# Westport™

# fiscal 2012

# Annual Report

*for the year ending December 31, 2012*

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* *The financial information that follows represents the Amended Financial Statements and MD&A filed on May 31, 2013 which were amended to include as* [note 26] *the effect of the correction for the restatement described in* [note 2(a)], *include certain disclosure statements, make conforming changes and correct certain typographical errors contained in such materials.*



# Letter to Shareholders

## To our shareholders,

2012 was a remarkable year for Westport. We truly believe that we have passed the tipping point and we are now entering a new era for natural gas as a transportation fuel. In every market segment and in every geographic area, we saw strong evidence that all of the necessary conditions for strong market penetration and growth are now in place.

I will start by providing a brief review of the year and our strategic position, and discuss how we have realigned our business units for the next phase in our company's development. This is paralleled with a change in our financial presentation, which we believe will make our growth trends and path to profitability clearer.

We at Westport have made great efforts over the past decade to promote and deliver demonstration projects that prove natural gas could be viable as a transportation fuel. In the process, we recruited many partners and developed a broad consensus that our approach, which coordinates investments in infrastructure, vehicle development, and market development, could realistically deliver exciting returns to all of our stakeholders, including customers.

We now see broad consensus that natural gas is going to take a meaningful share of the transportation markets in which we participate. Industry reports suggest that by 2017, between 7% and 15% of the heavy-duty truck market in North America will be powered by natural gas. We can see similar numbers in China and rapid penetration in new markets like mining and rail. Our more mature market segments such as transit and refuse trucks continue to increase their market share as well. Given these factors, we concluded that 2012 marked the end of the proof-of-concept phase. We believe now our customers want a complete systems solution with clear economic advantages without giving up anything as they move to natural gas.

The path to a vibrant industry is in front of us and we are confident that we can achieve this. We intend to be one of the winners in this emerging opportunity and we believe we have the technology, partnerships and market position to deliver this.

For the past decade, the goal has been to attract new customers and show them that natural gas could work for them, so naturally the business metric has been revenue growth.

We believe it is now apparent to our partners that many people will want natural gas for transportation applications. We need to finish product development and deliver a broad array of the right products to market. We also need to help our partners sell and support these products, as well as expand our product offerings into new markets and geographies.

Most importantly, we need to reduce costs and reflect the savings in reduced prices to our customers and end users.

As I said, this is all underway. 2013 will see the beginning of the new phase of our industry, with natural gas products becoming mainstream, and we will grow from there.

Revenue growth is still a key metric, and we continue to foresee industry-leading sales growth. However, the emerging metrics for us and our partners are going to be return on investment, efficiency, scalability, cash flow, and operating income. We want our partners to see that this is going to be a great business opportunity and that means we all need to see the financial returns.

As we looked at the opportunity ahead, we concluded that we need to pivot away from our proof-of-concept, project-oriented organization, and increase the focus on our commercial products and our partnerships.

Therefore we have made a significant shift in our organization and we have changed our financial reporting accordingly. We believe this will more transparently explain our business and you can track our progress going forward.

We have reformed our former Westport LD and Westport HD business units into three new global business units:

1. **Applied Technologies** solves the technical challenges of using gaseous fuels on vehicles, and engineers and manufactures the specific unique vehicle components—such as fuel injectors, fuel pumps, fuel tanks, pressure regulators, and electronic controls—that are required to build best-in-class natural gas vehicles. This business unit sells globally to both original equipment manufacturers (OEMs) and aftermarket customers, as well as to our internal customers. This business unit contributed the most to our product revenue, at $92 million last year.

2. **On-Road Systems** works with major OEM partnerships including Volvo, PACCAR, Ford, General Motors, and Clark to design complete vehicles and have them designed to be produced in parallel or on the production line with major OEMs. Westport has developed unique partnerships with the majority of these OEMs and at this point we believe every transportation OEM must organize their natural gas product line within a very short time. In fact, we recently launched two new OEM programs to develop natural gas engines featuring Westport high pressure direct injection (Westport™ HPDI) technology.

3 **New Markets and Off-Road Systems** is responsible for major new markets such as off-road mining and locomotives, and our China initiative. Revenues are expected to come from product and component sales, the cryogenic vessels required to store the liquefied natural gas (LNG), and the control systems which deliver fuel to the engine associated with such vehicles. Our partnerships with Weichai and Caterpillar fall into this group.

We also have two major joint ventures (JVs), Cummins Westport Inc. (CWI) and Weichai Westport Inc. (WWI) where we receive a share of the profits from these companies. What we want to increasingly focus on is the revenue from sale of Westport products to customers using these JV engines, and we want the JVs to be reported in a parallel fashion. Our new presentation will show both JVs by equity profit share and our reported revenue will only include Westport product and services. Note that sales of products like the new Westport™ LNG Tank System to OEMs with CWI engines, or sales of products like Westport HPDI systems to Weichai, will appear as Westport product revenue.

As many of you are used to thinking about our numbers consolidated with CWI, for consistency purposes we will continue to report Westport plus CWI top line as a non-GAAP measure this year.

Looking at 2012 through this new lens, you can see a few things more clearly.

First, for the year ended December 31, 2012, compared to the year ended 2011:

:: Westport revenue was up 54% to $156 million;

:: CWI revenue was up 21% to $198 million; and

:: WWI was up 148% to $272 million.

Using our previous guidance methodology, Westport plus CWI, total revenue was $354 million, which exceeded the $340 to $350 million guidance for 2012.

In 2013 we will see continued growth in our existing product lines but we will also see the launch of some very important new products:

:: the Cummins Westport ISX12 G engine, which has seen great interest;

:: the Westport LNG Tank System for vehicles with those engines, which solves a major fuel storage issue for the industry;

:: the first LNG truck with Westport HPDI technology in China; and

:: the Westport™ WiNG Power System for the Ford F-450/F-550 Super Duty pickup trucks.

That said, we cannot put vehicles on the road unless people know how to refuel. This year is also a transition year, we believe, for a phase change in this challenge. We are not where we need to be today but we expect that the situation gets dramatically better in 2013 and in 2014, and by 2015 we believe this will no longer be seen as a serious challenge anywhere in the world. We will not be finished with infrastructure, but any customer who wants fuel should be able to access it anywhere by then.

Westport is now in transition from a market creation story to a business execution story, in what we expect to be a very large industry.

Now that we have proven the capability of our "capital-light" partnering model and now that we are seeing market acceptance of our products and product plans in each segment, we can shift our focus to more traditional management issues, such as reducing cost and improving reliability, product evolution, sales and marketing efficiency, customer support and filling out our portfolio. However, we believe we have developed a very broad platform for growth and profitable returns for our shareholders for years to come. We are in a fortunate and very exciting position. The opportunity is here. The market is ready. Westport has a unique position and a unique opportunity. Over the next few years, we will begin to see the payoff for our long investment. Thank you for your patience and I look forward to reporting our achievements ahead.

On behalf of our Board of Directors and management team, and our employees around the world, we thank you for your continued support and confidence in Westport.

Sincerely,

David R. Demers
Chief Executive Officer

Bill E. Larkin
Chief Financial Officer





## As a global clean technology leader,

We offer low-carbon transportation solutions to a world increasingly concerned about climate change, energy security, fuel price volatility and sustainable mobility. We are pleased to share progress and challenges, in our sixth sustainability report outlining key information on Westport's social and environmental impacts. 2012 was a year of tremendous growth and firmly cemented Westport's position as a global company. It is important therefore that our sustainability report encompasses social and environmental performance trends from each of our operating locations. You can expect to see an expanded global discussion in our 2013 report.

The challenge of transitioning to natural gas across the entire transportation sector will require collaboration. In this report, we highlight how Westport partnerships and joint efforts have targeted a number of sustainability issues such as science education, the reliability of energy systems in the developing world, and energy literacy.

More comprehensive discussion will occur on our website, westport.com and in future annual reports. We invite your feedback, your insights and your comments. Any questions or observations regarding Westport's sustainability performance may be directed to sustainability@westport.com.

> **"There are competing priorities in the pursuit of new fuel and vehicle technologies that are reliable, affordable and environmentally advanced and natural gas is well-positioned..."**

## Collaboration in 2012

### National Petroleum Council's "Advancing Technology for America's Transportation Future"

Westport was an active participant in the National Petroleum Council's (NPC) most recent 2012 publication *"Advancing Technology for America's Transportation Future"*. The report was requested by the U.S. Secretary of Energy Steven Chu to examine opportunities to accelerate alternative fuel prospects for passenger and freight transport through 2050. The study included over 300 participants representing industry, government, academia and non-governmental organizations who contributed their knowledge and time to an examination of the potential of fuels and technologies for the light-duty and heavy-duty transport sector.

"There are competing priorities in the pursuit of new fuel and vehicle technologies that are reliable, affordable and environmentally advanced and natural gas is well-positioned within the study," said Karen Hamberg, Vice President of Sustainable Energy Futures at Westport. "The potential for a long-term and low-cost domestic supply of natural gas driven by economically recoverable, unconventional resources provides the economic driver for the increased use of natural gas for transportation."

### The Clinton Global Initiative "Tower Power"

Westport became a member of the Clinton Global Initiative (CGI) in 2012 and announced our first Commitment to Action at the CGI Annual General Meeting in September. Our commitment aims to reduce greenhouse gas emissions from mobile phone towers in India and provide residual power to nearby villages that are currently off the grid.

India's electrical grid is challenged by the growing number of mobile phone towers and many are powered totally or in part by diesel generators. According to the Telecom Regulatory Authority of India (TRAI), there are close to 400,000 off-grid mobile phone towers in the country which use about two billion litres of fuel annually. These towers release approximately 6.5 million tonnes of carbon dioxide, making them the second largest source of greenhouse gas emissions in the country.

The use of natural gas or biogas powered generators will reduce greenhouse gas emissions and provide a stable source of power to these towers. Fifty percent of mobile towers in India are disconnected from the grid for at least eight hours a day. With an established correlation between energy consumption and the Human Development Index, another critical outcome of this project is that the residual electricity can be used to power rural communities. If successful, this solution could

be applied to other regions in the world that face similar challenges. Over the next three years, our team will pilot this project in five communities across India to establish best practices that could be replicated in other parts of the world.

### Business for Social Responsibility (BSR)

Westport joined Business for Social Responsibility (BSR) in 2012. The BSR working group, "Future of Fuels", is a new collaborative initiative with experts from the private, non-profit, public and academic sectors and will for the first time, provide companies with information about the range of sustainability impacts of their transportation fuel choices from climate change to human rights to economic development." The Future of Fuels is an opportunity for Westport to share our expertise in alternative fuel technology and we plan to actively engage this working group to learn and contribute to this important discussion. More information at www.bsr.org.

### Canadian Business for Social Responsibility (CBSR)

Westport has been a member of Canadian Business for Social Responsibility since 2001 and was one of the first members of the Canadian high-tech sector to join this group of progressive organizations committed to the principles of sustainability. More information at www.cbsr.ca.

### Network for Business Sustainability (NBS)

We joined the Network for Business Sustainability in 2012 as a member of their Leadership Council. "The Leadership Council is a group of Canadian sustainability leaders from diverse sectors. These organizations annually identify their top priorities in business sustainability – the issues on which their companies need authoritative answers and reliable insights. These sustainability priorities inform and shape NBS's research agenda." More information at www.nbs.net.

### Carbon Price Communiqué

The Carbon Price Communiqué is a historic call for action coordinated by the Prince of Wales' Corporate Leaders Network for Climate Action in association with the World Business Council on Sustainable Development (WBCSD) and the International Emission Trading Association (IETA). Bringing together a broad coalition of stakeholders, the Carbon Price Communiqué signals the readiness of leading companies to tackle one of the most urgent challenges of the 21st century. It also underscores the importance of regulatory certainty for reducing greenhouse gas emissions while encouraging growth in energy, transport and the built environment. Westport joined more than 120 corporations to call on governments around the world to put a price on carbon.

We believe it is good environmental and public policy to broadly apply carbon pricing to encourage a shift to lower-carbon fuels and drive innovation. We are pleased to support the Carbon Price Communiqué in its call to raise awareness and advance a carbon pricing policy that is stable, clear, transparent, and ambitious.

## Report Scope

At this time, we only report on our operations in British Columbia, Canada. We will include global facilities in next year's report to provide a more comprehensive overview of our social and environmental impacts. While the majority of our engine testing and development occurs in Vancouver, we recognize that we must tell a more complete story about our activities, success and challenges.

## The Importance of the Global Reporting Initiative

The Global Reporting Initiative (GRI) provides a consistent means for companies to voluntarily report on the economic, social and environmental impacts of their business. The GRI's 79 indicators and associated methodologies enable companies to facilitate decision-making and improve sustainability performance based on globally recognized indicators.

Perhaps one of the most significant advantages of the GRI is the ability to compare the performance of Westport to our OEM partners and competitors. This report, prepared in accordance with the GRI Third Generation Guidelines (G3), discloses data from January to December 2012. Historical data from the past four fiscal years have been included for comparative purposes, where appropriate.

Westport has self-declared this report to correspond to application level B in the six-level grid of the GRI G3 guidelines. Application Level B requires us to disclose our performance on at least twenty core economic, social and environmental indicators The GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. For further information about the GRI, visit www.globalreporting.org





### Sustainability Indicator Index

**LEGEND** [indicator description] (report location)

AA1 (report on this indicator) BB2 (partially report on this indicator)

**Economic Performance**

- EC1 Direct economic value generated and distributed (2012 Audited Financial Statements)
- EC2 Financial implications and risks and opportunities of climate change (Climate Change Risks and Opportunities)

**Social Performance**

*(Human Rights, Labour Practices, Societal Impacts, and Product Responsibility)*

- HR3 Employee training on human rights (Human Rights)
- LA1 Total workforce by employment type, employment contract, and region (Employee)
- LA3 Benefits provided to full-time, part-time and temporary employees (Employee)
- LA6 Workforce represented in Occupational Health and Safety Committees (Health and Safety)
- LA7 Rates of injury, occupational disease, lost days, and work-related fatalities (Health and Safety)
- SO1 Nature, scope and effectiveness of programs to manage impact on communities (Community Impacts)
- SO2 Percentage and total number of business units analyzed for risks related to corruption (Anti-Corruption Efforts)
- SO3 Percentage of employees trained on anti-corruption policies and procedures (Anti-Corruption Efforts)
- PR1 Life cycle stages: health and safety impacts of products–assessed for improvements (Product Responsibility)
- PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products (Health and Safety)

**Environmental Performance**

- EN3 Direct energy consumption by primary energy source (Energy)
- EN4 Indirect energy consumption by primary source (Energy)
- EN5 Energy saved due to conservation and efficiency efforts (Energy)
- EN6 Initiatives to provide energy-efficient or renewable based products and reductions (Energy)
- EN7 Initiatives to reduce indirect energy consumption and reductions achieved (Energy)
- EN8 Total water withdrawal by source (Water)
- EN16 Total direct and indirect greenhouse gas emissions (Greenhouse Gas Emissions)
- EN18 Initiatives to reduce GHG emissions and reductions achieved (Greenhouse Gas Emissions)
- EN22 Total amount of waste by type and disposal method (Waste Generation and Diversion)
- EN23 Total number and volume of significant spills (Waste Generation and Diversion)
- EN28 Value of fines and non-monetary sanctions for environmental non-compliance (Environmental Compliance)

## Social Performance

### Human Rights

Westport is committed to the respect of all fundamental and universally recognized human rights based on accepted international laws and practices such as those set out in the United Nations Universal Declaration of Human Rights and the International Labour Organization. Our commitment to value and uphold human rights is stated in our Code of Conduct that is reviewed annually and signed by all employees.

### Total Workforce

Westport experienced significant growth in 2012 with the number of full-time employees increasing by 42%. While rapid growth presents challenges, we continue to strive to provide a healthy work environment characterized by respectful relationships, professional development and advancement potential and an execution-focused culture to capitalize on business opportunities. A similar benefits package is offered to both full-time and part-time employees.[1]

| (as of Dec. 31, 2012) | contractor | full time | part time* | total |
|---|---|---|---|---|
| Argentina | - | 23 | - | 23 |
| Australia | - | 21 | - | 21 |
| Canada | 20 | 433 | 21 | 474 |
| China | - | 76 | 1 | 77 |
| France | 1 | 6 | - | 7 |
| Italy | 35 | 284 | - | 319 |
| Korea | - | 2 | - | 2 |
| Sweden | 4 | 29 | - | 33 |
| U.S.A. | 25 | 60 | 2 | 87 |
| | 85 | 934 | 24 | 1,043 |

* part time includes co-op and intern

### Health and Safety

The health and safety of our employees, facilities and communities is an integral part of daily business at Westport. When gauging world-class safety performance, recordable injury rates and lost-time injury rates are statistical, comparative industry measures. Our results are indicative of our ongoing and significant commitment to injury prevention, risk mitigation, regulatory compliance and continuous safety improvement. Our Health and Safety Committee members are champions

1 Part-time employees must work at least three days per week to be eligible for the same benefits package as full-time employees. Casual employees or contractors are not eligible for benefits.

for workplace safety. Westport maintains two Health and Safety Committees in British Columbia or approximately one Committee for every 227 employees. Our Committees are made up of cross-functional management and employee representatives who advise and recommend action on any unresolved workplace health and safety issues brought to them.

| Safety Incidents (unaudited) | 12 months ended | | | | |
|---|---|---|---|---|---|
| | Dec 2012 | Dec 2011 | Mar 2011 | Mar 2010 | Mar 2009 |
| Recordable injury frequency | 2 | 1 | 0 | 2 | 0 |
| Recordable injury rate[2] | 0.46 | 0.31 | 0 | 0.82 | 0 |
| Lost time injury frequency | 1 | 1 | 0 | 1 | 0 |
| Lost time injury rate[3] | 0.23 | 0.31 | 0 | 0.41 | 0 |

## Community Impacts

The liveability of specific locales or areas may be 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. Our Facilities Engineering Group maintains a preventative maintenance schedule for key equipment to minimize the likelihood of environment releases and noise levels in excess of municipal by-laws. Westport responds to community concerns regarding our facilities, infrastructure, noise levels and environmental impacts in a timely manner. No formal community complaints were received during this reporting period.

## Anti-Corruption Efforts

Our expectations for individual integrity and ethical, moral and legal conduct are outlined in our Code of Conduct. The Code of Conduct has mandated compliance with all applicable laws in the jurisdictions where we operate and has always prohibited the giving or receiving of improper payments to influence business decisions. In addition, Westport maintains a confidential Ethics Hotline to provide an avenue for employees to raise concerns about corporate conduct. The policy includes the reassurance that they will be protected from reprisals or victimization for "whistle blowing" in good faith.

[2] 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. First aid classified injuries are not included.

[3] The lost time injury rate is a calculation of the total number of lost time injuries x 200,000/ employee hours worked. Lost days refer to scheduled work days and the count begins on the next scheduled work day immediately after the injury.

## Product Responsibility

Quality and safety are imperatives across the product life cycle. Our Quality Management System (QMS) is certified to ISO 9001:2008 standards for the design, assembly and commercialization of its liquefied natural gas (LNG) fuel systems. Westport QMS comprises the organization's policies and procedures that aim to ensure that customer requirements are met with consistency, resulting in enhanced customer confidence and satisfaction. The QMS, other internal requirements and engineering systems have contributed to no incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of our products. Internal systems and processes have been established to ensure that the health and safety impacts of our products are assessed in each of the following life-cycle stages:

| Health and Safety Impacts Assessed at Life-Cycle Stage | status |
|---|---|
| Development of product concept | YES |
| Research and development | YES |
| Certification | YES |
| Manufacturing and production | YES |
| Marketing and promotion | YES |
| Storage, distribution, and supply | YES |
| Use and service | YES |
| Disposal, reuse, or recycling | PARTIAL |

## Community Engagement

Our employees make significant contributions to the communities in which they live and work. 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 close to $800,000 to the United Way and our campaigns have been recognized as leading workplace efforts. We are pleased to support internal fundraising efforts and offer each employee 16 hours of paid leave each year to volunteer with a charitable organization of his/her own choosing.

IMPACT is an employee team established to lead community engagement and community enrichment activities. 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 communities in which we live, our immediate neighbours in Vancouver and our workplaces. IMPACT initiatives and its three pillars of Environment, Education and Community are profiled in more detail on **westport.com**.





These three platforms encompass how Westport can contribute ideas, volunteer time and money to the alleviation of poverty, a more sustainable environment and a dialogue on the importance of science and technology.

