ 6,030
Deferred revenue	457	365
Demand instalment loan	1,478	1,613
Current portion of long-term debt (note 5)	6,816	6,816
Current portion of warranty liability	3,667	3,824
	17,367	18,648
Warranty liability	2,739	3,147
Obligation to issue warrants	4,000	4,000
Long-term debt (note 5)	13,205	13,781
Other long-term obligations (note 6)	1,616	1,720
Joint Venture Partner's share of net assets from joint venture (note 10)	8,299	7,719
Shareholders' equity:		
Share capital:		
Authorised:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
76,164,737 (2007 - 75,686,085) common shares	233,885	232,830
Other equity instruments (note 8)	12,244	12,352
Additional paid in capital	5,042	5,301
Accumulated deficit	(244,476)	(239,865)
Accumulated other comprehensive income (note 2):		
Unrealised gain on available for sale investments	18,466	-
	25,161	10,618
Subsequent events (note 12)		
	\$ 72,387	\$ 59,633

See accompanying notes to consolidated financial statements.

# WESTPORT INNOVATIONS INC.

Consolidated Statements of Operations (unaudited)

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

	Three months ended June 30	
	2007	2006
Product revenue	\$ 11,842	\$ 7,644
Parts revenue	3,888	2,978
	15,730	10,622
Cost of revenue and expenses:		
Cost of revenue	10,392	6,585
Research and development (notes 8 and 9)	5,441	5,998
General and administrative (note 8)	1,113	1,415
Sales and marketing (note 8)	1,777	1,005
Foreign exchange (gain) loss	539	(81)
Depreciation and amortization	367	325
Bank charges, interest and other	58	57
	19,687	15,304
Loss before undernoted	(3,957)	(4,682)
Interest on long-term debt and amortization of discount	(770)	(47)
Interest and other income	229	73
Gain on sale of long-term investment (note 4)	718	-
Loss before income taxes and Joint Venture Partner's share of income from joint venture	(3,780)	(4,656)
Income tax expense:		
Current	(67)	-
Future	(297)	-
	(364)	-
Loss before Joint Venture Partner's share of income from joint venture	(4,144)	(4,656)
Joint Venture Partner's share of net income from joint venture (note 10(a))	(580)	(764)
Loss for the period	\$ (4,724)	\$ (5,420)
Basic and diluted loss per share	\$ (0.06)	\$ (0.07)
Weighted average common shares outstanding	75,745,692	74,635,499

See accompanying notes to consolidated financial statements.

# WESTPORT INNOVATIONS INC.

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

	Three months ended June 30	
	2007	2006
Cash provided by (used in):		
Operations:		
Loss for the period	\$ (4,724)	\$ (5,420)
Items not involving cash:		
Depreciation and amortization	367	325
Stock-based compensation expense	113	354
Accretion of warrants	-	286
Future income tax recovery	297	-
Change in deferred lease inducements	(57)	(41)
Gain on sale of long-term investments	(718)	-
Joint Venture Partner's share of net income from joint venture	580	764
Interest on long-term debt and amortization of discount	770	47
	(3,372)	(3,685)
Change in non-cash operating working capital:		
Accounts receivable	986	31
Inventories	(251)	293
Prepaid expenses	145	93
Accounts payable and accrued liabilities	(1,521)	400
Deferred revenue	44	(452)
Warranty liability	(565)	(328)
	(4,534)	(3,648)
Investments:		
Purchase of equipment, furniture and leasehold improvements	(182)	(202)
Proceeds on sale (used in purchase) of short-term investments, net	2,909	(1,774)
Proceeds on disposition of long-term investments	1,119	-
	3,846	(1,976)
Financing:		
Repayment of demand instalment loan	(135)	(300)
Repayment of long-term debt	(18)	(19)
Issuance of convertible notes	-	5,523
Finance costs incurred	-	(431)
Shares issued for cash	575	-
	422	4,773
Increase (decrease) in cash and cash equivalents	(266)	(851)
Cash and cash equivalents, beginning of period	1,702	1,046
Cash and cash equivalents, end of period	\$ 1,436	\$ 195
Supplementary information		
Interest paid	\$ 30	\$ 45
Non-cash transactions:		
Shares issued on exercise of performance share units	135	510
Issue of shares for settlement of financial instruments	-	303

See accompanying notes to consolidated financial statements.