### Our Partnership with Science World

Science World is dedicated to inspiring science and technology leadership in British Columbia. Westport is a contributor to Science World's "Bridging the Science Gap" campaign through its sponsorship of the transportation exhibit in the newly-opened Ken Spencer Science Park. This park is an interactive outdoor science park designed to educate children about the future of new, clean, low-carbon technologies. The Westport-sponsored exhibit conveys a "Clean Transportation Story" with interactive elements to demonstrate how everyday choices can impact our carbon footprint.

### United Way of the Lower Mainland Community Schools

Westport is one of the first corporate partners to join the United Way of the Lower Mainland in offering after-school classroom activities via the Community Schools Program. Westport employees get the opportunity to volunteer as program leaders and participate in after-school activities with children aged 6 – 12.

In 2012, three Westport employees led the inaugural "Yarn Artists" program. As instructors they were responsible for weekly lesson plans for an eight week class. Research funded by United Way[4] of the Lower Mainland found that school-age children are experiencing increased isolation and disconnection. Many problems that appear in middle childhood such as social isolation and declining self-esteem, if left unchecked, become more challenging as at-risk children move into adolescence. After- school programs help children to improve their social skills and competence, make positive lifestyle choices, experience greater academic success and build enthusiasm for school and learning. Children between the age of 9 and 10 attended the after- school program to learn how to crochet and make other yarn crafts. United Way's Community School Program is a gift of time and leadership skills and we look forward to offering more musical, artistic and athletic curriculum and programs.

### Canadian Blood Services

Westport has been a member of the Canadian Blood Services' Partners for Life Program since 2001. This nationwide program is designed to encourage group donations from business and community organizations. Each year, we set a target, coordinate group donations and allow employees to take time from work to donate.

[4] United Way of the Lower Mainland's Annual Report (April 2009 to March 2010)

The Canadian Blood Services' Bloodmobile visited our offices for the first time in 2012 and we were able to collect more than 40 donations that day. In 2012, we made 111 donations or enough blood to impact over 300 lives.

# Environmental Performance

## Environmental Compliance

Compliance with applicable federal, provincial, and municipal regulations is a baseline environmental performance standard and we believe that leading organizations must go beyond minimum environmental requirements. Since its inception in 1996, Westport has not received any fines or non-monetary sanctions for environmental non-compliance.

## Water

It is expected that climate change will impact global water resources. Water use is an increasingly critical component of each organization's sustainability performance. Despite this, 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 light industrial or commercial customers such as Westport.

Our calculations indicate that Westport facilities cumulatively have an average daily rate of water use of approximately 13.5 $m^3$ per day. Engine and fuel system component testing activities use process water that flows in a closed-loop thereby minimizing total water withdrawals. Water conserving domestic appliances and fixtures has been installed at all locations in an effort to further reduce our impact.

## Energy Consumption

| | gigajoules for the year ended | | | | |
|---|---|---|---|---|---|
| (unaudited) | Dec 2012 | Dec 2011 | Mar 2011 | Mar 2010 | Mar 2009 |
| **Direct** | | | | | |
| Diesel | 2,544 | 1,250 | 1,146 | 1,920 | 2,050 |
| Propane | 35 | 99 | 120 | 615 | 353 |
| LNG | 8,466 | 11,193 | 13,395 | 6,795 | 12,551 |
| CNG | 28,802 | 19,352 | 13,363 | 28,328 | 19,708 |
| Natural gas returned | (1,860) | (3,663) | (7,102) | (2,508) | (7,167) |
| Net direct consumption | 37,987 | 28,232 | 20,922 | 35,149 | 27,495 |
| **Indirect** | | | | | |
| Electrical | 12,239 | 7,392 | 5,961 | 8,726 | 8,115 |

The overall energy consumption increased in the reporting year. This result can be attributed to a number of factors:

1. In 2012, we built a new High Technology Centre (HTC) in Vancouver. As part of the expansion in product and service offerings, we have added the state-of-the art testing facilities. The new HTC allows us to perform development and certification testing in-house which streamline the testing process. The new HTC adds three more transient test cells and we now operate six transient dynamometers. When the engines are running during the test, they generate electricity which can be used by the facility. If the power cannot be used, it is returned to the grid.

2. We acquired about 27% more office space square footage due to an increase in employee headcount.

3. The increase in diesel is due to variable testing schedules. There are times when we are evaluating several engines which run on diesel only. Moreover, we have increase our on road testing which means more engineering trucks are running different tests.

## Greenhouse Gas Emissions

The Greenhouse Gas Protocol developed by the World Business Council on Sustainable Development (WBSCD) is the globally accepted standard for greenhouse gas (GHG) emissions accounting. The organizational boundary of this inventory includes all of Westport's British Columbia-based facilities and includes both scope one and scope two emissions.[5] We have not measured scope three emissions to date.

| Greenhouse Gas Inventory [6] *(unaudited)* | tonnes $CO_2$ equivalent for the 12 months ended | | | | |
|---|---|---|---|---|---|
| | Dec 2012 | Dec 2011 | Mar 2011 | Mar 2010 | Mar 2009 |
| Total Scope 1 Direct Emissions | 2,224.2 | 1,805.5 | 1,192.3 | 2,005.4 | 1,383.2 |
| Total Scope 2 Indirect Emissions | 288.0 | 237.0 | 194.0 | 245.0 | 244.0 |
| Total GHG impact | 2,512.2 | 2,042.5 | 1,386.3 | 2,250.4 | 1,627.2 |

Finding comparable organizations against which to benchmark our GHG emissions remains a challenge. There are currently no regulatory requirements for a company of our size to disclose its emissions.[7] The process of compiling a GHG inventory is an important first step in understanding reduction opportunities and measuring progress.

Westport prepared its first CDP report in 2012 to work towards our goal of enhanced corporate transparency and disclosure related to environmental performance and climate change. The Carbon Disclosure Project (CDP) is a global, independent not-for-profit organization working to drive greenhouse gas emissions reduction and sustainable water use. The CDP provides a platform for thousands of companies and cities to measure, disclose, manage and share environmental information and works with to advance the investment opportunities and reduce the risks posed by climate change.

The process highlighted our strengths and opportunities for improvement. One of our strengths is our technology and products enable the range of light to high-horsepower petroleum-based fuel engines to use primarily natural gas, giving users a cleaner and generally less expensive alternative fuel based on a more abundant natural resource. We have also identified the opportunities to integrate climate change risk into our risk management procedures and overall business strategy.

## Waste Generation and Diversion

Waste reduction, reuse and recycling programs are well established and well-maintained. Using formulas based on bin size and frequency of collection, Westport generates approximately 200 tonnes of waste annually. Reducing the amount of waste sent to landfill remains a priority and we have launched employee education and awareness efforts to communicate the importance of minimizing the amount of waste generated.

We extend the opportunity for employees to recycle electronics, batteries, confidential paper and some hazardous waste like paint through our waste minimization program.

Our Facilities Engineering Group tracks the amount of waste recycled via our hazardous waste program, scrap materials collection and office waste initiatives.

| Types of Hazardous and Solid Waste Recycled | | | |
|---|---|---|---|
| Aluminum | Coolant | Lube oil | Stainless steel |
| Batteries | Diesel | Other plastic | Tires |
| Beverage containers | E-waste | Paper | Viscor |
| Cardboard | Filters / rags | Plastic oil pails | Wastewater |
| Cellphones | Light bulbs | Solvents | Wood |

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

6 *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.*

7 *In Canada, Large Final Emitters (LFEs), those facilities that emit the equivalent of 100,000 tonnes (100 kT) or more of* **carbon dioxide ($CO_2$) equivalents** *per year are required to disclose their emissions.*





## Basis of Presentation

This Management's Discussion and Analysis ("MD&A") for Westport Innovations Inc. ("Westport", the "Company", "we", "us", "our") is intended to assist readers in analyzing our financial results and should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, for the fiscal year ended December 31, 2012. Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The Company's reporting currency is the U.S. dollar. This MD&A is dated May 31, 2013.

On May 30, 2011, the Board of Directors approved a fiscal year-end change from March 31 to December 31 to align the year ends of all consolidated operating companies to the calendar year. As a result of changing our year end, the previous reporting period is a "stub" period of only nine months (April 1, 2011 to December 31, 2011). Due to the difference in period lengths, the consolidated statements of operations and statements of cash flows are not directly comparable.

In our previously filed annual and interim financial statements in fiscal 2012 and 2011, the Company had identified Cummins Westport Inc. ("CWI") as a variable interest entity ("VIE") and Westport's interest as being that of the primary beneficiary upon adoption of *Accounting Standards Update 2009-17, Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises with Variable Interest Entities*, ("ASU 2009-17") effective April 1, 2010. As a result, the Company consolidated CWI on a line by line basis in its consolidated financial statements reflecting its financial position, results of operations and cash flows.

Based on the Company's ongoing review and adoption of the applicable accounting guidance in ASU 2009-17 and related interpretations, the Company concluded that CWI should be accounted for under the equity method because CWI continues to be a VIE but there is no primary beneficiary. Cummins and Westport each own 50% of the common shares of CWI and have equal representation on the Board of Directors. No one shareholder has the unilateral power to govern CWI. The Board of Directors has power over the operating decisions and to direct other activities of CWI that most significantly impact CWI's economic performance as set forth in the governing documents. As decision-making at the Board of Directors' level requires unanimous approval, this power is shared. Accordingly neither party is the primary beneficiary.

Commencing with the annual report for the year ended December 31, 2012, the Company is recording the results of CWI using the equity method and has restated its consolidated financial statements for the nine month period ended December 31, 2011 and the year ended March 31, 2011 on a similar basis. This restatement did not affect the reported amounts of net loss attributable to the Company, loss per share or shareholders' equity but has impacted certain amounts disclosed. The Company's interest in the net assets of CWI is now presented net on a single line in other long-term investments on the balance sheet, and the Company's share of net earnings of CWI is reflected in income from investments accounted for by the equity method in the statements of operations. The assets, liabilities, revenues and expenses of CWI previously included on the balance sheet and statement of operations on a line by line basis are summarized in **[note 7(b)]** of our audited consolidated financial statements, for the fiscal year ended December 31, 2012. There was no cumulative effect from adoption of ASU 2009-17 at April 1, 2010.

The Company originally filed its consolidated financial statements for the year ended December 31, 2012 reflecting the restatement described above on or about March 7, 2013. Subsequent to the date of filing the 2012 annual consolidated financial statements, the Company has identified additional disclosures to assist in understanding the impact of the change in accounting for CWI. See **[note 7(b)]** and **[note 26]** of our audited consolidated financial statements for the fiscal year ended December 31, 2012 for the additional disclosures and the effect of the corrections on each financial statement line item for previously issued financial statements.

In addition, the Company identified amounts reclassified from foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 ($2,040) and the year ended March 31, 2011 ($1,042) to be consistent with the revised presentation of CWI and revised the pro forma revenue amounts for these periods in **[note 4(a)]** and **[note 4(b)]**. The Company also identified disclosure reclassifications in deferred income taxes from non-current to current ($5,639) for balances as at December 31, 2011 **[note 20(b)]** and segmented information related to long-lived assets information **[note 24]** allocated by geographic areas as at December 31, 2012 and December 31, 2011. Finally, certain typographical errors have been corrected to ensure consistency of presentation.

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

## Forward Looking Statements

This MD&A contains forward-looking statements that are based on the beliefs of management and reflects our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Act of 1934, as amended. Such statements include but are not limited to statements regarding the orders or demand for our products, our investments, cash and capital requirements, the intentions of partners and potential customers, the performance of our products, our future market opportunities, availability of funding and funding requirements, our estimates and assumptions used in our accounting policies, our accruals, including warranty accruals, our financial condition, availability of funding and funding requirements, timing of when we will adopt or meet certain accounting and regulatory standards and the alignment of our business segments. 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 activity, performance or achievements expressed

in or implied by these forward looking statements. These risks include risks related to revenue growth, operating results, industry and products, general economy, conditions of the capital and debt markets, government or accounting policies and regulations, technology innovations, as well as other factors discussed below and elsewhere in this report, including the risk factors contained in the Company's most recent Annual Information Form filed on SEDAR at **www.sedar.com**. The forward-looking statements contained in this MD&A are based upon a number of material factors and assumptions which include, without limitation, market acceptance of our products, product development delays in contractual commitments, the ability to attract and retain business partners, competition from other technologies, price differential between natural gas and liquefied petroleum gas, unforeseen claims, exposure to factors beyond our control as well as the additional factors referenced in our annual information form. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based or that may affect the likelihood that actual results will differ from those set forth in the forward looking statements except as required by applicable legislation.

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

## Business Overview

We are a leading provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Our technology and products enable light-duty (less than 5.9-litre), medium-duty (5.9- to 8.9-litre), heavy-duty (11- to 16-litre), and high-horsepower (greater than 16-litre) petroleum-based fuel engines to use primarily natural gas, giving users a cleaner, and generally less expensive, alternative fuel based on a more abundant natural resource. Through our partnerships and direct sales efforts, to date, we have sold over 73,000 natural gas and propane engines and fuel systems to customers in more than 19 countries. We currently have strategic relationships with three of the world's top four engine producers and supply or have strategic relationships with six of the world's top ten truck producers, as well as eight of the world's top ten automotive manufacturers.

Since our founding in 1995, we have focused on developing technology that allows us to produce more environmentally sustainable engines without compromising the performance, fuel economy, durability and reliability of diesel engines. We have invested over $400 million towards the research, development and commercialization of our proprietary technologies, which allow engines to operate on natural gas while preserving the key benefits of diesel engines. The substitution of natural gas for petroleum-based fuel drives a significant reduction in harmful combustion emissions, such as nitrogen oxides, particulate matter and greenhouse gases, in addition to providing a relatively inexpensive alternative fuel from a more plentiful natural resource. Our systems enable combustion engines to use gaseous fuels, such as natural gas, propane, renewable natural gas or hydrogen. Our research and development efforts and investments have resulted in a substantial patent portfolio that serves as the foundation for our differentiated technology offerings and competitive advantage.

We leverage our proprietary technology by partnering with the world's leading diesel engine and truck original equipment manufacturers ("OEMs") to develop, manufacture and distribute our engines and fuel systems to a diverse group of global truck and bus OEMs. Our strategic relationships with OEMs provide us with access to their manufacturing capacity, supply chain and global distribution networks without incurring the considerable investment associated with these assets. We commercialize our technology in markets where demand for clean, low emission engines is prevalent.

## Business Unit Realignment

During the fourth quarter of 2012, Westport created new internal reporting alignments to accommodate the variety in product, system and service solutions provided by Westport. In addition, Westport is expecting to deliver new and existing products across multiple platforms under the single "Westport" brand going forward. We have removed label restrictions described as "Light-Duty", "Heavy-Duty" or "High-Horsepower" to allow us to enter new markets with new and existing products and services under the one brand: "Westport".

Internal operating segments following the realignment include: Applied Technologies, On-Road Systems, New Markets and Off-Road Systems, and Corporate and Technology Investments. In addition, Westport has a diverse set of OEM development relationships and joint ventures.

The principle focus and responsibilities of the new reporting alignments are summarized below:

### Applied Technologies

The Applied Technologies business unit ("Applied Technologies") designs, manufactures and sells compressed natural gas ("CNG"), liquefied petroleum gas ("LPG"), and liquefied natural gas ("LNG") components and subsystems to over 20 global OEMs including Fiat, Volkswagen, the GAZ Group, Toyota, Chrysler, Tata, and General Motors ("GM") and to aftermarket customers in over 60 countries. Sales from Westport wholly owned Italian subsidiaries OMVL S.p.A. ("OMVL") and Emer S.p.A ("Emer") and Westport's Australian operations are reported under Applied Technologies and are made either directly to OEMs or through one of their many distributors. Applied Technologies designs and manufactures a range of components from pressure regulators, injectors, ECUs and valves, to filters; sells monofuel and bi-fuel conversion kits; and also offers full engine management solutions and systems that can be launched quickly at a competitive price. Applied Technologies provides Westport with high volume, scalable manufacturing and assembly. The business unit has a strong customer base in Europe and is targeting growing markets in Asia, and North and South America.





### On-Road Systems

The On-Road Systems business unit ("On-Road Systems") engineers, designs, assembles and sells complete engine and vehicle systems for automotive, light commercial, trucking and industrial applications. Westport's existing On-Road Systems OEM customers and partners include Ford, GM, PACCAR Inc. ("PACCAR") (Kenworth and Peterbilt, a PACCAR company), Volvo Car Corporation ("Volvo Car"), AktieBolag Volvo ("AB Volvo"), and Clark Material Handling ("Clark"). Current products include the Westport WiNG™ Power System ("Westport WiNG System") for the Ford F-250/F-350 and F-450/F-550 bi-fuel (CNG and gasoline) Super Duty pick-up truck, Westport™ 15L product using Westport high pressure direct injection ("Westport™ HPDI") technology and offered in Peterbilt and Kenworth heavy-duty trucks, Volvo Car bi-fuel systems (CNG and gasoline) for the V70 Bi-Fuel wagon, and Westport™ 2.4L industrial engines sold to Clark and Cummins Western Canada for forklift and oilfield applications, respectively.

On-Road Systems also has additional product development activities underway with AB Volvo for Westport HPDI-powered heavy-duty trucks and advanced engineering development with GM for light-duty vehicles. To facilitate faster adoption of natural gas vehicles, the On-Road Systems business unit also provides additional products and services such as the new Westport™ LNG Tank System and JumpStart mobile fuel services. Growth drivers include growing existing product sales, new product introduction and market expansion.

### New Markets and Off-Road Systems

The New Markets and Off-Road Systems business unit ("New Markets and Off-Road Systems") has been exploring opportunities for using LNG fuel in the large, off-road engine applications like rail, mining, marine and oil & gas. Westport's existing New Markets and Off-Road Systems OEM customers and partners include Caterpillar Inc. ("Caterpillar") and Weichai Power Co. Ltd. ("Weichai"). According to industry statistics and Westport analysis, the global fuel usage in these applications is over 24 billion gallons of diesel and the opportunity for significant fuel cost savings and reduced emissions through the use of LNG is highly attractive. In June of 2012, Westport and Caterpillar signed an agreement to collaborate and bring Westport's HPDI technology into these markets. The initial focus of New Markets and Off-Road Systems is on developing Westport HPDI-based large mine trucks and main line locomotives and the Weichai Westport Inc. ("WWI") 12L development program.

Revenues are expected to come from product and component sales, the cryogenic vessels required to store the LNG, and the control systems which deliver fuel to the engine associated with such vehicles. There is a large market opportunity for cryogenic systems where Westport has technology in LNG storage and pump configurations for transportation based on years of experience in On-Road Systems. Westport currently provides a number of cryogenic tank system solutions to carry fuel for large non-Westport HPDI LNG off-road engines currently available as interim solutions in mining, marine and rail until the release of the higher diesel substitution solutions based on direct injection.

### Corporate and Technology Investments

The Corporate and Technology Investments business unit ("Corporate and Technology Investments") includes investments in new research and development programs and revenues and expenses related to development programs with OEMs, corporate oversight and general administrative duties. Corporate and Technology Investments focuses on long-term product development and future return on investments.

### Westport Joint Ventures

#### Cummins Westport Inc.

Cummins Westport Inc. ("CWI"), our 50:50 joint venture with Cummins, Inc., ("Cummins"), serves the medium to heavy-duty engine markets. CWI engines are offered by many OEMs of transit and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks, material handling trucks, street sweepers and vehicles for selected industrial applications. The fuel for CWI engines is typically carried on the vehicles as CNG or LNG. CWI engines are produced at certain Cummins' plants, allowing CWI to leverage Cummins' manufacturing footprint without incurring additional capital costs. CWI also utilizes Cummins' supply chain, back office systems and distribution and sales networks.

#### Weichai Westport Inc.

Weichai Westport Inc. ("WWI"), a joint venture between Westport (35% interest), Weichai Holding Group Co. Ltd., ("Weichai Holding") (40% interest) and Hong Kong Peterson (CNG) Equipment Ltd. ("Hong Kong Peterson") (25% interest) to focus on the Chinese market. WWI develops, manufactures and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach and heavy-duty truck applications in China or exported to other regions globally. WWI's facility in China currently has an annual production capacity of 40,000 engines.

## General Developments

On February 20, 2012, we announced that we had entered into an amended and restated joint venture agreement ("JVA") with Cummins for the CWI joint venture. The JVA was amended to provide for, among other things, clarification concerning the scope of products within CWI. In addition, the parties have revised certain economic terms of the JVA.

On February 27, 2012, we announced the closing of an offering of common shares of Westport ("Common Shares"), including the exercise of the underwriters' over-allotment option in full. With the exercise of the option, we issued a total of 6,325,000 Common Shares under the offering for gross proceeds of $273.6 million.

On March 6, 2012, we acquired certain assets of Advanced Engine Components Limited ("AEC") of Perth, Western Australia, for US$1.1 million (AUD $1.1 million) paid in cash and assumed liabilities. On completion of the transaction, we acquired AEC's Australian business assets including its intellectual property, key contracts, inventory and fixed assets. We also assumed AEC's Australian leased facility and kept approximately 10 of AEC's employees.

On May 18, 2012, we announced that Volvo unveiled its plan to launch a 13 liter heavy-duty natural gas engine featuring Westport HPDI technology. The product is scheduled for launch for the North American market in 2014.

On June 5, 2012, we announced a signed agreement with Caterpillar to co-develop natural gas technology for off-road equipment, including mining trucks and locomotives. Caterpillar will fund the development program, and when the products reach commercialization, we expect to participate in the supply of key components.

On October 4, 2012, CWI announced it has begun development on the ISB6.7 G, a mid-range 6.7 liter natural gas engine. The ISB6.7 G is expected to be in production by 2015 and will be designed to meet Environmental Protection Agency (EPA) and California Air Resources Board (CARB) regulations in force at the time of launch.

On November 26, 2012, Westport announced a unique on-board storage solution that provides best in class performance for vehicles using LNG. The new Westport LNG Tank System, is expected to be available in 120 and 150 gallon capacities and is optimized for spark ignited ("SI") natural gas engines such as those sold by CWI. We expect to begin shipping the System by mid-2013. The Westport LNG Tank System features proprietary Westport technology and is expected to provide customers with the ability to fuel even the largest SI engines on a single tank and deliver extended range.

On February 5, 2013, CWI announced it is supplying engines for two of the largest natural gas transit fleet orders in North America, LA Metro and San Diego Metropolitan Transit System for over 900 natural gas buses powered by CWI's 8.9L ISL G engine.

## Selected Annual Financial Information

The following table sets forth a summary of our financial results for the twelve months ended December 31, 2012, nine months ended December 31, 2011 and the twelve months ended March 31, 2011:

**Selected Consolidated Statements of Operations Data**

| (expressed in millions of USD, except for per share amounts, shares outstanding and units shipped) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Units shipped *(a)* | 1,956 | 613 | 27 |
| Total revenue | $ 155.6 | $ 87.7 | $ 36.8 |
| Gross margin | 53.1 | 20.6 | 12.8 |
| GM % | 34% | 23% | 35% |
| Net loss | (98.8) | (45.8) | (42.1) |
| Net loss per share – basic and diluted *(b)* | (1.83) | (0.96) | (1.00) |
| Weighted average shares outstanding | 54,072,513 | 47,933,348 | 42,305,889 |
| Cash used in operations before changes in non-cash working capital *(c)(d)* | (89.1) | (48.5) | (39.8) |

*a)* Units shipped include Westport 15L systems, bi-fuel systems for the V70 wagon and Westport WiNG Systems for the F-250/F-350 bi-fuel Super Duty pickup trucks.
*b)* Fully diluted loss per share is the same as basic loss per share as the effect of conversion of stock options, warrants, and performance share units would be anti-dilutive.
*c)* See non-GAAP financial measures.
*d)* December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in [note 2(a)].

**Selected Balance Sheet Data**

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Cash and short-term investments | $ 215.9 | $ 67.6 |
| Total assets *(a)* | 490.1 | 325.8 |
| Long-term financial liabilities *(b)* | 52.2 | 65.6 |

*a)* December 31, 2011 balance restated due to effects of restatements identified in [note 2(a)].
*b)* Excluding warranty liability, deferred revenue, deferred income tax liabilities and other long-term liabilities.

**Selected Cummins Westport Statements of Operations Data**

| (expressed in millions of USD, except for units shipped) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Units shipped | 6,804 | 4,692 | 3,629 |
| Total revenue | $ 198.0 | $ 138.8 | $ 111.3 |
| Gross margin | 61.4 | 60.0 | 44.3 |
| GM % | 31% | 43% | 40% |
| Segment operating income | 35.4 | 42.8 | 25.4 |
| Income attributable to the Company *(a)* | 13.2 | 13.0 | 8.0 |

*a)* December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in [note 2(a)].





**Selected Weichai Westport Statements of Operations Data**

| (expressed in millions of USD, except for units shipped) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Units shipped | 22,025 | 6,680 | 1,771 |
| Total revenue | $ 272.1 | $ 84.9 | $ 53.1 |
| Gross margin | 37.8 | 14.6 | 10.0 |
| GM % | 14% | 17% | 19% |
| Segment operating income | 9.8 | 4.9 | 3.4 |
| Income attributable to the Company | 2.9 | 1.4 | 1.0 |

## Overview of Results —Year Ended December 31, 2012

### Operating Results

**Total Consolidated Revenues**

| (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 91.7 | $ 55.0 | $ 36.7 | 67% |
| On-Road Systems | 40.7 | 22.5 | 18.3 | 81% |
| Corporate & Technology Investments | 23.2 | 10.2 | 13.1 | 128% |
| Total consolidated revenues | $ 155.6 | $ 87.7 | $ 67.9 | 77% |

For the year ended December 31, 2012, consolidated revenue increased $67.9 million, or 77%, to $155.6 million from $87.7 million for the nine months ended December 31, 2011. This increase in revenue was driven by an increase in Applied Technologies revenue due to full year contributions from Emer, an increase in On-Road Systems revenues due to higher 15L unit sales and the launch of the F-250/F-350 bi-fuel pick-up truck in June 2012 and Corporate revenue driven primarily by the transfer of the proprietary know-how related to the HPDI technology.

Consolidated net loss attributable to the Company for the twelve months ended December 31, 2012 was $98.8 million, or $1.83 loss per diluted share, compared to a $45.8 million net loss, or $0.96 loss per diluted share, for the nine months ended December 31, 2011. The $53.0 million increase in net loss was driven by an increase in net losses in Corporate and On-Road Systems as product development costs increased by a greater percentage relative to operating margin from our products.

### Capital Management

On February 27, 2012, we announced the closing of an offering of common shares of Westport ("Common Shares"), including the exercise of the underwriters' over-allotment option in full. With the exercise of the option, we issued a total of 6,325,000 Common Shares under the offering for gross proceeds of $273.6 million.

### Cash, Cash Equivalents and Investments

As of December 31, 2012, our cash, cash equivalents and short-term investments balance was $215.9 million compared to $67.6 million at December 31, 2011. For the twelve months ended December 31, 2012, cash used in operations was $85.7 million with $89.1 million used for operating purposes and $3.4 million provided from working capital. We also paid cash of $1.1 million for our acquisition of certain assets of AEC, purchased $30.4 million of property and equipment, purchased $1.0 million in intangible assets, repaid a portion of our long-term debt totaling $6.7 million, and we received a dividend of $22.6 million from CWI. We received a repayment on our note receivable of $2.5 million, loan repayments net of advances of $19.4 million to a joint venture partner, drew down our lines of credit for $1.1 million, issued shares through a public share offering resulting in cash inflow of $265.4 million (net of share issuance costs) and issued shares through the exercise of stock options, which resulted in an additional $1.0 million in cash. Foreign exchange on Canadian dollar and Euro denominated cash, cash equivalents and short-term investments and unrealized foreign exchange impacts on certain foreign currency denominated balances resulted in an unfavorable $0.1 million impact on our cash, cash equivalents and short-term investments balance.

## Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. The Company's accounting policies are described in [note 2] of our calendar year 2012 annual consolidated financial statements. We have identified several policies as critical to our business operations and in understanding our results of operations. These policies, which require the use of judgment, estimates and assumptions in determining their reported amounts, include our accounting of CWI as variable interest entity, warranty liability, revenue recognition, inventories, property, equipment, furniture and leasehold improvements, stock-based compensation, goodwill and intangible assets. The application of these and other accounting policies are described in [note 2] of our calendar year 2012 annual consolidated financial statements. Actual amounts may vary significantly from estimates used.

### Variable Interest Entities

A 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. The Company's interest in CWI is a VIE but it is determined that there is no primary beneficiary.

### Warranty Liability

Estimated warranty costs are recognized at the time we sell our products and included in cost of revenue. 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 record adjustments to our assumptions based on the latest information available at that time. Since a number of our products are new in the market, historical data may not necessarily reflect actual costs to be incurred, and this exposes the Company to potentially significant fluctuations in liabilities. New product launches require a greater use of judgment in developing estimates until claims experience becomes available. Product specific experience is typically available four or five quarters after product launch, with a clear experience trend not evident until eight to twelve quarters after launch. We generally record warranty expense for new products upon shipment using a factor based upon historical experience from previous engine generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. Adjustments to the warranty provision are recorded in cost of revenue.

### Revenue Recognition

Our primary source of revenue is from the sale of kits, Westport LNG systems and parts, and Westport CNG and LPG fuel systems for OEMs in the light-duty automotive and industrial markets. Product and parts revenue is recognized when the products are shipped and title passes to the customer. Revenue also includes fees earned from performing research and development activities for third parties, as well as technology license 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.

The Company also earns service revenue from research and development arrangements under which the Company provides contract services relating to developing natural gas engines or biogas engines for use in products and providing ongoing development services to assist with the development and commercialization of products. Service revenue is recognized using the milestone method upon completion of project milestones as defined and agreed to by the Company and partner. The Company recognizes consideration earned from the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The Company has deemed all milestone payments within the contract to be substantive. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of deliverables and the payment terms within the contract. Certain milestones under the contract have yet to be defined.

When an arrangement includes multiple deliverables, the Company allocates the consideration to each separate deliverable (unit of accounting) based on relative selling prices. A separate unit of accounting is identified if the delivered item(s) have standalone value and the delivery or performance of undelivered items is considered probable and within the control of the Company. Revenue for each unit of account is recognized in accordance with the above revenue recognition principles. The Company has determined that the license and the development services are separate units of accounting.

### Inventories

Inventories consist of fuel systems, component parts, work-in-progress and finished goods associated with our Westport systems. We carry inventory at the lower of weighted average cost and net realizable value. 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. When we determine that such changes have occurred and would have a negative impact on the carrying value of inventory on hand, adequate provisions are recorded. Unforeseen changes in these factors could result in the recognition of additional inventory provisions.

### Property, Plant and Equipment, and Intangible Assets

We consider whether or not there has been an impairment in our long-lived assets, such as equipment, furniture and leasehold improvements and intangible assets, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such assets 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.

### Stock-Based Compensation

We account for stock-based compensation related to stock options, performance share units and restricted share units granted to employees and directors using the fair value method. The resulting compensation expense for stock options is calculated using the Black-Scholes valuation method net of estimated forfeitures and is recognized in results from operations over the period in which the related employee services are rendered. We account for performance shares by calculating the fair value using a Monte-Carlo simulation and restricted share units by calculating the fair value based on the market price of the Company's common shares on the date of grant. The compensation expense is recorded in the period it is earned, which generally is the period over which the units vest.

### Goodwill

We do not amortize goodwill but instead test it annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at November 30. We use a two-step test to identify the potential impairment and to measure the amount of impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired; otherwise, goodwill is impaired and the loss is measured by performing step two. Under step two, the impairment loss is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill. We determine fair value using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as our future expectations.





## New Accounting Pronouncements and Developments

### Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, ("ASU 2011-04"). ASU 2011-04 changes the language used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statement note disclosures.

### Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12"), which defers certain requirements within ASU 2011-05. These amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. This new guidance is to be applied retrospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statement note disclosures.

### Intangibles – Goodwill and Other

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment* ("ASU 2011-08"), which allows an entity to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's goodwill impairment test and the Company's consolidated financial statement note disclosures.

### Balance Sheet

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). ASU 2011-11 enhances disclosures regarding financial instruments and derivative instruments. Entities are required to provide both net information and gross information for these assets and liabilities in order to enhance comparability between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. This new guidance is to be applied retrospectively and is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The Company anticipates that the adoption of this standard will expand its consolidated financial statement footnote disclosures.

## Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

### Evaluation of Disclosure Controls and Procedures

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 such that appropriate decisions can be made regarding public disclosures. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of management, including the CEO and CFO, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a–15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of December 31, 2012.

Based on that evaluation in the Company's Annual Report for the year ended December 31, 2012, as originally filed with the Securities and Exchange Commission (the "SEC") on or about March 7, 2013 (the "Original Filing"), our CEO and CFO concluded that our disclosure controls and procedures were effective. Subsequent to this evaluation and conclusion, on May 31, 2013, we reported that we had identified a material weakness in internal control over financial reporting. As a result of the material weakness that has been determined to exist as described in Management's Report on Internal Control over Financial Reporting, our CEO and CFO have concluded that our disclosure control and procedures were not effective at a reasonable assurance level as of December 31, 2012.

## Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Our internal control over financial reporting is designed under our supervision, and affected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with U.S. GAAP and the requirements of the SEC, as applicable. There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

All internal control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under potential future conditions, regardless of how remote. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Prior to the filing of our Original Filing, our management, including our CEO and CFO, assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework. Based on this assessment, our management believed our internal control over financial reporting was effective based on those criteria. Subsequently, we re-assessed the effectiveness of our internal control over financial reporting using the COSO criteria, and based on our evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2012.

Management has identified the following material weakness in the Company's internal control over financial reporting as of December 31, 2012. The Company did not employ accounting staff with an appropriate level of technical accounting knowledge, experience and training in the application of recognition, measurement and disclosure requirements of U.S. GAAP and experience with regulatory requirements. This control deficiency specifically resulted in the Company changing its determination of the primary beneficiary in connection with the application of ASU 2009-17 which was complex and involved significant judgments. As a result, no primary beneficiary was determined and material adjustments were made to the consolidated financial statements as at December 31, 2011 and for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to account for a VIE under the equity method.

This control deficiency also resulted in reclassifications of foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 and the year ended March 31, 2011 to ensure consistency to other presentations of CWI equity income in the filing, deferred income taxes from non-current to current for balances as at December 31, 2011 and within the segmented information note related to long-lived assets information allocated by geographic areas as at December 31, 2012 and December 31, 2011. We have also adjusted the disclosure of consolidated pro forma revenue in the financial statement notes to remove CWI revenue for the nine month period ended December 31, 2011 and the year ended March 31, 2011. This control deficiency results in a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

KPMG LLP, our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2012 and issued an adverse opinion.

## Remediation Plan

The material weakness described above was identified after the end of the period covered by the Original Filing. We have developed and are implementing remediation plans to address our material weakness. With respect to the material weakness described above, we have implemented certain remedial procedures to identify the necessary technical expertise in reviewing and interpreting complex accounting issues involving significant judgment and proper disclosures in our consolidated financial statements in accordance with U.S. GAAP. We are in the process of developing enhanced control procedures designed to ensure accounting personnel have adequate knowledge in assessing complex accounting issues involving significant judgment and disclosures in our consolidated financial statements through training and technical accounting courses and seminars, and we are in the process of recruiting a qualified senior level technical accounting professional. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

## Changes in Internal Control over Financial Reporting

Except as otherwise discussed above, there were no changes in our internal control over financial reporting for the year ended December 31, 2012 that have materially affected or are reasonably likely to materially affect such controls, including any corrective actions with respect to significant deficiencies and material weaknesses.





# Financial Overview—Results From Operations

## Total Revenue

### Twelve Months Ended December 31, 2012 compared to Nine Months Ended December 31, 2011

| Total Revenues *(expressed in millions of USD)* | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 91.7 | $ 55.0 | $ 36.6 | 67% |
| On-Road Systems | 40.7 | 22.5 | 18.3 | 81% |
| New Markets & Off-Road Systems | - | - | - | 0% |
| Corporate & Technology Investments | 23.2 | 10.2 | 13.1 | 128% |
| Cummins Westport | 198.0 | 138.8 | 59.2 | 43% |
| Weichai Westport | 272.1 | 84.9 | 187.2 | 220% |
| Total segment revenues | $ 625.7 | $ 311.5 | $ 314.2 | 101% |
| Less: Equity investees revenues | $ 470.1 | $ 223.8 | $ 246.3 | 110% |
| Total consolidated revenues | $ 155.6 | $ 87.7 | $ 67.9 | 77% |

**Applied Technologies** revenue for the twelve months ended December 31, 2012 increased $36.6 million, or 67%, to $91.7 million from $55.0 million for the nine months ended December 31, 2011. The increase in revenue was driven by six additional months of contributions from Emer as we began consolidating Emer on July 1, 2011 and contributions from AFV since we began consolidating AFV in the fourth quarter of the prior year period.

**On-Road Systems** revenue for the twelve months ended December 31, 2012 increased $18.3 million, or 81% from $22.5 million to $40.7 million. The increase related to shipments of 393 15L systems compared to 272 15L systems for the nine months ended December 31, 2011, which resulted in an increase in revenue of $5.4 million from $15.9 million in the prior year period to $21.3 million in the current year. There was also an increase of $1.5 million due to increased shipments of 2.4 litre industrial systems to forklift and oilfield customers and $5.4 million from the launch of the F-250/F-350 bi-fuel Super Duty pickup truck in the United States. Revenue generated from the Volvo V 70 bi-fuel CNG wagon increased $4.9 million from $2.6 million in the prior year period to $7.5 million in the current year. On-Road parts revenue for the twelve months ended December 31, 2012 increased $1.1 million to $3.5 million compared with $2.4 million for the nine months end December 31, 2011.

**New Markets and Off-Road Systems** is a new business unit and has not generated revenue in the current year.

**Corporate and Technology Investments** revenue for the twelve months ended December 31, 2012 increased $13.1 million, or 128% from $10.2 million to $23.2 million. Included in the current year was one-time license revenue of $8.0 million for the transfer of the proprietary know-how related to the HPDI technology and other fee payments of $1.4 million. We recognized $13.5 million (2011 ▸ $10.2 million) under our development agreements due to the timing of delivering certain milestones during the periods. All costs associated with our development agreements were recorded as research and development expenses in the period incurred in the consolidated statement of operations.

**CWI** revenue for the twelve months ended December 31, 2012 increased $59.2 million, or 43% from $138.8 million to $198.0 million. CWI product revenue for the twelve months ended December 31, 2012 increased $47.2 million, or 41%, to $161.7 million on sales of 6,804 units compared to $114.5 million and 4,692 units for the nine months ended December 31, 2011, which was primarily attributed to higher sales volume of ISL G engines in the Americas and sales of engines in Asia and Latin America. CWI parts revenue for the twelve months ended December 31, 2012 was $36.3 million compared with $24.3 million for the nine months end December 31, 2011. The number of engines in the field, their age and their reliability impact parts revenue each period.

**WWI** revenue for the twelve months ended December 31, 2012 increased $187.2 million, or 220% from $84.9 million to $272.1 million. WWI shipped 22,025 units in 2012 compared with 6,680 units for the nine months ended December 31, 2011.

### Nine Months Ended December 31, 2011 compared to Twelve Months Ended March 31, 2011

| Total Revenues *(expressed in millions of USD)* | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 55.0 | $ 22.1 | $ 32.9 | 150% |
| On-Road Systems | 22.5 | 6.6 | 15.9 | 240% |
| New Markets & Off-Road Systems | - | - | - | 0% |
| Corporate & Technology Investments | 10.2 | 8.1 | 2.1 | 25% |
| Cummins Westport | 138.8 | 111.3 | 27.5 | 25% |
| Weichai Westport | 84.9 | 53.1 | 31.8 | 60% |
| Total segment revenues | $ 311.5 | $ 201.2 | $ 110.3 | 55% |
| Less: Equity investees revenues | $ 223.7 | $ 164.4 | $ 59.3 | 36% |
| Total consolidated revenues | $ 87.7 | $ 36.8 | $ 50.9 | 138% |

**Applied Technologies** revenue for the nine months ended December 31, 2011 increased $32.9 million, or 150%, to $55.0 million from $22.1 million for the twelve months ended March 31, 2011. The increase in revenue was driven by six months of contributions from Emer or $31.8 million as we began consolidating Emer on July 1, 2011. OMVL revenue increased from $22.1 million from the date of acquisition of July 3, 2010 to March 31, 2011 to $23.3 million for the nine month period ended December 31, 2011.