# WESTPORT INNOVATIONS INC.

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

(Expressed in thousands of Canadian dollars except share amounts)

Three months ended June 30, 2007

	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, 2007	75,686,085	\$ 232,830	\$ 12,352	\$ 5,301	\$ (239,865)	\$ -	\$ 10,618	\$ -
Transitional adjustment on adoption of new accounting policies for financial instruments (note 2)	-	-	-	-	113	20,402	20,515	-
Balance, April 1, 2007	75,686,085	232,830	12,352	5,301	(239,752)	20,402	31,133	-
Changes during the period:								
Issue of common shares on exercise of stock options	391,459	920	-	(345)	-	-	575	-
Issue of common shares on exercise of performance share units for no additional consideration	87,193	135	(135)	-	-	-	-	-
Stock-based compensation	-	-	27	86	-	-	113	-
Unrealised loss on available for sale securities	-	-	-	-	-	(1,218)	(1,218)	(1,218)
Reclassification of net realised gains on available for sale securities to net loss	-	-	-	-	-	(718)	(718)	(718)
Net loss	-	-	-	-	(4,724)	-	(4,724)	(4,724)
Balance, June 30, 2007	76,164,737	\$ 233,885	\$ 12,244	\$ 5,042	\$ (244,476)	\$ 18,466	\$ 25,161	\$ (6,660)

See accompanying notes to consolidated financial statements.

# WESTPORT INNOVATIONS INC.

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

Three months ended June 30, 2007 and 2006

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## 1. Basis of presentation:

The unaudited consolidated balance sheet as at June 30, 2007, the unaudited consolidated statements of operations and cash flows for the three months ended June 30, 2007 and 2006 and the unaudited consolidated statements of shareholders' equity and comprehensive income (loss) for the three months ended June 30, 2007 have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The accompanying unaudited consolidated financial statements do not include all information and footnote disclosures required under Canadian generally accepted accounting principles for annual financial statements. Except as described in note 2, these financial statements have been prepared, on a basis consistent with, and should be read in conjunction with, the consolidated financial statements and notes thereto for the fiscal year ended March 31, 2007.

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

In the opinion of management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at June 30, 2007 and for all periods presented, have been included. Certain comparative amounts have been reclassified to conform with the presentation adopted in the current period.

## 2. Accounting policies:

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

### Comprehensive income

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

# WESTPORT INNOVATIONS INC.

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

Three months ended June 30, 2007 and 2006

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## 2. Accounting policies (continued):

### Financial instruments

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

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

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

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

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

As permitted by Section 3855, the Company has elected to defer and amortize transaction costs associated with the issuance of financial instruments. Accordingly, on adoption of Section 3855, transaction costs of \$146 associated with the investment in Wild River Resources Ltd. has been reclassified to long-term investments and transaction costs associated with long term debt of \$774 have been deducted from the proceeds of the debt on initial recognition and are 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, the Company recognised a reduction in opening deficit of \$113 as the cumulative effect of the change in amortization of transaction costs associated with long-term debt.

# WESTPORT INNOVATIONS INC.

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

Three months ended June 30, 2007 and 2006

## 2. Accounting policies (continued):

### Hedging

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

## 3. Inventories:

	June 30, 2007	March 31, 2007
	(Unaudited)	
Parts	\$ 2,532	\$ 2,360
Work-in-progress	535	456
	<u>\$ 3,067</u>	<u>\$ 2,816</u>

## 4. Long-term investments:

On adoption of Section 3855 on April 1, 2007, the Company values its long-term investments at fair value to the extent it is reliably determinable. Long-term investments include the following:

	June 30, 2007	March 31, 2007
	(Unaudited)	
Clean Energy Fuels Corp. (a)	\$ 26,987	\$ 9,134
Wild River Resources Ltd. (b)	4,127	3,981
Prometheus Energy Co. (c)	212	-
	<u>\$ 31,326</u>	<u>\$ 13,115</u>

- (a) In the three months ended June 30, 2007, Clean Energy Fuels Corp. ("CEFC"), an owner and operator of natural gas refueling facilities, raised US\$120 million on NASDAQ (trading symbol CLNE) through an initial public offering of 10,000,000 common shares at US\$12 per share, diluting the Company's interest in CEFC to approximately 5%. During the period, the Company sold 92,575 shares of CEFC for net proceeds of \$1,119 resulting in a gain on sale of long-term investment of \$718. On June 30, 2007, the Company owned 2,016,771 shares of CEFC which have been valued at \$13.38 per share.
- (b) The Company owns approximately 16% of Wild River Resources Ltd. ("WRRL"), a privately owned oil and gas company, and carries this investment at cost. 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. 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.