**On-Road Systems** revenue for the nine months ended December 31, 2011 increased $15.9 million, or 240% from $6.6 million to $22.5 million. The increase related to shipments of 272 15L systems or $16.1 million in revenue compared to $2.2 million and 27 15L systems for the twelve months ended March 31, 2011. Revenue generated from the Volvo V 70 bi-fuel CNG wagon was $2.6 million for the nine months ended December 31, 2011 compared to Nil in the prior year period as we acquired AFV in October 2011. Sales of 2.4L industrial forklift engines generated $1.6 million in revenue during the nine months ended December 31, 2011 compared with $1.7 million for the twelve months ended March 31, 2011. On-Road Systems parts revenue for the nine months ended December 31, 2011 was $2.4 million compared with $2.7 million for the twelve months end March 31, 2011.

**Corporate and Technology Investments** revenue for the nine months ended December 31, 2011 increased $2.1 million, or 25% from $8.1 million to $10.2 million. The increase was due to the timing of milestone payments under our development agreements.

**CWI** revenue for the nine months ended December 31, 2011 increased $27.5 million, or 25%, to $138.8 million on sales of 4,692 units compared to $111.3 million and 3,629 units for the twelve months ended March 31, 2011, which was primarily attributed to higher sales volume of ISL G engines in the Americas.

**WWI** revenue for the nine months ended December 31, 2011 increased $31.8 million, or 60% from $53.1 million to $84.9 million. WWI shipped 6,680 units in the nine month period ended December 31, 2011 compared with 4,822 units for the twelve month period ended March 31, 2011.

## Gross Margin

*Gross margin is calculated as revenue less cost of product and parts revenue (excluding any depreciation and amortization). The Company's gross margin may not be comparable to those of other entities because some entities include depreciation and amortization related to products sold in cost of sales.*

### Twelve Months Ended December 31, 2012 compared to Nine Months Ended December 31, 2011

**Gross Margin**

| (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | % of revenue | 9 mo. ended Dec. 31, 2011 | % of revenue | change | |
|---|---|---|---|---|---|---|
| Applied Technologies | $ 25.3 | 28% | $ 11.1 | 20% | $ 14.1 | 127% |
| On-Road Systems | 4.6 | 11% | (0.7) | (3%) | 5.3 | 747% |
| New Markets & Off-Road Systems | - | 0% | - | 0% | - | 0% |
| Corporate & Technology Investments | 23.2 | 100% | 10.2 | 100% | 13.1 | 128% |
| Cummins Westport | 61.4 | 31% | 60.0 | 43% | 1.4 | 2% |
| Weichai Westport | 37.8 | 14% | 14.6 | 18% | 23.2 | 160% |
| Total segment gross margin | $ 152.4 | 24% | $ 95.2 | 31% | $ 57.2 | 60% |
| Less: Equity investees gross margin | $ 99.3 | 21% | $ 74.6 | 33% | $ 24.7 | 33% |
| Total consolidated gross margin | $ 53.1 | 34% | $ 20.6 | 23% | $ 32.5 | 158% |

**Applied Technologies** gross margin increased $14.1 million to $25.3 million, or 28% of revenue, for the year ended December 31, 2012 compared to $11.1 million, or 20% of revenue for the nine months ended December 31, 2011. The increase in gross margin percentage is due to contributions from Emer representing a higher proportion of the revenue, and we consolidated Emer for twelve months in 2012 versus 6 months in the comparative period. Emer has a higher gross margin percentage relative to OMVL due to customer mix and economies of scale.

**On-Road Systems** gross margin increased $5.3 million to $4.6 million, or 11% of revenue from negative $0.7 million, or negative 3% of revenue for the nine months ended December 31, 2011. The increase in gross margin percentage was due primarily to business mix with the launch of the WiNG System as well as launch customer pricing on the 15L product, and materials variance on certain shipments during the nine month period ended December 31, 2011.

**Corporate and Technology Investments** gross margin increased $13.1 million from $10.2 million to $23.2 million. The gross margin percentage was 100% in both periods as Corporate gross margin relates entirely to license revenue and milestone payments under our development agreements.

**CWI** gross margin increased $1.4 million to $61.4 million, or 31% of revenue from $60.0 million or 43% of revenue. CWI product margin and product gross margin percentage for the twelve months ended December 31, 2012 were $46.5 million and 28.8%, respectively, compared to $51.0 million and 44.5%, respectively, for the nine months ended December 31, 2011. This decrease in gross margin percentage was due primarily to warranty adjustments of $9.5 million, extended coverage adjustments of $2.5 million, and net extended coverage claims of $4.3 million in the 2012 period recorded in accordance to CWI's warranty evaluation process, during which engine component failure rates and repair costs are compared to expected costs. Excluding these warranty related adjustments, CWI's gross margin percentage would have been 38.8%. CWI parts gross margin percentage was 41.3% for the twelve months ended December 31, 2012 compared to 37.1% for the nine months ended December 31, 2011.

**WWI** gross margin increased $23.2 million to $37.8 million, or 14% of revenue from $14.6 million or 18% of revenue. The decrease in gross margin percentage related primarily to business mix with a high proportion of engine sales at a lower range of engine displacement.

### Nine Months Ended December 31, 2011 compared to Twelve Months Ended March 31, 2011

**Gross Margin**

| (expressed in millions of USD) | 9 mo. ended Dec. 31, 2011 | % of revenue | 12 mo. ended Mar. 31, 2011 | % of revenue | change | |
|---|---|---|---|---|---|---|
| Applied Technologies | $ 11.1 | 20% | $ 5.3 | 24% | $ 5.9 | 112% |
| On-Road Systems | (0.7) | (3%) | (0.6) | (9%) | (0.1) | 20% |
| New Markets & Off-Road Systems | - | 0% | - | 0% | - | 0% |
| Corporate & Technology Investments | 10.2 | 100% | 8.1 | 100% | 2.1 | 25% |
| Cummins Westport | 60.0 | 43% | 44.3 | 40% | 15.7 | 35% |
| Weichai Westport | 14.6 | 18% | 10.0 | 19% | 4.6 | 46% |
| Total segment gross margin | $ 95.2 | 31% | $ 67.1 | 33% | $ 28.1 | 42% |
| Less: Equity investees gross margin | $ 74.6 | 33% | $ 54.3 | 33% | $ 20.3 | 37% |
| Total consolidated gross margin | $ 20.6 | 23% | $ 12.8 | 35% | $ 7.8 | 61% |

**Applied Technologies** gross margin increased $5.9 million to $11.1 million, or 20% of revenue, for the nine month period ended December 31, 2011 compared to $5.3 million, or 24% of revenue for the twelve months ended March 31, 2011. The decrease in gross margin percentage is due primarily to additional cost of sales adjustments arising from inventory fair value adjustments in the quarter immediately subsequent to the acquisition of Emer.

**On-Road Systems** gross margin decreased $0.1 million to negative $0.7 million, or negative 3% of revenue for the nine months ended December 31, 2011 from negative $0.6 million, or negative 9% of revenue for the twelve months ended March 31, 2011. The negative gross margin percentages relate to launch customer pricing on the 15L product, and materials variance on certain shipments during the nine month period ended December 31, 2011 while in the twelve month period ended March 31, 2011, the negative gross margin percentage was driven by campaign accruals relating to the 15L product.

**CWI** gross margin increased $15.7 million to $60.0 million, or 43% of revenue from $44.3 million or 40% of revenue. CWI product gross margin and product gross margin percentage for the nine months ended December 31, 2011 were $51.0 million and 44.5%, respectively, compared to $33.7 million and 39.9%, respectively, for the twelve months ended March 31, 2011. This increase in gross margin percentage was due primarily to a reduction in warranty accrual rates compared to the prior year period driven by improved product reliability and product mix. CWI parts gross margin percentage remained consistent at 37.1% for the nine months ended December 31, 2011 compared to 39.6% for the twelve months ended March 31, 2011.

**WWI** gross margin increased $4.6 million to $14.6 million, or 18% of revenue from $10.0 million or 19% of revenue. The decrease in gross margin percentage related primarily to business mix as gross margin varies depending on size and horsepower rating of engines sold.

## Research and Development Expenses

### Twelve Months Ended December 31, 2012 compared to Nine Months Ended December 31, 2011

**Research and Development**

| (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 3.1 | $ 2.5 | $ 0.6 | 24% |
| On-Road Systems | 25.3 | 16.8 | 8.5 | 51% |
| New Markets & Off-Road Systems | 2.8 | 1.3 | 1.6 | 124% |
| Corporate & Technology Investments | 42.0 | 16.0 | 25.9 | 162% |
| Total research and development | $ 73.2 | $ 36.6 | $ 36.6 | 100% |

Research and development expenses, net of program funding, for the twelve months ended December 31, 2012, increased $36.6 million to $73.2 million compared to $36.6 million for the nine months ended December 31, 2011. Applied Technologies research and development expenses increased $0.6* million primarily due to the consolidation of Emer for twelve months compared with six months in the comparative period. On-Road Systems research and development expenses increased $8.5 million primarily in relation to efforts to expand product offerings to OEMs to include the launch of the F-250/F-350 bi-fuel Super Duty pickup truck and from the recording expenses relating to our operation in Sweden relating to Volvo V 70 bi-fuel cars for twelve months compared with two months in the comparative period. Corporate research and development expenses increased $26.0* million from $16.0* million to $42.0 million driven by increases in investment under our development agreements and new programs.

* *amounts have been revised from previously reported to agree with tabular information above*

### Nine Months Ended December 31, 2011 compared to Twelve Months Ended March 31, 2011

**Research and Development**

| (expressed in millions of USD) | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 2.5 | $ 1.0 | $ 1.4 | 142% |
| On-Road Systems | 16.8 | 12.5 | 4.4 | 35% |
| New Markets & Off-Road Systems | 1.3 | 0.3 | 1.0 | 354% |
| Corporate & Technology Investments | 16.0 | 10.9 | 5.2 | 48% |
| Total research and development | $ 36.6 | $ 24.6 | $ 12.0 | 49% |

Research and development expenses, net of program funding, for the nine months ended December 31, 2011, increased $12.0 million, and 49%, to $36.6 million compared to $24.6 million for the twelve months ended March 31, 2011. The increase related to primarily to product development costs incurred in the On-Road Systems related to the launch of the F-250/F-350 bi-fuel Super Duty pickup truck of $7.7 million offset by lower ongoing product support costs related to the 15L product due to the nine month period ended December 31, 2011 being compared against the twelve month period ended March 31, 2011. The increase in Corporate research and development expenses of $5.2 million related to higher costs incurred under our development agreements with an increased level of activity.

## General and Administrative Expenses

### Twelve Months Ended December 31, 2012 compared to Nine Months Ended December 31, 2011

**General and Administrative**

| (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 7.9 | $ 5.5 | $ 2.4 | 45% |
| On-Road Systems | 9.8 | 3.8 | 5.9 | 156% |
| New Markets & Off-Road Systems | 1.0 | - | 1.0 | n/a |
| Corporate & Technology Investments | 26.1 | 13.4 | 12.7 | 94% |
| Total general and administrative | $ 44.8 | $ 22.7 | $ 22.1 | 97% |

General and administrative expenses increased $22.1 million for the year ended December 31, 2012 from $22.7 million for the nine month period ended December 31, 2011 to $44.8 million for the year ended December 31, 2012. Applied Technologies general and administrative expenses increased $2.4* million due to the acquisition of Emer in July 2011. On-Road Systems general and administrative expenses increased $5.9 million due to the additional three months in the current period versus the comparative period, an increase in compensation due to headcount ramp up to support the business and higher facilities and office expenses related to the launch of our Detroit and Kentucky facilities supporting the F-250/F-350 development and advanced engineering development of our light duty vehicles, and the costs related to running our Sweden operations for a full year versus two months in the comparative period. Off-Road Systems had an increase from $0 to $1.0 million as there was limited activity other than sales and marketing activity in the comparative period. Corporate general

and administrative expenses increased $12.7* million primarily due to an increase in salaries and benefits of $7.7 million related to higher headcount to support new programs and global market development efforts, higher professional services and facilities costs of $3.7 million and by the additional three months in comparing the current twelve month period to the prior nine month period.

* *amounts have been revised from previously reported to agree with tabular information above*

### Nine Months Ended December 31, 2011 compared to Twelve Months Ended March 31, 2011

| General and Administrative (expressed in millions of USD) | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 5.5 | $ 2.2 | $ 3.3 | 152% |
| On-Road Systems | 3.8 | 1.3 | 2.5 | 196% |
| New Markets & Off-Road Systems | - | - | - | n/a |
| Corporate & Technology Investments | 13.4 | 11.5 | 1.9 | 16% |
| Total general and administrative | $ 22.7 | $ 15.0 | $ 7.7 | 51% |

General and administrative expenses increased $7.7 million, and 51%, to $22.7 million for the nine month period ended December 31, 2011 from $15.0 million for the twelve month period ended March 31, 2011. Applied Technologies general and administrative expenses increased $3.3* million due to the July 1, 2011 acquisition of Emer. On-Road Systems general and administrative expenses increased $2.5 million due to expenses associated with our operations in Sweden and higher costs related to support of the 15L program. Corporate general and administrative costs increased by $1.9 million primarily due to an increase in salaries and benefits related to higher headcount to support new programs and global market development efforts.

* *amounts have been revised from previously reported to agree with tabular information above*

## Sales and Marketing Expenses

### Twelve Months Ended December 31, 2012 compared to Nine Months Ended December 31, 2011

| Sales and Marketing (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 3.5 | $ 1.8 | $ 1.7 | 95% |
| On-Road Systems | 12.8 | 7.8 | 5.0 | 65% |
| New Markets & Off-Road Systems | 8.5 | 1.4 | 7.0 | 489% |
| Corporate & Technology Investments | 5.4 | 4.3 | 1.0 | 24% |
| Total sales and marketing | $ 30.1 | $ 15.3 | $ 14.8 | 97% |

Sales and marketing expenses increased $14.8 million, and 97%, from $15.3 million for the nine month period ended December 31, 2011 to $30.1 million for the year ended December 31, 2012. Applied Technologies sales and marketing expenses increased $1.7 million due to the acquisition of Emer, which resulting in twelve months of expenses in 2012 compared with six months of expenses in the comparative period, as the acquisition occurred on July 1, 2011. On-Road Systems sales and marketing expenses increased as a result of the launch of the F-Series super duty products and sales and marketing costs related to the Volvo V 70 bi-fuel wagon. Field support expenses and sales and marketing costs related to the 15L also increased by $2.9 million compared with the prior period due to higher volumes, more units in the field and the comparison of a twelve month period to a nine month period. Off-Road Systems sales and marketing expenses increased $7.0 million as a result of market development initiatives for Off-Road applications and increased sales and marketing effort and OEM activities in China. Corporate sales and marketing expenses increased primarily due to the comparison of a twelve month current period against a nine month prior period.

### Nine Months Ended December 31, 2011 compared to Twelve Months Ended March 31, 2011

| Sales and Marketing (expressed in millions of USD) | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 | change | |
|---|---|---|---|---|
| Applied Technologies | $ 1.8 | $ 0.8 | $ 1.0 | 114% |
| On-Road Systems | 7.8 | 7.8 | 0.0 | 0% |
| New Markets & Off-Road Systems | 1.4 | 1.1 | 0.3 | 26% |
| Corporate & Technology Investments | 4.3 | 4.3 | 0.0 | 1% |
| Total sales and marketing | $ 15.3 | $ 14.0 | $ 1.3 | 9% |

Sales and marketing expenses increased $1.3 million, and 9%, to $15.3 million for the nine month period ended December 31, 2011 from $14.0 million for the twelve month period ended March 31, 2011. Applied Technologies sales and marketing expenses increased $1.0 million despite the current period being nine months in duration while the comparative period was twelve months, due to the acquisition of Emer in July 2011. On-Road Systems sales and marketing expenses were $7.8 million in both the current nine month period and the comparative twelve month period as the impact of the shorter period was offset by higher compensation and travel related expenditures with the ramp up of the 15L program and increased field support with more vehicles in service. Off-Road Systems sales and marketing expenses increased $0.3 million due to increasing sales and marketing activities in China. Corporate sales and marketing costs increased due to increases in corporate development activities.

## Unconsolidated Joint Venture Operating Expenses

### Twelve Months Ended December 31, 2012 compared to Nine Months Ended December 31, 2011

| Unconsolidated Joint Venture Operating Expenses (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | change | |
|---|---|---|---|---|
| Cummins Westport | $ 26.1 | $ 17.2 | $ 8.9 | 52% |
| Weichai Westport | 28.1 | 9.7 | 18.4 | 189% |
| Total JV operating expenses | $ 54.2 | $ 26.9 | $ 27.3 | 102% |

**CWI** operating expenses were $26.1 million for the twelve months ended December 31, 2012 compared with $17.2 million for the nine months ended December 31, 2011. The $8.9 million increase was primarily due to the additional three months in comparing the current twelve month period to the prior nine month period, higher material and salary related costs associated with product development of $4.9 million, and an increase in policy expense, market development support and travel expenditures.

**WWI** operating expenses were $28.1 million for the twelve months ended December 31, 2012 compared with $9.7 million for the nine months ended December 31, 2011. The increase relates primarily to higher product development costs and increased salary, facilities and support costs associated with rapid growth.

### Nine Months Ended December 31, 2011 compared to Twelve Months Ended March 31, 2011

| Unconsolidated Joint Venture Operating Expenses (expressed in millions of USD) | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 | change | |
|---|---|---|---|---|
| Cummins Westport | $ 17.2 | $ 18.9 | $ (1.7) | (9%) |
| Weichai Westport | 9.7 | 6.6 | 3.1 | 46% |
| Total JV operating expenses | $ 26.9 | $ 25.5 | $ 1.4 | 5% |

**CWI** operating expenses were $17.2 million for the nine months ended December 31, 2011 compared with $18.9 million for the twelve months ended March 31, 2011. The $1.7 million decrease was primarily due to the additional three months in comparing the prior twelve month period to the current nine month period.

**WWI** operating expenses were $9.7 million for the nine months ended December 31, 2011 compared with $6.6 million for the twelve months ended March 31, 2011. The increase relates primarily to higher product development costs and increased salary, facilities and support costs associated with rapid growth.

## Foreign Exchange Gains and Losses

Foreign exchange gains and losses reflected net realized gains and losses on foreign currency transactions and the net unrealized gains and losses on our net U.S. dollar denominated monetary assets and liabilities in our Canadian operations that were mainly composed of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. In addition, the Company has foreign exchange exposure on its non-OMVL and Emer Euro denominated monetary assets and liabilities including the Euro denominated long-term liability payable to the Sellers of OMVL. For the twelve months ended December 31, 2012, we recognized a net foreign exchange loss of $1.2 million with the movement in the Canadian dollar relative to the U.S. dollar. A majority of the foreign exchange loss for the twelve months ended December 31, 2012 is unrealized.

For the nine months ended December 31, 2011, we recognized a net foreign exchange gain of $2.1* million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange loss of $3.3* million for the twelve months ended March 31, 2011. A majority of the foreign exchange gain for the nine months ended December 31, 2011 was unrealized.

* *December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in* [note 2(a)].

## Depreciation and Amortization

Depreciation and amortization for the twelve months ended December 31, 2012 was $11.4 million compared to $6.2 million for the nine months ended December 31, 2011 and $3.4 million for the twelve months ended March 31, 2011. The increases primarily related to depreciation of property and equipment and intangible assets acquired in the purchase of Emer and AFV.

## Income from Investment Accounted for by the Equity Method

Income from investment accounted for by the equity method primarily relates to our 50% interest in CWI and our 35% interest in WWI.

| Income from Investment Accounted for by the Equity Method (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011* | 12 mo. ended Mar. 31, 2011* |
|---|---|---|---|
| Cummins Westport —50% interest | $ 13.2 | $ 13.0 | $ 8.0 |
| Weichai Westport —35% interest | 2.9 | 1.4 | 1.0 |
| Other | 0.1 | 0.1 | (0.4) |
| Income from investment accounted for by the equity method | $ 16.2 | $ 14.5 | $ 8.6 |

* *December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in* [note 2(a)].

## Interest on Long-Term Debt and Amortization of Discount Expense

Interest on long-term debt and amortization of discount expense primarily relates to our CDN$ debentures, amortization of deferred financing charges and interest on our senior financing facilities.

| Interest on Long-Term Debt and Amortization of Discount Expense (expressed in millions of USD) | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| CDN debentures —9% per annum | $ 3.3 | $ 1.9 | $ 3.0 |
| Amortization of deferred financing charges | 0.4 | - | - |
| Interest expense on senior financing facilities | 1.3 | 0.8 | - |
| Accretion expense relating to the long-term payable | 0.3 | 0.3 | 0.3 |
| Other | 0.1 | - | - |
| Total interest on long-term debt | $ 5.4 | $ 3.0 | $ 3.3 |

Interest on long-term debt for the twelve months ended December 31, 2012 of $5.4 million is higher compared to the nine months ended December 31, 2011 due to the additional 3 months interest expense and amortization of deferred financing costs on the CDN $36.0 million debentures issued on September 30, 2011.

Interest on long-term debt for nine months ended December 31, 2011 of $3.0 million is lower compared to the twelve months ended March 31, 2011 due to the difference of 3 months interest expense offset by the related interest expense on Emer senior financing facilities assumed as part of the acquisition of Emer [note 4(a)].

## Income Tax Expense

Income tax expense for the twelve months ended December 31, 2012 was $1.7 million compared to an income tax recovery of $1.2 million for the nine months ended December 31, 2011 and an income tax expense of $0.4 million for the twelve months ended March 31, 2011.

Applied Technologies recorded an income tax expense of $0.8 million for the twelve months ended December 31, 2012 compared to an income tax recovery of $1.8 million for the nine months ended December 31, 2011 and an income tax expense of $0.1 million for the twelve months ended March 31, 2011. Differences were primarily due to higher taxable income in Emer and OMVL in the current year period compared to losses realized by Emer and OMVL in the prior year periods.

Corporate recorded an income tax expense of $1.4 million for the twelve months ended December 31, 2012 compared to an income tax expense of $0.5 million for the nine months ended December 31, 2011 and an income tax expense of $0.3 million for the twelve months ended March 31, 2011, which relates to the withholding taxes on dividends paid by CWI. The dividends paid by CWI during the current year period were greater than then dividends paid in the prior year periods.

# Capital Requirements, Resources and Liquidity

As at December 31, 2012, our cash, cash equivalents and short-term investment position was $215.9 million, an increase of $148.3 million from $67.6 million at December 31, 2011. Cash and cash equivalents consist of guaranteed investment certificates, term deposits and bankers acceptances with maturities of 90 days or less when acquired. Short-term investments consist of investment grade bankers' acceptances, term deposits and commercial paper. We invest primarily in short-term paper issued by Schedule 1 Canadian banks, R1 high rated corporations and governments.

For the twelve months ended December 31, 2012, our cash used in operations was $85.7 million. Cash used in operations before changes in non-cash working capital, a non-GAAP measure, was $89.1 million. Changes in non-cash working capital resulted in an increase of $3.4 million. The $3.4 million change in working capital was impacted, by increases in warranty liability of $2.0 million, deferred revenue of $3.1 million, inventory of $7.9 million and accounts payable and accrued liabilities of $0.7 million and offset by decrease in prepaid expenses of $0.2 million and accounts receivable of $6.7 million. Cash used in investing activities included purchase of fixed assets of $30.4 million, acquisition of assets of AEC of $1.1 million, purchase of intangible assets of $1.0 million, and net purchase of short-term investments of $22.5 million, loan repayments net of advances of $19.4 million, offset by $22.6 million in dividends received from CWI and $2.5 million repayment on our note receivable. Cash provided by financing activities included $265.4 million, net of share issuance costs, raised in a public share offering, $1.0 million in shares issued for stock option exercises and $1.1 million drawn from our operating lines of credit.

Foreign exchange resulted in a negative adjustment to cash and cash equivalents of $0.1 million as a portion of our cash balances are maintained in Canadian dollars and Euro.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI dividends and borrowings under our credit facility to fund our committed milestones and obligations for our current programs. We will also continue to seek third party and government funding on commercially acceptable terms to offset costs of our investments; however, there are no guarantees that we will be successful in obtaining third party funding on acceptable terms or at all.

On February 27, 2012, the Company issued a total of 6,325,000 Common Shares at a price of $43.25 per share for gross proceeds of $273.6 million. The net proceeds of $265.4 million (net of share issuance costs of $8.1 million) will be used by us to further our business objectives of developing technology and relationships in new and adjacent market opportunities with OEMs focused on industrial and automotive, and On-Road and Off-Road applications and capital expenditures including new test facilities.

Our cash position at December 31, 2012 includes cash generated from several other sources, including product revenue, parts revenue and service and other revenue. Therefore, our cash position is net of expenditures related to the use of proceeds disclosed in the public offering. To date, we have made gross expenditures related to the use of proceeds disclosed in the public offering as follows:

| | estimated use of proceeds | |
|---|---|---|
| *(in millions of USD)* | at time of public offering | 12 mo. ended Dec. 31, 2012 |
| Off-Road Applications (formerly HHP Applications) | $ 50.0 ▸ 100.0 | $ 6.5 |
| Capital Expenditures | 30.0 ▸ 50.0 | 14.2 |
| Geographic Expansion (formerly HD business units) | 20.0 ▸ 40.0 | 37.0 |
| Geographic Expansion (formerly LD business units) | 20.0 ▸ 40.0 | 29.5 |
| General corporate purposes | 36.3 ▸ 146.3 | 28.1 |
| | $ 266.3 | $ 115.3 |

Westport's capital requirements will vary depending on a number of factors, including the timing and size of orders for our LNG systems, our ability to successfully launch products on time, our supply chain and manufacturing requirements, our success in executing our business plan, relationships with current and potential strategic partners, commercial sales and margins, product reliability, progress on research and development activities, capital expenditures and working capital requirements. We also continue to 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 "Business Risks and Uncertainties" section of this MD&A and of our Annual Information Form.

## Shares Outstanding

For the twelve months ended December 31, 2012, nine months ended December 31, 2011 and twelve months ended March 31, 2011, the weighted average number of shares used in calculating the loss per share was 54,072,513, 47,933,348 and 42,305,889, respectively. During the twelve months ended December 31, 2012, we granted 770,727 stock options and 185,705 share units relating to our long-term incentive programs. The shares, share options and performance share units outstanding and exercisable as at the following dates are shown in the next column:

| | December 31, 2012 | | May 31, 2013 | |
|---|---|---|---|---|
| | shares | WAEP* | shares | WAEP* |
| Shares outstanding | 55,294,091 | | 55,658,459 | |
| **Share options** | | | | |
| Outstanding | 996,047 | $ 27.78 | 909,027 | $ 29.68 |
| Exercisable | 226,487 | $ 8.06 | 341,904 | $ 22.93 |
| **Share units** | | | | |
| Outstanding | 1,095,094 | n/a | 1,413,715 | n/a |
| Exercisable | 262,615 | n/a | 267,947 | n/a |

* *weighted average exercise price (CDN$)*

# Summary of Quarterly Results and Discussion of the Quarter Ended Dec. 31, 2012

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.

The table below provides summary unaudited consolidated financial data for our last eight quarters.

**Selected Consolidated Quarterly Operations Data (unaudited)**

| *(expressed in millions of USD except for per share amounts and units shipped)* three months ended: | 2011 Mar. 31* | 2011 Jun. 30* | 2011 Sep. 30* | 2011 Dec. 31* | 2012 Mar. 31* | 2012 Jun. 30* | 2012 Sep. 30* | 2012 Dec. 31 |
|---|---|---|---|---|---|---|---|---|
| Units shipped *(a)* | 2 | 17 | 85 | 511 | 493 | 232 | 607 | 624 |
| Product revenue | $ 8.0 | $ 12.1 | $ 31.0 | $ 32.0 | $ 35.3 | $ 34.3 | $ 28.3 | $ 31.0 |
| Parts revenue | 1.0 | 0.8 | 0.5 | 1.0 | 0.7 | 0.7 | 1.0 | 1.2 |
| Service and other revenue | 4.1 | - | 0.4 | 9.8 | - | 14.1 | 1.4 | 7.8 |
| Total revenue | 13.1 | 12.9 | 31.9 | 42.9 | 36.0 | 49.1 | 30.7 | 39.9 |
| Cost of products and parts revenue | 6.9 | 11.7 | 26.8 | 28.5 | 27.1 | 26.0 | 22.9 | 26.5 |
| Gross margin | 6.1 | 1.2 | 5.1 | 14.4 | 8.9 | 23.1 | 7.8 | 13.3 |
| Gross margin percentage | 47% | 9% | 16% | 33% | 25% | 47% | 25% | 33% |
| Net loss for the period | $ (14.4) | $ (18.1) | $ (13.2) | $ (14.5) | $ (22.6) | $ (6.1) | $ (32.5) | $ (37.6) |
| **Loss per share** | | | | | | | | |
| Basic | $ (0.31) | $ (0.38) | $ (0.27) | $ (0.30) | $ (0.44) | $ (0.11) | $ (0.59) | $ (0.68) |
| Diluted *(b)* | $ (0.31) | $ (0.38) | $ (0.27) | $ (0.30) | $ (0.44) | $ (0.11) | $ (0.59) | $ (0.68) |
| **Income from unconsolidated joint ventures** | | | | | | | | |
| CWI net income attributable to the Company | 2.3 | 2.9 | 4.7 | 5.3 | 4.8 | 3.6 | 3.6 | 1.2 |
| WWI net income attributable to the Company | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 1.1 | 0.7 | 0.5 |

* Figures have been restated from those previously presented to reflect the retrospective accounting for its interest in its VIE's on an equity basis.

***a)*** *Units shipped include Westport 15L systems, bi-fuel system for the V70 wagons and Westport WiNG System for the F-250/F-350 bi-fuel Super Duty pickup trucks.*

***b)*** *Fully diluted loss per share is not materially different as the effect of stock options, warrants and performance share units would be anti-dilutive.*

## Three Months Ended December 31, 2012 and 2011

Our consolidated revenue for the three months ended December 31, 2012 was $39.9 million, a decrease of $3.0 million, or 7.0%, from $42.9 million for the three months ended December 31, 2011. Corporate revenues for the quarter ended December 31, 2012 decreased due to a reduction in service revenue of $2.1 million recorded in the current quarter under our development agreements. On-Road Systems product revenue decreased as 15L unit sales decreased 61 units to 109 units for the quarter ended December 31, 2012 compared to 170 units in the prior year period offset by an increase in revenue from the launch of F-250/F-350 bi-fuel Super Duty pickup truck.

Our consolidated net loss for the three months ended December 31, 2012 was $37.6 million, or a loss of $0.68 per diluted share, compared to a net loss of $14.5 million, or a loss of $0.30 per diluted share, for the three months ended December 31, 2011. The $23.1 million increase in net loss relates primarily to lower On-Road Systems revenue due to a decrease in units sold, lower Corporate service revenue and overall increase in operating expenses in On-Road Systems and Corporate primarily due to increase in investment in new product programs, global market development efforts and new business development.

# Contractual Obligations and Commitments

| | carrying amount | contractual cash flows | < 1 year | 1–3 years | 4–5 years | > 5 years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 48.5 | $ 48.5 | $ 48.5 | $ - | $ - | $ - |
| Unsecured subordinated debentures *(a)* | 36.2 | 40.9 | 2.3 | 38.6 | - | - |
| Long-term payable *(b)* | 9.8 | 10.0 | 10.0 | - | - | - |
| Senior financing *(c)* | 18.8 | 19.2 | 3.7 | 8.6 | 7.0 | - |
| Senior revolving financing *(d)* | 13.2 | 13.2 | 13.2 | - | - | - |
| Other bank financing | 1.2 | 1.2 | 0.4 | 0.3 | 0.3 | 0.2 |
| Other long-term debt | 1.5 | 1.5 | 0.8 | 0.7 | - | - |
| Operating lease commitments | - | 19.4 | 4.8 | 8.0 | 5.5 | 1.1 |
| Royalty payments *(e)* | - | 22.9 | 1.4 | 21.5 | - | - |
| | $ 129.2 | $ 176.9 | $ 85.1 | $ 77.7 | $ 12.8 | $ 1.3 |

***a)*** *includes interest at 9%*
***b)*** *includes interest at 3.72%*
***c)*** *includes interest at 2.0%, the rate in effect at December 31, 2012*
***d)*** *includes interest at 2.3%, the rate in effect at December 31, 2012*
***e)*** *From fiscal 2011 to 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of $1,357 (CDN$1,350) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds CDN$13,500 in any aforementioned fiscal year, up to a maximum of $28,333 (CDN$28,189). The Company has assumed the minimum required payments.*

## Contractual Commitments

Capital lease obligations related primarily to office equipment and machinery, have initial terms of three to five years and have interest rates ranging from 3.07% to 7.32%. Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment.

## Short-Term Debt

The senior financing agreement of $18.8 million bears interest at the 6-month Euribor plus 1.7% with quarterly principal and interest payments. The senior revolving facility of $13.2 million bears interest at the 6-month Euribor plus 2.20% and will be repaid on September 30, 2017.

On July 2, 2010, we acquired OMVL and portion of the purchase price amounting to $10.0 million (€7.6 million) is payable on the third anniversary of the closing date. This amount is non-interest bearing and was discounted at market rates of interest on the acquisition date. The amount is guaranteed to the sellers of OMVL by Banca Intesa S.p.A with a cross guarantee from the Bank of Montreal with a letter of credit for $10.6 million (CDN$10.6 million).

## Subordinated Debenture Notes

On September 23, 2011, we raised CDN $36.0 million through the issuance of debentures. The debentures are unsecured and subordinated to senior indebtedness, mature on September 22, 2014 and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term, which commenced on March 15, 2012. We paid to Macquarie Private Wealth Inc. a cash commission equal to 3.85% of the gross proceeds of the offering.

## Royalty Payments

Royalty payments include annual royalties payable to ITO as outlined in "Government Funding" below.

# 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 $0.8 million in government funding during the twelve months ended December 31, 2012 compared with $0.4 million for the nine months ended December 31, 2011 and $1.0 million for the twelve months ended March 31, 2011.





Under certain repayment terms, we are obligated to repay royalties as follows:

| | Industrial Technologies Office (formerly Technology Partnerships Canada) | Department of Natural Resources Canada |
|---|---|---|
| Description | Fund 30% of the eligible costs of, among other research projects, the adaptation of Westport technology to diesel engines, up to CDN$18.9 million. | Funded CDN$1.0 million for demonstration of low emissions natural gas power generator in Grande Prairie, Alberta. |
| Royalties | Annual royalties equal to the greater of CDN$1.35 million or 0.33% of annual gross revenues from all sources, provided that gross revenues exceed CDN$13.5 million. | 1% of revenues from future sales of natural gas engines for power generators. |
| Term | Fiscal 2010 to fiscal 2015, inclusive; royalty period may be extended until the earlier of March 31, 2018 or until cumulative royalties total CDN$28.2 million. | Earlier of 10 years from project completion date (August 30, 2004), or when cumulative royalties total CDN$1.0 million. |

For the year ended December 31, 2012, royalties of $1.4 million (CDN $1.4 million) relating to ITO were paid and an additional $1.4 million (CDN $1.4 million) was accrued during the year. Cumulative royalties paid relating to ITO as at December 31, 2012 total $5.4 million CDN.

# Business Risks and Uncertainties

An investment in our business involves risk and readers should carefully consider the risks described in our Annual Information Form and other filings on **www.sedar.com** and **www.sec.gov**. Our ability to generate revenue and profit from our technologies is dependent on a number of factors, and the risks discussed in our Annual Information Form, 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 discussed in our Annual Information Form 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. A full discussion of the risks impacting our business is contained in the Annual Information Form for the year ended December 31, 2012 under the heading "Risk Factors" and is available on SEDAR at **www.sedar.com**.

# Non-GAAP Measures

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

**Cash Flows from Operations Before Changes in Non-Cash Working Capital**

| *(expressed in millions of USD)* | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Cash flow from operations | | | |
| Net loss for the year | $ (98.8) | $ (45.8) | $ (42.1) |
| **Items not involving cash:** | | | |
| Depreciation and amortization | 11.4 | 6.2 | 3.4 |
| Stock-based compensation expense | 12.5 | 6.2 | 4.9 |
| Deferred income tax (recovery) expense | (0.4) | (2.2) | 0.5 |
| Income from investment accounted for by the equity method *(a)* | (16.2) | (14.5) | (8.6) |
| Accretion of long-term debt | 2.1 | 1.0 | 2.0 |
| Other | 0.3 | 0.6 | 0.1 |
| Cash flows from operations before changes in non-cash operating working capital | $ (89.1) | $ (48.5) | $ (39.8) |

***a)*** *December 31, 2011 and March 31, 2011 balances restated due to effects of restatements identified in* [note 2(a)].

# Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders of Westport Innovations Inc.

We have audited the accompanying consolidated financial statements of Westport Innovations Inc., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the year ended December 31, 2012, nine-month period ended December 31, 2011 and year ended March 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with US generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as, evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Westport Innovations Inc. as at December 31, 2012 and December 31, 2011 and its consolidated results of operations and its consolidated cash flows for the year ended December 31, 2012, nine-month period ended December 31, 2011 and year ended March 31, 2011 in accordance with US generally accepted accounting principles.

## Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Westport Innovations Inc.'s internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 6, 2013, except as to the effects of the material weakness described in Management's Report on Internal Control over Financial Reporting which is as of May 31, 2013, expressed an adverse opinion on the effectiveness of Westport Innovations Inc.'s internal control over financial reporting.

## Restatement of Consolidated Financial Statements

Without modifying our opinion, we draw attention to [note 2(a)] to the consolidated financial statements which indicates the consolidated financial statements as at and for the year ended December 31, 2012, as at and for the nine-month period ended December 31, 2011 and for the year ended March 31, 2011 have been restated and more extensively describes the reasons for the restatements.

Chartered Accountants
Vancouver, Canada
March 6, 2013, except for the restatements identified in [note 2(a)] which are as of May 31, 2013

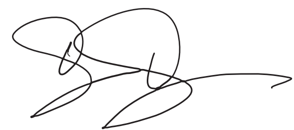
# Management's Report to Shareholders

The consolidated financial statements presented here have been prepared by management in accordance with generally accepted accounting principles in the United States. 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 five 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.



David R. Demers,
Chief Executive Officer
May 31, 2013

Bill E. Larkin,
Chief Financial Officer
May 31, 2013

# Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Westport Innovations Inc.