# WESTPORT INNOVATIONS INC.

Notes to Consolidated Financial Statements (unaudited)  
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Three months ended June 30, 2007 and 2006

## 4. Long-term investments (continued):

(c) The Company's investment in CryoFuel Systems Inc. ("Cryofuels"), a fuel company that produces, sells and distributes liquid natural gas, which had been carried at cost, was fully written off in the fiscal year ended March 31, 2003. Subsequently, Prometheus Energy Co. ("Prometheus"), a public company listed on the Alternative Investment Market of the London Stock Exchange under the symbol PEC, acquired the technology rights and other remaining assets of Cryofuels in exchange for shares in Prometheus. As a result, the Company now owns 147,072 shares of Prometheus which have been valued at \$1.44 per share.

## 5. Long-term debt:

	June 30, 2007	March 31, 2007
	(Unaudited)	
Capital lease obligations	\$ 117	\$ 135
Bank loan	6,741	6,741
Subordinated convertible notes	13,163	13,721
	20,021	20,597
Current portion	6,816	6,816
	\$ 13,205	\$ 13,781

The balance of the subordinated convertible notes has been reduced by the reclassification of \$774 of debt issue costs previously classified as deferred charges.

## 6. Other long-term obligations:

	June 30, 2007	March 31, 2007
	(Unaudited)	
Deferred lease inducements	\$ 474	\$ 530
Deferred revenue	1,142	1,190
	\$ 1,616	\$ 1,720

# WESTPORT INNOVATIONS INC.

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## 7. Share options:

(Unaudited)	Three months ended June 30, 2007		Three months ended June 30, 2006	
	Share options	Weighted average exercise price	Share options	Weighted average exercise price
Outstanding, beginning of year	5,228,993	\$ 2.05	4,968,563	\$ 2.05
Granted	30,000	1.91	27,859	1.05
Exercised	(391,459)	1.47	-	-
Cancelled / expired	(17,148)	(3.13)	(69,775)	(3.14)
Outstanding, end of year	4,850,386	\$ 1.94	4,926,647	\$ 2.03
Exercisable, end of year	2,769,914	\$ 2.29	1,511,625	\$ 3.18

The fair value of options granted for purposes of stock-based compensation has been determined using the Black-Scholes option pricing formula using the following weighted average assumptions: expected dividend yield – nil% (2006 – nil%); expected stock price volatility – 59.2% (2006 – 60.5%); risk free interest rate – 4.8% (2006 – 5.0%); expected life of options – 5 years (2006 – 6 years). The average fair value of options granted for the three months ended June 30, 2007 was \$1.05 (2006 – \$0.65). During the three months ended June 30, 2007, the Company granted a total of 30,000 share options to its employees which vest over three years. During the three months ended June 30, 2007, the Company recognised \$86 (2006 – \$91) of stock-based compensation associated with stock options that have vested during the current period.

## 8. Other equity instruments:

	June 30, 2007	March 31, 2007
	(Unaudited)	
Value assigned to performance share units	\$ 3,255	\$ 3,363
Value assigned to warrants	1,420	1,420
Value assigned to conversion options	7,569	7,569
	\$ 12,244	\$ 12,352

During the three months ended June 30, 2007, the Company granted 1,188,650 performance share units (“Units”) (2006 – 315,716). 87,193 Units were exercised during the three months ended June 30, 2007 and as at June 30, 2007 there are 3,164,616 Units outstanding of which 1,964,616 were exercisable. During the three months ended June 30, 2007, the Company recognised stock-based compensation expense of \$27 (2006 – \$263) related to units which vested during the period.