We have audited Westport Innovations Inc.'s, (the "Company") internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Financial Statements and Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 6, 2013, we expressed an unqualified opinion that the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). As described in the following paragraph, a material weakness was subsequently identified. As a result, management has revised its assessment, as presented in the accompanying Management's Report on Internal Control Over Financial Reporting, to conclude that the Company's internal control over financial reporting was not effective as of December 31, 2012. Accordingly, our present opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: The Company did not employ accounting staff with an appropriate level of technical accounting knowledge, experience and training in the application of recognition, measurement and disclosure requirements of U.S. GAAP and experience with regulatory requirements. We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2012 consolidated financial statements, and this report does not affect our report dated March 6, 2013, except for the restatements identified in note 2(a) which are as of May 31, 2013, which expressed an unmodified (unqualified) opinion on those consolidated financial statements

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria the Company has not maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Chartered Accountants
Vancouver, Canada
March 6, 2013, except as to the effects of the material weakness described in Management's Report on Internal Control over Financial Reporting, which is as of May 31, 2013

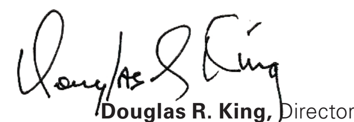
# Consolidated Balance Sheets

*expressed in thousands of USD, except share amounts :: December 31, 2012, with comparative information for 2011*

| | 2012 | 2011 |
|---|---|---|
| **Current Assets** | | (restated [note 2(a)]) |
| Cash and cash equivalents | $ 188,958 | $ 63,285 |
| Short-term investments | 26,902 | 4,274 |
| Accounts receivable [note 5] | 44,189 | 50,922 |
| Inventories [note 6] | 44,946 | 37,026 |
| Prepaid expenses | 6,641 | 6,462 |
| Current portion of deferred income tax assets [note 20(b)] | 7,183 | 5,654 |
| Other current assets [note 8] | - | 2,034 |
| | 318,819 | 169,657 |
| Long-term investments [note 7] | 19,118 | 26,307 |
| Other assets [note 8] | 1,852 | 1,994 |
| Property, plant and equipment [note 9] | 58,194 | 35,408 |
| Intangible assets [note 10] | 35,215 | 36,582 |
| Goodwill [note 11] | 56,879 | 55,814 |
| | $ 490,077 | $ 325,762 |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities [note 12] | $ 48,509 | $ 49,251 |
| Deferred revenue | 1,254 | 478 |
| Current portion of deferred income tax liabilities [note 20(b)] | 65 | - |
| Loan payable [note 21] | - | 19,409 |
| Current portion of long-term debt [note 13] | 28,566 | 20,568 |
| Current portion of warranty liability [note 14] | 2,072 | 1,187 |
| | 80,466 | 90,893 |
| Warranty liability [note 14] | 4,308 | 3,214 |
| Long-term debt [note 13] | 52,156 | 65,577 |
| Deferred revenue | 5,215 | 2,876 |
| Deferred income tax liabilities [note 20(b)] | 9,245 | 8,152 |
| Other long-term liabilities [note 15] | 2,606 | 2,460 |
| | 153,996 | 173,172 |
| **Shareholders' Equity** | | |
| Share capital [note 17]: | | |
| Authorized: | | |
| Unlimited common shares, no par value | | |
| Unlimited preferred shares in series, no par value | | |
| Issued: | | |
| 55,294,091 (2011 ▸ 48,455,601) common shares | 733,385 | 459,866 |
| Other equity instruments | 9,228 | 6,112 |
| Additional paid in capital | 6,384 | 4,499 |
| Accumulated deficit | (429,932) | (331,158) |
| Accumulated other comprehensive income | 17,016 | 13,271 |
| | 336,081 | 152,590 |
| Commitments and contingencies [note 16] and [note 23] | | |
| | $ 490,077 | $ 325,762 |

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



**Douglas R. King,** Director

**John A. Beaulieu,** Director



# Consolidated Statements of Operations

*expressed in thousands of USD, except share and per share amounts*

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| | | (restated [note 2(a)]) | (restated [note 2(a)]) |
| Product revenue | $ 128,914 | $ 75,164 | $ 25,863 |
| Parts revenue | 3,468 | 2,351 | 2,784 |
| Service and other revenue [note 22] | 23,244 | 10,181 | 8,128 |
| | 155,626 | 87,696 | 36,775 |
| **Cost of revenue and expenses** | | | |
| Cost of product and parts revenue | 102,486 | 67,093 | 23,993 |
| Research and development [note 18(d)] and [note 19] | 73,198 | 36,574 | 24,620 |
| General and administrative [note 18(d)] | 44,811 | 22,738 | 15,030 |
| Sales and marketing [note 18(d)] | 30,112 | 15,302 | 13,985 |
| Foreign exchange loss (gain) | 1,185 | (2,053) | 3,289 |
| Depreciation and amortization | 11,395 | 6,200 | 3,375 |
| Bank charges, interest and other | 737 | 917 | 446 |
| | 263,924 | 146,771 | 84,738 |
| Loss before undernoted | (108,298) | (59,075) | (47,963) |
| Income from investment accounted for by the equity method [note 7] | 16,190 | 14,458 | 8,627 |
| Interest on long-term debt and amortization of discount | (5,354) | (2,998) | (3,323) |
| Interest and other income | 426 | 661 | 938 |
| Loss before income taxes | (97,036) | (46,954) | (41,721) |
| **Income tax recovery (expense)** [note 20] | | | |
| Current | (2,147) | (1,028) | 68 |
| Deferred | 409 | 2,188 | (489) |
| | (1,738) | 1,160 | (421) |
| Net loss for the period | $ (98,774) | $ (45,794) | $ (42,142) |
| Loss per share: Basic and diluted | $ (1.83) | $ (0.96) | $ (1.00) |
| Weighted average common shares outstanding: Basic and diluted | 54,072,513 | 47,933,348 | 42,305,889 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income (Loss)

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| | | (restated [note 2(a)]) | (restated [note 2(a)]) |
| Loss for the period | $ (98,774) | $ (45,794) | $ (42,142) |
| **Other comprehensive income (loss)** | | | |
| Cumulative translation adjustment | 3,745 | (12,370) | 7,414 |
| Comprehensive loss | $ (95,029) | $ (58,164) | $ (34,728) |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

*expressed in thousands of USD, except share amounts*

| | common shares outstanding | share capital | other equity instruments | additional paid in capital | accumulated deficit | accumulated other comprehensive income | total shareholders' equity |
|---|---|---|---|---|---|---|---|
| **Balance, March 31, 2010** (restated [note 2(a)]) | 38,494,475 | $ 293,609 | $ 9,825 | $ 3,998 | $ (242,367) | $ 18,227 | $ 83,292 |
| Issue of common shares on exercise of stock options | 472,414 | 5,115 | - | (1,817) | - | - | 3,298 |
| Issue of common shares on exercise of performance share units | 241,825 | 3,239 | (3,239) | - | - | - | - |
| Issue of common shares on exercise of warrants | 858,221 | 13,853 | (4,344) | - | - | - | 9,509 |
| Cancellation of common shares | (52,131) | (895) | - | - | - | - | (895) |
| Reclassification of fair value of expired warrants | - | - | (2,413) | 2,413 | - | - | - |
| Stock-based compensation | - | - | 4,376 | 547 | - | - | 4,923 |
| Issue of common shares on public offering | 6,957,500 | 121,756 | - | - | - | - | 121,756 |
| Share issuance costs | - | (6,069) | - | - | - | - | (6,069) |
| Net loss for the year | - | - | - | - | (42,142) | - | (42,142) |
| Other comprehensive income | - | - | - | - | - | 7,414 | 7,414 |
| **Balance, March 31, 2011** (restated [note 2(a)]) | 46,972,304 | 430,608 | 4,205 | 5,141 | (284,509) | 25,641 | 181,086 |
| Issue of common shares on exercise of stock options | 225,845 | 2,810 | - | (994) | - | - | 1,816 |
| Issue of common shares on exercise of performance share units | 391,612 | 3,799 | (3,799) | - | - | - | - |
| Issue of common shares in connection with acquisitions | 915,021 | 23,052 | - | - | - | - | 23,052 |
| Cancellation of common shares | (49,181) | (403) | - | - | (855) | - | (1,258) |
| Stock-based compensation | - | - | 5,706 | 352 | - | - | 6,058 |
| Net loss for the period | - | - | - | - | (45,794) | - | (45,794) |
| Other comprehensive loss | - | - | - | - | - | (12,370) | (12,370) |
| **Balance, December 31, 2011** (restated [note 2(a)]) | 48,455,601 | 459,866 | 6,112 | 4,499 | (331,158) | 13,271 | 152,590 |
| Issue of common shares on exercise of stock options | 93,044 | 1,492 | - | (523) | - | - | 969 |
| Issue of common shares on exercise of performance share units | 420,446 | 6,597 | (6,597) | - | - | - | - |
| Issue of common shares on public offering | 6,325,000 | 273,556 | - | - | - | - | 273,556 |
| Share issue costs | - | (8,126) | - | - | - | - | (8,126) |
| Stock-based compensation | - | - | 9,713 | 2,408 | - | - | 12,121 |
| Net loss for the year | - | - | - | - | (98,774) | - | (98,774) |
| Other comprehensive income | - | - | - | - | - | 3,745 | 3,745 |
| **Balance, December 31, 2012** | 55,294,091 | $ 733,385 | $ 9,228 | $ 6,384 | $ (429,932) | $ 17,016 | $ 336,081 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

*expressed in thousands of USD*

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | (restated [note 2(a)]) | (restated [note 2(a)]) |
| Loss for the period | $ (98,774) | $ (45,794) | $ (42,142) |
| Items not involving cash | | | |
| Depreciation and amortization | 11,395 | 6,200 | 3,375 |
| Stock-based compensation expense | 12,468 | 6,179 | 4,923 |
| Deferred income tax expense (recovery) | (409) | (2,188) | 489 |
| Change in deferred lease inducements | (52) | (47) | (58) |
| Income from investment accounted for by the equity method | (16,190) | (14,458) | (8,627) |
| Accretion of long-term debt | 2,094 | 1,016 | 1,992 |
| Other | 392 | 654 | 165 |
| Changes in non-cash operating working capital | | | |
| Accounts receivable | 6,733 | (14,598) | 3,919 |
| Inventories | (7,920) | (2,051) | (1,927) |
| Prepaid expenses | 179 | (4,649) | (457) |
| Accounts payable and accrued liabilities | (742) | (857) | 127 |
| Deferred revenue | 3,115 | 1,561 | 162 |
| Warranty liability | 1,979 | 2,751 | (384) |
| | (85,732) | (66,281) | (38,443) |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment | (30,363) | (13,123) | (3,171) |
| Purchase of intangible assets | (989) | (123) | - |
| (Purchase) sale of short-term investments, net | (22,520) | 26,621 | 3,376 |
| Repayment on loan receivable | 2,494 | - | - |
| Increase in loan payable | 2,450 | 29,080 | 18,961 |
| Repayment of loan payable | (21,840) | (23,840) | (21,207) |
| Acquisitions, net of acquired cash [note 4] | (1,125) | (9,084) | (13,016) |
| Investment in equity interest [note 7] | - | (955) | (4,316) |
| Dividends received from joint venture | 22,600 | 10,000 | 6,000 |
| | (49,293) | 18,576 | (13,373) |
| **Cash Flows from Financing Activities** | | | |
| Repayment of demand installment loan | - | - | (3,206) |
| Increase in operating lines of credit | 4,245 | - | - |
| Repayment on operating lines of credit | (3,118) | (3,240) | - |
| Repayment of short-term debt | - | (221) | - |
| Repayment of long-term debt | (6,725) | (53,057) | (117) |
| Issuance of subordinated debenture notes | - | 34,345 | - |
| Finance costs incurred | - | (1,392) | - |
| Proceeds from stock options exercised | 969 | 1,816 | 3,298 |
| Shares issued for cash | 273,556 | - | 131,265 |
| Share issuance costs | (8,126) | - | (6,069) |
| | 260,801 | (21,749) | 125,171 |
| Effects of foreign exchange on cash and cash equivalents | (103) | 1,206 | 4,158 |
| Increase (decrease) in cash and cash equivalents | 125,673 | (68,248) | 77,513 |
| Cash and cash equivalents, beginning of period | 63,285 | 131,533 | 54,020 |
| Cash and cash equivalents, end of period | $ 188,958 | $ 63,285 | $ 131,533 |

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| **Supplementary Information** | | (restated [note 2(a)]) | (restated [note 2(a)]) |
| Interest paid | $ 3,532 | $ 1,349 | $ 1,729 |
| Taxes paid | 1,982 | 1,472 | 842 |
| Non-Cash Transactions | | | |
| Purchase of property, plant and equipment by assumption of capital lease obligation | - | 34 | - |
| Shares issued on exercise of performance share units | 6,597 | 3,799 | 3,239 |
| Cancellation of performance share units | - | 1,258 | 895 |
| Common shares issued in connection with acquisitions [note 4] | - | 23,052 | - |
| Contingent consideration payable in common shares in connection with acquisitions [note 4] | - | 428 | - |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

*expressed in thousands of USD, except share and per share amounts :: year ended Dec. 31, 2012, 9 months ended Dec. 31, 2011 and year ended Mar. 31, 2011*

## 1 Company Organization and Operations

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

The Company is a provider of high-performance, low-emission engine and fuel system technologies utilizing gaseous fuels. Its technology and products enable light (<5.9-litre), medium (5.9- to 8.9-litre), heavy-duty (11- to 16-litre) and high horsepower (>16-litre) petroleum-based fuel engines to use primarily natural gas, giving users a cleaner, more plentiful and generally less expensive alternative fuel.

The Company is focused on developing technology to enable more environmentally sustainable engines without compromising the performance, fuel economy, durability and reliability of diesel engines. The substitution of natural gas for petroleum-based fuel drives a significant reduction in harmful combustion emissions, such as nitrogen oxides, particulate matter and greenhouse gas, in addition to providing an abundant, relatively inexpensive alternative fuel. The Company's systems can be used to enable combustion engines to use gaseous fuels, such as natural gas, propane or hydrogen. The Company's research and development effort and investment have resulted in a substantial patent portfolio that serves as the foundation for its differentiated technology offerings and competitive advantage.

## 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 ("VIEs") for which the Company is considered the primary beneficiary. All Intercompany balances and transactions have been eliminated on consolidation.

Interests in variable interest entities are consolidated by the Company if the Company is the primary beneficiary thereof.

In previously filed annual and interim financial statements in fiscal 2012 and 2011, the Company had identified Cummins Westport Inc. ("CWI") as a variable interest entity and the Company's interest as being that of the primary beneficiary upon adoption of Accounting Standards Update 2009-17, *Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, ("ASU 2009-17") effective April 1, 2010. As a result, the Company consolidated CWI on a line by line basis in its consolidated financial statements reflecting its financial position, results of operations and cash flows.

Based on the Company's ongoing review and adoption of the applicable accounting guidance in ASU 2009-17 and related interpretations, the Company concluded that CWI should be accounted for under the equity method because CWI continues to be a VIE but there is no primary beneficiary. Accordingly, commencing with the annual report for the year ended December 31, 2012, the Company is recording the results of CWI using the equity method and has restated its consolidated financial statements for the nine month period ended December 31, 2011 and the year ended March 31, 2011 on a similar basis. This restatement did not affect the reported amounts of net loss attributable to the Company, loss per share or shareholders' equity but has impacted certain amounts disclosed. The Company's interest in the net assets of CWI is now presented net on a single line in other long-term investments on the balance sheet, and the Company's share of net earnings of CWI is reflected in income from investments accounted for by the equity method in the statement of operations. The assets, liabilities, revenues and expenses of CWI previously included on the balance sheet and statement of operations on a line by line basis are summarized in [note 7(b)]. There was no cumulative effect from adoption of ASU 2009-17 at April 1, 2010.





The Company originally filed its consolidated financial statements for the year ended December 31, 2012 reflecting the restatement described above on or about March 7, 2013. Subsequent to the date of filing the 2012 annual consolidated financial statements, the Company has identified additional disclosures to assist in understanding the impact of the change in accounting for CWI. See [note 7(b)] and [note 26] for the additional disclosures and the effect of the corrections on each financial statement line item for previously issued financial statements.

In addition, the Company identified amounts reclassified from foreign exchange loss (gain) to income from investment accounted for by the equity method for the nine month period ended December 31, 2011 ($2,040) and the year ended March 31, 2011 ($1,042) to be consistent with the revised presentation of CWI and revised the pro forma revenue amounts for these periods in [note 4(a)] and [note 4(b)]. The Company also identified reclassifications in deferred income taxes from non-current to current ($5,639) for balances as at December 31, 2011 [note 20(b)] and segmented information related to long-lived assets information [note 24] allocated by geographic areas as at December 31, 2012 and December 31, 2011. Finally, certain typographical errors have been corrected to ensure consistency of presentation.

These consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

### b Foreign Currency Translation

The Company's reporting currency for its consolidated financial statement presentation is the United States dollar. The functional currency of the Company's operations is the Canadian dollar except for OMVL and Emer which use the Euro and AFV which uses the Swedish Krona. The Company translates financial statements denominated in a foreign currency into the reporting currency using the current rate method. All assets and liabilities are translated using the period end exchange rates. Shareholders' equity balances are translated using a weighted average of historical exchange rates. Revenues and expenses are translated using the monthly average rate for the period. All resulting exchange differences are recognized in other comprehensive income.

Transactions that are denominated in currencies other than the functional currency of the Company or its subsidiaries are translated at the rate in effect on the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rate. All foreign exchange gains and losses are recognized in the statement of operations, except for the translation gains and losses arising from available-for-sale instruments, which are recorded through other comprehensive income until realized through disposal or impairment.

Except as otherwise noted, all amounts in these financial statements are presented in U.S. dollars. The year-end exchange rate of the Canadian dollar as at December 31, 2012 was $0.99 (December 31, 2011 ‣ $1.02), and the average exchange rate for the year ended December 31, 2012 was $1.00 (nine month period ended December 31, 2011 ‣ $1.01; year ended March 31, 2011 ‣ $0.98). The year-end exchange rate of the Euro as at December 31, 2012 was 1.32 (December 31, 2011 ‣ 1.30), and the average exchange rate for the year ended December 31, 2012 was 1.29 (nine month period ended December 31, 2011 ‣ 1.40; July 2, 2010 to March 31, 2011 ‣ 1.34). The year-end exchange rate of the Swedish Krona as at December 31, 2012 was 0.15 (December 31, 2011 ‣ 0.15) and the average exchange rate for the year ended December 31, 2012 was 0.15 (October 12, 2011 to December 31, 2011 ‣ 0.15).

### c Cash and Cash Equivalents

Cash and cash equivalents includes cash, term deposits, bankers acceptances and guaranteed investment certificates with maturities of ninety days or less when acquired. Cash equivalents are considered as held for trading and recorded at fair value with changes in fair value recognized in the consolidated statements of operations.

### d 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 until realized. A decline in value that is considered other than temporary is recognized in net loss for the period.

### e Accounts and Loans Receivable

Accounts receivable and loans receivable are measured at amortized cost. An allowance for doubtful accounts is recorded based on a review of specific accounts deemed uncollectible. Account balances are charged against the allowance in the period in which it is considered probable that the receivable will not be recovered.

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 until realized. A decline in value that is considered other than temporary is recognized in net loss for the period.

### f Inventories

The Company's inventories consist of the Company's fuel system products (finished goods), work-in-progress, purchased parts and assembled parts. Inventories are recorded at the lower of cost and net realizable value. Cost is determined based on the lower of weighted average cost and net realizable value. The cost of fuel system product inventories, assembled parts and work-in-progress includes materials, labour and production overhead including depreciation. An inventory obsolescence provision is provided to the extent cost of inventory exceeds net realizable value. In establishing the amount of the 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.

## 2 Significant Accounting Policies (continued)

### g Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided as follows:

| assets | basis | rate |
|---|---|---|
| Buildings | Straight-line | 10 years |
| Computer equipment and software | Straight-line | 3 years |
| Furniture and fixtures | Straight-line | 5 years |
| Machinery and equipment | Straight-line | 8–10 years |
| Leasehold improvements | Straight-line | Lease term |

### h Long-Term Investments

The Company accounts for investments in which it has significant influence, including VIEs for which the Company is not the primary beneficiary, using the equity basis of accounting. Under the equity method, the Company recognizes its share of income from equity accounted for investees in the statement of operations with a corresponding increase in long-term investments. Any dividends paid or payable are credited against long-term investments.

### i Financial Liabilities

Accounts payable and accrued liabilities, short-term debt and long-term debt are measured at amortized cost. Transaction costs relating to long-term debt are deferred in other assets on initial recognition and are amortized using the effective interest rate method.

### j Research and Development Costs

Research and development costs are expensed as incurred and are recorded net of government funding received or receivable.

### k 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 property, plant and equipment 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.

### l Intangible Assets

Intangible assets consist primarily of the cost of intellectual property, trademarks, technology, customer contracts and non-compete agreements. Intangible assets are amortized over their estimated useful lives, which range from 5 to 20 years.

### m Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment, including property, plant and equipment 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.

### n Goodwill Impairment

Goodwill is not amortized and instead is tested at least annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. This impairment test is performed annually at November 30.

A two-step test is used to identify a potential impairment and to measure the amount of impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired; otherwise, goodwill is impaired and the loss is measured by performing step two. Under step two, the impairment loss is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill.

Fair value is determined using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. It is the Company's policy to conduct impairment testing based on its current business strategy in light of present industry and economic conditions, as well as its future expectations.

Goodwill is recorded at the time of purchase for the excess of the amount of the purchase price over the fair values of the assets acquired and liabilities assumed. Future adverse changes in market conditions or poor operating results of underlying assets could result in losses or an inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge.

### o 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 known information to estimate the warranty liability. New product launches require a greater use of judgment in developing estimates until claims experience becomes available. Product specific experience is typically available four or five quarters after product launch, with a clear experience trend not evident until eight to twelve quarters after launch. The Company records warranty expense for new products upon shipment using a factor based upon historical experience from previous engine generations in the first year, a blend of actual product and historical experience in the second year and product specific experience thereafter. The amount payable by the Company and the timing will depend on actual failure rates and cost to repair failures of its products. Since a number of the Company's products are new in the market, historical data may not necessarily reflect actual costs to be incurred and may result in significant fluctuations in the warranty liability.

### p Extended Warranty

The Company sells extended warranty contracts that 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.

### q Revenue Recognition

Product and parts revenue is recognized when the products are shipped and title passes to the customer. Revenue also includes fees earned from performing research and development activities for third parties, as well as technology license 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.

The Company also earns service revenue from certain research and development arrangements under which the Company provides contract services relating to developing natural gas engines or biogas engines for use in customer products. Service revenue is recognized using the milestone method upon completion of project milestones as defined and agreed to by the Company and its customers. The Company recognizes consideration earned from the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of deliverables and the payment terms within the contract.

When an arrangement includes multiple deliverables, the Company allocates the consideration to each separate deliverable (unit of accounting) based on relative selling prices. A separate unit of accounting is identified if the delivered item(s) have standalone value and the delivery or performance of undelivered items is considered probable and within the control of the Company. Revenue for each unit of account is recognized in accordance with the above revenue recognition principles.

### r Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred 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 deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes income tax laws that have been enacted at the balance sheet date. A valuation allowance is provided to reduce the deferred income tax assets if, based upon available evidence, it is more-likely-than-not that some or all of the deferred income tax assets will not be realized.

Tax credits, including investment tax credits and research and development credits, are recognized in income tax expense in the same year in which the related expenditures are charged to earnings or loss, provided there is reasonable assurance the benefits will be realized.

## 3 Accounting Changes

### a Adoption of New Accounting Standards

#### i *Fair Value Measurements*

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, ("ASU 2011-04"). ASU 2011-04 changes the language used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statement note disclosures.

#### ii *Comprehensive Income*

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, ("ASU 2011-05"). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12"), which defers certain requirements within ASU 2011-05. These amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. This new guidance is to be applied retrospectively. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

# 3 Accounting Changes (continued)

## a Adoption of New Accounting Standards (continued)

### iii Intangibles – Goodwill and Other

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment* ("ASU 2011-08"), which allows an entity to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This update was effective for the Company on January 1, 2012. The adoption of this update did not have a material impact on the Company's goodwill impairment test and the Company's consolidated financial statement note disclosures.

## b New Accounting Pronouncements

### i Balance Sheet

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). ASU 2011-11 enhances disclosures regarding financial instruments and derivative instruments. Entities are required to provide both net information and gross information for these assets and liabilities in order to enhance comparability between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. This new guidance is to be applied retrospectively and is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The Company anticipates that the adoption of this standard will expand its consolidated financial statement note disclosures.

# 4 Business Combinations

## a Acquisition of Emer

On July 1, 2011, the Company acquired, through its wholly owned subsidiary, Juniper Engines Italy S.r.l., 100% of the outstanding shares of Emer from the seller. The fair value of the consideration for the acquisition was $39,706. Westport paid cash of $17,607 on closing and issued 881,860 common shares with a value of $22,099 based on the NASDAQ closing price of the Company's shares on July 1, 2011 of $25.06. The Company also assumed approximately $77,000 in existing net debt of Emer. Post-closing, Westport repaid approximately $36,300 of the debt, leaving approximately $40,700 in debt on the consolidated balance sheet as of July 1, 2011.

The acquisition was accounted for as a business combination using the purchase method. The results of Emer have been included in the consolidated financial statements of the Company from July 1, 2011.

The Company obtained an independent third-party valuation of inventories, property and equipment, and intangible assets. The fair value of the assets acquired and liabilities assumed are as follows:

| Consideration allocated to | |
|---|---|
| Property, plant and equipment | $ 17,644 |
| Other tangible assets, including cash of $11,073 | 60,532 |
| Intangible assets subject to amortization over 5–20 years | 32,954 |
| Goodwill | 50,774 |
| **Total assets acquired** | 161,904 |
| Less: Long-term debt | (83,272) |
| Other liabilities | (38,926) |
| Total net assets acquired | $ 39,706 |
| **Consideration** | |
| Cash | $ 17,607 |
| Common shares | 22,099 |
| | $ 39,706 |

The foreign exchange rate used to translate Euro denominated net assets acquired, liabilities assumed and purchase consideration into U.S. dollars was 1.45 based on the July 1, 2011 closing rate.

The Company recognized goodwill associated with the transaction of $50,774. Goodwill includes the value of the assembled work force and expected synergies including access to markets and supply chain integration. Goodwill is not deductible for tax purposes.

The consolidated financial statements reflect consolidated revenue and net loss for Emer of $31,831 and $1,924, respectively, from July 1, 2011 to December 31, 2011. Had the Company acquired Emer on April 1, 2011, consolidated pro forma revenue and net loss for the nine-month period ended December 31, 2011 would have been $108,372 (year ended March 31, 2011 ▸ $108,322) and $54,927 (year ended March 31, 2011 ▸ $31,322), respectively, not including the financial results of AFV [note 4(b)].

The Company incurred acquisition related expenses of $1,683 during the nine months ended December 31, 2011, which have been recorded in general and administrative expenses in the consolidated statements of operations.

## b Acquisition of AFV

On October 11, 2011, the Company acquired, through its wholly owned subsidiary Westport Light Duty Canada Inc., 100% of the outstanding shares of AFV. The fair value of the consideration for the acquisition was $3,939. Westport paid cash of $2,558 on closing and issued 33,161 common shares with a value of $953 based on the TSX closing price of the Company's shares on October 11, 2011 of $28.74 (CDN$29.56). There is also a contingent earn-out, which will be settled in Westport shares if AFV achieves certain performance targets by December 31, 2014.

The Company also assumed approximately $1,087 in existing debt of AFV. Upon closing, Westport settled $420 of the debt, leaving approximately $667 in debt on the consolidated balance sheet as of October 11, 2011.

The acquisition was accounted for as a business combination using the purchase method. The results of AFV have been included in the consolidated financial statements of the Company from October 11, 2011.

The fair value of the assets acquired and liabilities assumed are as follows:

| Consideration allocated to | |
|---|---|
| Total intangible assets, including cash of $8 | $ 2,161 |
| Intangible assets subject to amortization over 8 years | 2,638 |
| Goodwill | 2,701 |
| **Total assets acquired** | 7,500 |
| Less: Total liabilities | (3,561) |
| Total net assets acquired | $ 3,939 |
| **Consideration** | |
| Cash | $ 2,558 |
| Common shares | 953 |
| Contingent consideration payable | 428 |
| | $ 3,939 |

The foreign exchange rate used to translate net assets acquired, liabilities assumed and purchase consideration from Swedish Krona into U.S. dollars was 6.6712 based on the October 11, 2011 closing rate.

The Company recognized goodwill associated with the transaction of $2,701. Goodwill includes the value of the assembled work force and expected synergies including access to markets and product know-how. Goodwill is not deductible for tax purposes.

The consolidated financial statements reflect consolidated revenue and net loss for AFV of $2,566 and $191, respectively, from October 11, 2011 to December 31, 2011. Had the Company acquired AFV on April 1, 2011, consolidated pro forma revenue and net loss for the nine months ended December 31, 2011 would have been $62,863 (year ended March 31, 2011 ▸ $36,775) and $43,064 (year ended March 31, 2011 ▸ $42,724), respectively, not including the financial results of Emer [note 4(a)].

The Company incurred acquisition related expenses of $93 during the nine months ended December 31, 2011, which have been recorded in general and administrative expenses in the consolidated statements of operations.

## c Acquisition of AEC

On March 20, 2012, the Company acquired, through its wholly owned subsidiary, Westport Innovations (Australia) Pty Ltd., certain assets of AEC. Based in Perth, Australia, AEC specializes in research, development, and production of patented electronic fuel injection and engine management technologies that enable vehicle engines to operate on natural gas.

The fair value of the assets acquired and liabilities assumed are as follows:

| Consideration allocated to | |
|---|---|
| Total intangible assets | $ 685 |
| Intangible assets subject to amortization over 8 years | 832 |
| **Total assets acquired** | 1,517 |
| Less: Total liabilities | (392) |
| Total net assets acquired | $ 1,125 |

The Company paid cash totaling $1,125 (AUD$1,082) for the acquisition. The Company also assumed AEC's Australian leased facility and approximately ten of AEC's employees. The acquisition was accounted for as a business combination using the purchase method.

The foreign exchange rate used to translate Australian dollar denominated assets acquired, liabilities assumed and purchase consideration into U.S. dollars was 1.04 based on the March 20, 2012 closing rate.

The Company incurred acquisition related expenses of $280 during the year ended December 31, 2012, which have been recorded in general and administrative expenses in the consolidated statement of operations.

The Company has determined that the acquisition of AEC was a non-material business combination. As such, pro forma disclosures are not required.

# 5 Accounts Receivable

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Customer trade receivable | $ 39,754 | $ 43,181 |
| Government funding receivable | 541 | 582 |
| Due from joint venture [note 21] | 2,127 | 416 |
| Other receivables | 1,916 | 7,528 |
| Income taxes receivable | 172 | - |
| Allowance for doubtful accounts | (321) | (785) |
| | $ 44,189 | $ 50,922 |

# 6 Inventories

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Purchased parts | $ 25,454 | $ 19,989 |
| Assembled parts | 4,870 | 4,198 |
| Work-in-process | 7,516 | 6,994 |
| Finished goods | 7,385 | 6,360 |
| Obsolescence provision | (279) | (515) |
| | $ 44,946 | $ 37,026 |

During the year ended December 31, 2012, the Company recorded a write-down to net realizable value of approximately $233 (nine months ended December 31, 2011 ▸ $430; year ended March 31, 2011 ▸ nil) for obsolescence and scrap. Cost of revenue related to product and parts revenue for the year ended December 31, 2012 was $102,486 (nine months ended December 31, 2011 ▸ $67,093; year ended March 31, 2011 ▸ $23,993).

# 7 Long-Term Investments

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Weichai Westport Inc. *(a)* | $ 11,275 | $ 7,732 |
| Cummins Westport Inc. *(b)* | 7,138 | 17,792 |
| Other equity accounted for investees | 705 | 783 |
| | $ 19,118 | $ 26,307 |

## a Weichai Westport Inc.

On July 3, 2010, the Company invested $4,316 under an agreement with Weichai Power Co. Ltd. and Hong Kong Peterson ("CNG") Equipment Ltd. to form Weichai Westport Inc. ("WWI"). On October 11, 2011, the Company invested an additional $955 in WWI. The Company has a 35% equity interest in WWI.

For the year ended December 31, 2012, the Company recognized its share of WWI's income of $2,881 (nine months ended December 31, 2011 ▸ $1,438; year ended March 31, 2011 ▸ $997), as income from investment accounted for by the equity method.

Assets, liabilities, revenue and expenses of WWI as of and for the periods presented are as follows:

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| **Current assets** | | |
| Cash and short-term investments | $ 1,145 | $ 3,073 |
| Accounts receivable | 21,512 | 10,005 |
| Inventory | 55,109 | 23,903 |
| Other current assets | 1,053 | 751 |
| Long-term assets | 8,178 | 4,179 |
| Total assets | $ 86,997 | $ 41,911 |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 49,125 | $ 20,567 |
| Other current liabilities | 12,055 | 4,248 |
| Total liabilities | $ 61,180 | $ 24,815 |

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Product revenue | $ 272,086 | $ 84,917 | $ 53,127 |
| **Cost of revenue and expenses** | | | |
| Cost of product revenue | 234,266 | 70,345 | 43,130 |
| Operating expenses | 28,055 | 9,693 | 6,624 |
| | 262,321 | 80,038 | 49,754 |
| Income before income taxes | 9,765 | 4,879 | 3,373 |
| **Income tax expense** | | | |
| Current | 1,536 | 1,364 | 528 |
| Income for the period | $ 8,229 | $ 3,515 | $ 2,845 |

## b Cummins Westport Inc.

The Company entered into a joint venture with Cummins on March 7, 2001. On December 16, 2003, the Company and Cummins amended the joint venture agreement ("JVA") focusing CWI on developing 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.

The Company has determined that CWI is a variable interest entity. Cummins and Westport each own 50% of the common shares of CWI and have equal representation on the Board of Directors. No one shareholder has the unilateral power to govern CWI. The Board of Directors has power over the operating decisions and to direct other activities of CWI that most significantly impact CWI's economic performance as set forth in the governing documents. As decision-making at the Board of Directors' level requires unanimous approval, this power is shared. Accordingly neither party is the primary beneficiary.

On February 20, 2012, the JVA was amended and restated to provide for, among other things, clarification concerning the scope of products within CWI. In addition, the parties have revised certain economic terms of the JVA.

Under the prior JVA, CWI had a global exclusive right to design, engineer, and market mid-range on-road spark-ignited natural gas engines based on Cummins diesel engines manufactured in Cummins facilities. The Company and Cummins have agreed in the amended and restated JVA to focus CWI's future product development on North American markets including engines for on-road applications between the displacement range of 5.9 litres through 12 litres and to have these engines manufactured in Cummins North American plants.

The joint venture will now have a term of ten years and can be terminated under certain circumstances before the end of the term, including in the event of a material breach of the agreement by, or in the event of a change of control of, one of the parties.

Prior to February 20, 2012, the Company and Cummins shared equally in the profits and losses of CWI. Under the new JVA, profits and losses are shared equally up to an established revenue baseline, then any excess profit will be allocated 75% to the Company and 25% to Cummins.

The Company has not historically provided and does not intend to provide financial or other support to CWI that the Company is not previously contractually required to provide.

For the year ended December 31, 2012, the Company recognized its share of CWI's income of $13,232 (nine months ended December 31, 2011 ▸ $12,958; year ended March 31, 2011 ▸ $7,999), as income from investment accounted for by the equity method.

Assets, liabilities, revenue and expenses of CWI as of and for the periods presented are as follows (amounts as at December 31, 2011 and for the nine months ended December 31, 2011 and the year ended March 31, 2011 had previously been consolidated and in 2012 have been retrospectively deconsolidated as described in [note 2(a)]:



Notes to Consolidated Financial Statements

*expressed in thousands of USD, except share and per share amounts :: year ended Dec. 31, 2012, 9 months ended Dec. 31, 2011 and year ended Mar. 31, 2011*

| | Dec. 31, 2012 | Dec. 31, 2011* |
|---|---|---|
| **Current assets** | | |
| Cash and short-term investments | $ 44,371 | $ 17,403 |
| Accounts receivable | 6,995 | 4,717 |
| Loan receivable | - | 38,818 |
| Current portion of deferred income tax assets | 7,304 | 5,271 |
| Other current assets | 225 | 89 |
| **Long-term assets** | | |
| Property, plant and equipment | 896 | 835 |
| Deferred income tax assets | 9,786 | 5,303 |
| Total assets | $ 69,577 | $ 72,436 |

* *restated*—[note 2(a)]

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| **Current liabilities** | | |
| Current portion of warranty liability | $ 13,317 | $ 11,791 |
| Current portion of deferred revenue | 3,862 | 2,668 |
| Accounts payable and accrued liabilities | 7,274 | 5,878 |
| | 24,453 | 20,337 |
| **Long-term liabilities** | | |
| Warranty liability | 17,501 | 8,039 |
| Deferred revenue | 9,968 | 7,451 |
| Other long-term liabilities | 1,312 | 644 |
| | 28,781 | 16,134 |
| Total liabilities | $ 53,234 | $ 36,471 |

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011* | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Product revenue | $ 161,741 | $ 114,518 | $ 84,612 |
| Parts revenue | 36,274 | 24,326 | 26,675 |
| | 198,015 | 138,844 | 111,287 |
| **Cost of revenue and expenses** | | | |
| Cost of product and parts revenue | 136,575 | 78,837 | 66,989 |
| Research and development | 12,114 | 6,720 | 10,043 |
| General and administrative | 1,417 | 796 | 1,181 |
| Sales and marketing | 12,541 | 9,659 | 7,675 |
| Foreign exchange loss (gain) | (18) | 17 | 160 |
| Bank charges, interest and other | 472 | 369 | 299 |
| | 163,101 | 96,398 | 86,347 |
| Income before undernoted | 34,914 | 42,446 | 24,940 |
| Interest and investment income | 530 | 297 | 284 |
| Income before income taxes | 35,444 | 42,743 | 25,224 |
| **Income tax recovery (expense)** | | | |
| Current | (16,362) | (18,602) | (8,954) |
| Deferred | 6,517 | 1,775 | (272) |
| | (9,845) | (16,827) | (9,226) |
| Income for the period | 25,599 | 25,916 | 15,998 |
| Income attributable to JV Partner | (12,367) | (12,958) | (7,999) |
| Income attributable to the Company | $ 13,232 | $ 12,958 | $ 7,999 |

* *restated*—[note 2(a)]

# 8 Other Assets

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Note receivable *(a)* | $ - | $ 2,446 |
| Deferred financing charges *(b)* | 902 | 1,323 |
| Other | 950 | 259 |
| | 1,852 | 4,028 |
| Current portion | - | (2,034) |
| | $ 1,852 | $ 1,994 |

## a Note Receivable

On October 15, 2010, the Company entered into a Note and Warrant Purchase Agreement (the "Agreement") with a private energy company based in the United States to fund operating and capital expenditures related to infrastructure development activities.

Under the Agreement, the Company loaned $2,200 and received 1,427,179 warrants representing 20% of the current outstanding shares to purchase common shares at $0.10 per share for a period of five years. The loan bore interest at 12.5%, and was payable on maturity dates ranging from October 15, 2012 to October 20, 2013. The value of the warrants was nominal at the time of issue.

On February 29, 2012, the total loan principal and accrued interest of $2,494 was repaid in full by the counterparty, and the warrants were terminated.

## b Deferred Financing Charges

Financing charges incurred on the issuance of subordinated debentures [note 13(a)] have been deferred and are being amortized into income over the term of the debentures using the effective interest rate method.

# 9 Property, Plant and Equipment

| | cost | accumulated amortization | net book value |
|---|---|---|---|
| **December 31, 2012** | | | |
| Land and buildings | $ 575 | $ 64 | $ 511 |
| Computer equipment & software | 11,529 | 8,140 | 3,389 |
| Furniture and fixtures | 4,032 | 1,913 | 2,119 |
| Machinery and equipment | 80,667 | 34,219 | 46,448 |
| Leasehold improvements | 15,602 | 9,875 | 5,727 |
| | $ 112,405 | $ 54,211 | $ 58,194 |
| **December 31, 2011** | | | |
| Land and buildings | $ 668 | $ 124 | $ 544 |
| Computer equipment & software | 8,903 | 7,246 | 1,657 |
| Furniture and fixtures | 2,072 | 1,602 | 470 |
| Machinery and equipment | 54,156 | 27,288 | 26,868 |
| Leasehold improvements | 14,930 | 9,061 | 5,869 |
| | $ 80,729 | $ 45,321 | $ 35,408 |

## 9 Property, Plant and Equipment (continued)

As at December 31, 2012, equipment with a cost of $16,532 (December 31, 2011 ▸ $15,448) and a net book value of $2,587 (December 31, 2011 ▸ $3,662) is held under capital lease.

Depreciation expense for the year ended December 31, 2012 was $8,131 (nine months ended December 31, 2011 ▸ $4,394; year ended March 31, 2011 ▸ $2,783).

## 10 Intangible Assets

| | cost | accumulated amortization | net book value |
|---|---|---|---|
| **December 31, 2012** | | | |
| Patents and trademarks | $ 20,192 | $ 1,758 | $ 18,434 |
| Technology | 6,961 | 1,901 | 5,060 |
| Customer contracts | 14,404 | 2,709 | 11,695 |
| Non-compete agreement | 44 | 18 | 26 |
| | $ 41,601 | $ 6,386 | $ 35,215 |
| **December 31, 2011** | | | |
| Patents and trademarks | $ 19,508 | $ 727 | $ 18,781 |
| Technology | 6,380 | 1,122 | 5,258 |
| Customer contracts | 13,334 | 815 | 12,519 |
| Non-compete agreement | 37 | 13 | 24 |
| | $ 39,259 | $ 2,677 | $ 36,582 |

During the year ended December 31, 2012, nine months ended December 31, 2011 and the year ended March 31, 2011, amortization of $3,264, $1,806 and $592, respectively, was recognized in the statement of operations.

The expected amortization of intangible assets for fiscal 2013 to 2017 is $3,500 per year.