# WESTPORT INNOVATIONS INC.

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

Three months ended June 30, 2007 and 2006

## 8. Other equity instruments (continued):

The stock-based compensation associated with the 2003 Unit Plan and the stock option plan (note 7), is included in operating expenses as follows:

	Three months ended June 30	
	2007	2006
Research and development	\$ 20	\$ 32
General and administrative	77	306
Sales and marketing	16	16
	\$ 113	\$ 354

## 9. Research and development expenses:

Research and development expenses are recorded net of program funding received or receivable. For the three months ended June 30, 2007 and 2006, the following research and development expenses had been incurred and program funding received or receivable:

	Three months ended June 30	
	2007	2006
Research and development expenses	\$ 6,731	\$ 6,775
Program funding	(1,290)	(777)
Research and development	\$ 5,441	\$ 5,998

In the three months ended June 30, 2007 program funding is comprised mainly of funding from the Industrial Technologies Office (formerly Technology Partnerships Canada), the Australian Greenhouse Office and the U.S Department of Energy. In the three months ended June 30, 2006 program funding was comprised mainly of funding from Hydrogen Early Adopters (h2EA) Program, Sustainable Development Technology Canada and National Renewable Energy Laboratory. At June 30, 2007, \$5,227 (March 31, 2007 - \$5,150) of funding earned by the Company based on the terms of various funding agreements has not yet been received and is included in accounts receivable.

# WESTPORT INNOVATIONS INC.

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

Three months ended June 30, 2007 and 2006

## 10. Investment in Joint Venture:

The consolidated financial statements include the assets, liabilities, revenue and expenses of Cummins Westport Inc. ("CWI") as at and for all periods presented. From January 1, 2005, Cummins Inc. ("Cummins") shares equally in the profits and losses of CWI. However, the Company has determined that CWI is a variable interest entity and that the Company is the primary beneficiary. Accordingly, the Company continues to consolidate CWI with Cummins' share of CWI's income and losses included as "Joint Venture Partner's share of income from joint venture".

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

	June 30, 2007	March 31, 2007
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 9	\$ 43
Short-term investments	12,884	8,017
Accounts receivable	3,028	5,771
Prepaid expenses	107	354
Current portion of future income tax asset	1,626	1,778
	17,654	15,963
Future income tax asset	1,533	1,677
Equipment, furniture and leasehold improvements	183	184
	\$ 19,370	\$ 17,824
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,029	\$ 760
Deferred revenue	279	303
Current portion of warranty liability	3,667	3,767
	\$ 4,975	\$ 4,830
Long term liabilities:		
Warranty liability	\$ 2,739	\$ 3,091

# WESTPORT INNOVATIONS INC.

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

Three months ended June 30, 2007 and 2006

## 10. Investment in Joint Venture (continued):

	Three months ended June 30	
	2007	2006
	(Unaudited)	(Unaudited)
Product revenue	\$ 10,719	\$ 7,218
Parts revenue	3,888	2,978
	14,607	10,196
Cost of revenue and expenses:		
Cost of revenue	9,495	6,159
Research and development	1,978	1,664
General and administrative	154	350
Sales and marketing	1,117	737
	12,744	8,910
Income before undernoted	1,863	1,286
Interest and other income	177	65
Effect of foreign currency translation	(526)	177
Income before income taxes	1,514	1,528
Income tax expense:		
Current	(57)	-
Future	(297)	-
	(354)	-
Income for the period	1,160	1,528
Joint Venture Partner's share of net income from joint venture	(580)	(764)
Company's share of income	\$ 580	\$ 764

## 11. Segmented information:

The Company currently operates in one operating segment which involves the research and development and the related commercialization of engines and fuel systems operating on gaseous fuels. The majority of the Company's equipment, furniture and leasehold improvements are located in Canada. For the three months ended June 30, 2007, 49% (2006 – 72%) of the Company's revenue was from sales in North America, 30% (2006 – 6%) from sales in Asia, and 21% (2006 – 22%) from sales elsewhere.

# WESTPORT INNOVATIONS INC.

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

Three months ended June 30, 2007 and 2006

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## **12. Subsequent events:**

On July 26, 2007, Perseus, LLC ("Perseus"), through its affiliates exercised the conversion option on the approximately \$22.1 million of secured, subordinated convertible debentures (the "Notes") held by them in order to acquire approximately 16.5 million common shares of the Company which were sold to third parties at a price of \$3.10 per share for total gross proceeds of approximately \$51.3 million with all proceeds going to Perseus and its affiliates. As an inducement for them to convert, the Company agreed to pay to Perseus an amount equal to 50% of the interest that would otherwise have been payable on the converted Notes, on December 31, 2007 and June 30, 2008. These payments, including any interest amounts accrued to the date of conversion, are expected to total approximately \$884 and may be made, at the Company's option, in a combination of common shares, additional notes and, in certain circumstances, cash.