## 11 Goodwill

A continuity of goodwill is as follows:

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Balance, beginning of period | $ 55,814 | $ 8,202 |
| Acquisition of Emer [note 4(a)] | - | 50,774 |
| Acquisition of AFV [note 4(b)] | - | 2,701 |
| Impact of foreign exchange | 1,065 | (5,863) |
| Balance, end of period | $ 56,879 | $ 55,814 |

## 12 Accounts Payable and Accrued Liabilities

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Trade accounts payable | $ 37,956 | $ 37,651 |
| Accrued payroll | 8,539 | 8,157 |
| Accrued interest | 961 | 1,233 |
| Income taxes payable | 876 | 1,311 |
| Other | 177 | 899 |
| | $ 48,509 | $ 49,251 |

## 13 Long-Term Debt

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Subordinated debenture notes *(a)* | $ 36,185 | $ 35,398 |
| Long-term payable *(b)* | 9,836 | 9,330 |
| Senior financing *(c)* | 18,812 | 24,871 |
| Senior revolving financing *(c)* | 13,185 | 11,360 |
| Other bank financing *(d)* | 1,171 | 2,557 |
| Capital lease obligations *(e)* | 1,533 | 2,629 |
| | 80,722 | 86,145 |
| Current portion | (28,566) | (20,568) |
| | $ 52,156 | $ 65,577 |

### a Subordinated Debenture Notes

On September 23, 2011, the Company raised $36,185 (CDN$36,000) through the issuance of debentures to Macquarie Private Wealth Inc. ("Macquarie") on a private placement basis.

The debentures are unsecured and subordinated to senior indebtedness, mature on September 22, 2014, and bear interest at 9% per annum, payable in cash semi-annually in arrears on March 15 and September 15 of each year during the term, which commenced on March 15, 2012.

The debentures are redeemable at the option of the Company at a price equal to $1,150 per $1,000 principal amount of the debentures on or before March 22, 2013. After March 22, 2013 and before maturity, the debentures can be redeemed at a price equal to $1,100 per $1,000 principal amount.

The Company paid to Macquarie a cash commission equal to 3.85% of the gross proceeds of the offering totaling $1,460, which is included in other assets **[note 8]** and amortized over the term of the debentures.

### b Long-Term Payable

On July 2, 2010, the Company acquired OMVL for $25,711. A portion of the purchase price amounting to $10,021 (€7,600) is payable on the third anniversary of the closing date. This amount is non-interest bearing and was discounted at market rates of interest on the acquisition date. The difference between the carrying value of this liability and the principal amount is accreted to the principal amount using the effective interest rate of 3.72% over the term to maturity. The amount outstanding is denominated in Euros, exposing the Company to foreign exchange changes. The amount is guaranteed to the sellers of OMVL by Banca Intesa S.p.A with a cross guarantee from the Bank of Montreal with a letter of credit for $10,618 (CDN$10,564).

### c Senior Financing / Senior Revolving Financing

The senior financing agreement bears interest at the 6-month Euribor plus 1.7% or a rate of 2.0% as at December 31, 2012 and its carrying value is recorded at amortized cost using the effective interest rate method. The principal repayment schedule of the remaining senior financing is as follows for the years ended December 31:

| 2013 | 2014 | 2015 | 2016 | 2017 | total |
|---|---|---|---|---|---|
| $ 3,718 | $ 4,090 | $ 4,461 | $ 4,647 | $ 2,324 | $ 19,240 |

The senior revolving financing facility bears interest at the 6-month Euribor plus 2.2% or a rate of 2.5% as at December 31, 2012 and will be repaid through one principal payment of $13,185 (€10,000) on September 30, 2017.

The Company has pledged its interest in Emer as a general guarantee for its senior financing and senior revolving financing.

Throughout the entire term of these financing arrangements, the Company is required to meet certain financial and non-financial covenants. As of December 31, 2012, the Company is in compliance with all covenants under the financing arrangements.

### d Other Bank Financing

Other bank financing consists of various unsecured bank financing arrangements that carry rates of interest ranging from 1.01% to 8.00% and are payable on maturity dates ranging from June 23, 2013 to June 23, 2017.

### e Capital Lease Obligations

The Company has capital lease obligations that have initial terms of three to five years at interest rates ranging from 3.07% to 7.32%. The capital lease obligations require the following minimum annual payments during the respective fiscal years:

| | |
|---|---|
| 2013 | $ 836 |
| 2014 | 418 |
| 2015 | 276 |
| 2016 | 34 |
| 2017 | 2 |
| | 1,566 |
| Amount representing interest | (33) |
| | $ 1,533 |

### f Credit Facility

The Company has a credit facility for maximum borrowings of CDN$30,000. The credit facility is governed by a margin requirement limiting such borrowings to a calculated amount based on cash and investments held with the creditor. Borrowings may be drawn in the form of direct borrowings, letters of credit, foreign exchange forward contracts and overdraft loans. Outstanding amounts on direct borrowings and overdraft loans drawn under this credit facility bear interest at the prime rate, and letters of credit bear interest at 0.75% per annum. As at December 31, 2012 and 2011, no amounts of this credit facility were drawn.

## 14 Warranty Liability

A continuity of the warranty liability is as follows:

| | Dec. 31, 2012 | Dec. 31, 2011 | Mar. 31, 2011 |
|---|---|---|---|
| Balance, beginning of period | $ 4,401 | $ 1,314 | $ 1,769 |
| Warranty claims | (3,099) | (1,395) | (2,124) |
| Warranty accruals | 5,303 | 4,530 | 1,740 |
| Impact of foreign exchange | (225) | (48) | (71) |
| Balance, end of period | $ 6,380 | $ 4,401 | $ 1,314 |
| Current portion | (2,072) | (1,187) | (154) |
| Long-term portion | $ 4,308 | $ 3,214 | $ 1,160 |

## 15 Other Long-Term Liabilities

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Severance indemnity *(a)* | $ 1,681 | $ 1,914 |
| Contingent consideration payable related to AFV acquisition *(b)* | 856 | 428 |
| Deferred lease inducements | 69 | 118 |
| | $ 2,606 | $ 2,460 |

### a Severance Indemnity

Italian law requires companies to make a mandatory termination payment to employees. It is paid, as a lump sum, when the employment ends for any reason such as retirement, resignation or layoff. The severance indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. There is no vesting period or funding requirement associated with the liability. The liability recorded in the consolidated balance sheet is the amount that the employee would be entitled to if the employee terminates immediately. This liability for severance indemnities relates primarily to the Company's employees in Italy.

### b Contingent Consideration Payable Related to AFV Acquisition

The total purchase price to acquire AFV also includes earn-out payments payable in the Company's shares and tied to revenue and production milestones to be achieved no later than December 31, 2014. This contingent consideration is estimated to have a fair value of $442 as at December 31, 2012 (December 31, 2011 ▸ $428).

The Company also records compensation expense relating to two employees of AFV who receive earn-out payments in the Company's shares that are tied to revenue and production milestones to be achieved no later than December 31, 2014 and contingent upon continuing employments. This contingent consideration is estimated to have a fair value of $414 as at December 31, 2012 (December 31, 2011 ▸ nil).

## 16 Government Assistance

From time to time, the Company enters into agreements for financial assistance with government agencies. During the year ended December 31, 2012, nine months ended December 31, 2011 and the year ended March 31, 2011, government assistance of $842, $604 and $982, respectively, was received or receivable by the Company, which has been recorded as a reduction of the related research and development expenditures [note 19].

Under the terms of an agreement with the Industry Canada's Industrial Technologies Office ("ITO"), from April 1, 2008 to March 31, 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of $1,357 (CDN$1,350) or 0.33% of the Company's annual revenue provided that gross revenue exceeds $13,569 (CDN$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 $28,345 (CDN$28,200). For the year ended December 31, 2012, $1,350 (nine months ended December 31, 2011 ▸ $1,327; year ended March 31, 2011 ▸ $1,392) in royalties have been paid or are payable of which $1,350 (December 31, 2011 ▸ $996) remains accrued in accounts payable and accrued liabilities as at December 31, 2012. As at December 31, 2012, cumulative royalties of CDN$5,400 have been paid.

The Company is also obligated to pay royalties to the Government of Canada's Department of Natural Resources equal to 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 $1,005 (CDN$1,000). As at December 31, 2012, there has been no revenue from the sales of engines for power generators; therefore, no royalty payments have been paid or are payable.

## 17 Share Capital

On November 15, 2010, the Company issued 6,957,500 common shares at a price of $17.50 per share. Gross proceeds totaled $121,756 and the Company incurred share issue costs of $6,069.

On July 1, 2011, the Company issued 881,860 common shares at a price of $25.06 per share as part of the consideration paid to acquire Emer [note 4(a)].

On October 11, 2011, the Company issued 33,161 common shares at a price of $28.74 per share as part of the consideration paid to acquire AFV [note 4(b)].

On February 27, 2012, the Company issued 6,325,000 common shares at a price of $43.25 per share. Gross proceeds totaled $273,556 and the Company incurred share issuance costs of $8,126.

During the twelve months ended December 31, 2012, the Company issued 513,490 common shares, net of cancellations, upon exercises of stock options and share units (nine months ended December 31, 2011 ▸ 568,276 common shares; twelve months ended March 31, 2011 ▸ 662,108 common shares). The Company issues new shares to satisfy stock option and share unit exercises.

## 18 Stock Options and Other Stock-Based Plans

At the Company's 2011 annual general meeting, the Company's shareholders ratified and approved the Westport Omnibus Plan and reserved 3,026,645 common shares under this plan. Under the Westport Omnibus plan, stock options, RSUs and PSUs may be granted and are exercisable into common shares of the Company for no additional consideration. Any employee, contractor, director or executive officer of the Company is eligible to participate in the Westport Omnibus Plan.

The Executive and Senior Management Compensation Program sets out provisions where the RSUs and PSUs (together 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. These performance milestones are focused on achievement of key cash management, profitability and revenue growth objectives. Vesting periods and conditions for each Unit granted pursuant to the Westport Omnibus Plan are at the discretion of the Board of Directors and may include time based, share price or other performance targets.

### a Stock Options

The Company grants incentive stock options to employees, directors, officers and consultants. Stock options are granted with an exercise price of 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 stock option plan as of December 31, 2012, December 31, 2011 and March 31, 2011 and changes during the periods then ended are presented as follows:

| | Dec. 31, 2012 | | Dec. 31, 2011 | | Mar. 31, 2011 | |
|---|---|---|---|---|---|---|
| | shares | WAEP* | shares | WAEP* | shares | WAEP* |
| Outstanding, beginning of period | 328,027 | $ 8.96 | 562,014 | $ 8.46 | 1,051,589 | $ 8.13 |
| Granted | 770,727 | 33.77 | - | - | - | - |
| Exercised | (93,044) | 10.49 | (225,845) | 7.87 | (472,414) | 7.19 |
| Cancelled / expired | (9,663) | 33.36 | (8,142) | 4.84 | (17,161) | 23.24 |
| Outstanding, end of period | 996,047 | $ 27.78 | 328,027 | $ 8.96 | 562,014 | $ 8.46 |
| Options exercisable, end of period | 226,487 | $ 8.06 | 311,360 | $ 8.55 | 455,206 | $ 7.75 |

* weighted average exercise price (CDN$)

During the year ended December 31, 2012, the Company recognized $2,705 (nine months ended December 31, 2011 ▸ $352; years ended March 31, 2011 ▸ $547) in stock-based compensation related to stock options. The fair value of the options granted during the year ended December 31, 2012





was determined using the Black-Scholes option pricing formula simulation with the following weighted average assumptions: expected dividend yield ▸ nil%, expected stock price volatility ▸ 47.79%, risk free interest rate ▸ 0.38%; expected life of options ▸ 3 years. The weighted average grant date fair value was $10.97 for options granted for the fiscal year ended December 31, 2012. No stock options were granted during the nine month period ended December 31, 2011 or the year ended March 31, 2011.

As at December 31, 2012, $5,642 of compensation cost related to stock option awards has yet to be recognized in results from operations and will be recognized over a weighted average period of 2.00 years.

| exercise price range (CDN$) | outstanding, Dec. 31, 2012 | WARCL * | WAEP ** | exercisable, Dec. 31, 2012 | WAEP ** |
|---|---|---|---|---|---|
| $ 3.22 ▸ 3.47 | 7,218 | 1.5 | $ 3.31 | 7,218 | $ 3.31 |
| 4.24 ▸ 4.87 | 37,458 | 1.3 | 4.48 | 37,458 | 4.48 |
| 5.29 ▸ 9.10 | 90,301 | 0.6 | 6.34 | 90,301 | 6.34 |
| 10.50 ▸ 11.11 | 78,655 | 2.0 | 11.04 | 78,655 | 11.04 |
| 14.90 ▸ 16.50 | 21,188 | 3.1 | 15.53 | 12,855 | 14.90 |
| 29.76 ▸ 33.83 | 761,227 | 4.0 | 33.77 | - | - |
| $ 3.22 ▸ 33.83 | 996,047 | 3.42 | $ 27.78 | 226,487 | $ 8.06 |

* weighted average remaining contractual life (years)
** weighted average exercise price (CDN$)

### b Share Units

The value assigned to issued Units and the amounts accrued are recorded as other equity instruments. As Units are exercised or vest and the underlying shares are issued from treasury of the Company, the value is reclassified to share capital.

During the year ended December 31, 2012, the Company recognized $9,763 (nine months ended December 31, 2011 ▸ $5,827; year ended March 31, 2011 ▸ $4,376) of stock-based compensation associated with the Westport Omnibus Plan and the former Amended and Restated Unit Plan.

A continuity of the Units issued under the Westport Omnibus Plan and the former Amended and Restated Unit Plan as of December 31, 2012, December 31, 2011 and March 31, 2011 are as follows:

| | Dec. 31, 2012 | | Dec. 31, 2011 | | Mar. 31, 2011 | |
|---|---|---|---|---|---|---|
| | units | WVF* | units | WVF* | units | WFV* |
| Outstanding, beginning of period | 1,250,917 | $ 18.04 | 1,377,237 | $ 12.19 | 1,194,913 | $ 8.56 |
| Granted | 185,705 | 35.99 | 269,292 | 35.70 | 424,149 | 22.78 |
| Exercised | (337,228) | 19.34 | (391,612) | 9.61 | (241,825) | 12.81 |
| Cancelled / expired | (4,300) | 19.67 | (4,000) | 18.61 | - | - |
| Outstanding, end of period | 1,095,094 | $ 20.68 | 1,250,917 | $ 18.04 | 1,377,237 | $ 12.19 |
| Units outstanding and exercisable, end of period | 262,615 | $ 8.86 | 276,931 | $ 7.97 | 541,534 | $ 6.91 |

* weighted average grant date fair value (CDN$)

| | Dec. 31, 2012 | | Dec. 31, 2011 | | Mar. 31, 2011 | |
|---|---|---|---|---|---|---|
| | units | WVF* | units | WVF* | units | WFV* |
| Unvested, beginning of period | 973,986 | $ 20.90 | 835,703 | $ 15.62 | 1,012,418 | $ 8.16 |
| Granted | 185,705 | 35.99 | 269,292 | 35.70 | 424,149 | 22.78 |
| Vested | (322,912) | 21.64 | (127,009) | 17.55 | (548,733) | 7.58 |
| Cancelled / expired | (4,300) | 18.61 | (4,000) | 18.61 | (52,131) | 13.64 |
| Unvested, end of period | 832,479 | $ 24.41 | 973,986 | $ 20.90 | 835,703 | $ 15.62 |

* weighted average grant date fair value (CDN$)

As at December 31, 2012, $11,127 of compensation cost related to Units awards has yet to be recognized in results from operations and will be recognized over a weighted average period of 1.02 years.

Of the Units granted during the year ended December 31, 2012, 66,428 Units were subject to market and service conditions. The fair value of these Units was determined using a Monte-Carlo simulation using the following weighted average assumptions: expected dividend yield ▸ nil%; expected stock price volatility ▸ 55.95%; and risk free interest rate ▸ 0.93%. The valuation model determined the grant date fair value based on assumptions about the likelihood of the Company achieving different payout factors as driven by the market conditions. The weighted average grant date fair value was $35.99 for Units granted for the year ended December 31, 2012. For the Units granted after January 1, 2012, payout factors are determined based upon the absolute stock price at the end of two years, equal to the closing price on the last trading day of December 31, 2013. One-half of these Units vest after two years and the remainder after three years from the date of the grant. The impact of market conditions, if any, on compensation expense for these units is determined at the time of the grant with no adjustment to the compensation expense for the actual results of the market condition. The fair value of all other Units was determined based on the market price of the underlying shares on the date of grant.

For the Units granted prior to January 1, 2012, payout factors are determined based upon the absolute stock price at the end of two years and the stock price relative to a Synthetic Clean Tech index of comparative companies two years after the grant date. One-half of these Units vest after two years and the remainder after three years from the date of the grant. The impact of market conditions, if any, on compensation expense for these units is determined at the time of the grant with no adjustment to the compensation expense for the actual results of the market condition.

During the year ended December 31, 2012, 83,218 PSUs vested with a payout factor of 200% (2011 ▸ nil).

## 18 Stock Options and Other Stock-Based Plans (continued)

### c Aggregate Intrinsic Values

The aggregate intrinsic value of the Company's stock option awards and share units at December 31, 2012 are as follows:

| (expressed in thousands of CDN) | | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|
| **Stock options** | Outstanding | $ 4,219 | $ 8,138 |
| | Exercisable | 4,137 | 7,851 |
| | Exercised | 2,398 | 5,849 |
| **Share units** | Outstanding | $ 28,823 | $ 42,234 |
| | Exercisable | 6,912 | 9,352 |
| | Exercised | 15,135 | 7,688 |

### d Stock-Based Compensation

Stock-based compensation associated with the Unit plans and the stock option plan is included in operating expenses as follows:

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Research and development | $ 2,251 | $ 825 | $ 627 |
| General and administrative | 6,752 | 3,302 | 2,958 |
| Sales and marketing | 3,465 | 2,052 | 1,338 |
| | $ 12,468 | $ 6,179 | $ 4,923 |

## 19 Research and Development Expenses

Research and development expenses are recorded net of program funding received or receivable. The research and development expenses had been incurred and program funding had been received or are receivable as follows:

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Research and development expenses | $ 74,040 | $ 37,178 | $ 25,602 |
| Program funding [note 16] | (842) | (604) | (982) |
| Research and development | $ 73,198 | $ 36,574 | $ 24,620 |

## 20 Income Taxes

**a** The Company's income tax provision differs from that calculated by applying the combined enacted Canadian federal and provincial statutory income tax rate of 25.0% for the twelve months ended December 31, 2012 (nine months ended December 31, 2011 ▸ 26.5%; year ended March 31, 2011 ▸ 28.0%) as follows:

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Loss before income taxes | $ (97,036) | $ (46,954) | $ (41,721) |
| Expected income tax recovery | $ 24,259 | $ 12,443 | $ 11,682 |
| **Reduction (increase) in income taxes resulting from** | | | |
| Non-deductible stock-based compensation | (3,019) | (1,642) | (1,379) |
| Other permanent differences | 2,158 | (87) | (600) |
| Withholding taxes | (1,187) | (500) | (303) |
| Change in enacted rates | (62) | (189) | 24 |
| Foreign tax rate differences, foreign exchange and other adjustments | 382 | 552 | (710) |
| Non-taxable income from equity investment | 3,308 | 3,974 | 1,888 |
| Change in valuation allowance | (27,577) | (13,391) | (11,023) |
| Income tax recovery (expense) | $ (1,738) | $ 1,160 | $ (421) |

**b** The significant components of the deferred income tax assets and liabilities are as follows:

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| **Deferred income tax assets** | | |
| Net operating loss carry forwards | $ 76,496 | $ 51,240 |
| Intangible assets | 1,557 | 873 |
| Property, plant and equipment | 5,703 | 3,109 |
| Financing and share issuance costs | 3,248 | 5,212 |
| Warranty liability | 2,013 | 1,073 |
| Deferred revenue | 1,601 | 861 |
| Inventory | 2,300 | 1,972 |
| Unrealized foreign exchange | 595 | 1,324 |
| Research and development | 2,132 | 2,086 |
| Other | 3,917 | 1,782 |
| Total gross deferred income tax assets | 99,562 | 69,532 |
| Valuation allowance | (89,033) | (61,456) |
| Total deferred income tax assets | $ 10,529 | $ 8,076 |
| **Deferred income tax liabilities** | | |
| Intangible assets | 8,784 | 6,696 |
| Property, plant and equipment | 3,297 | 3,878 |
| Other | 575 | - |
| Total deferred income tax liabilities | 12,656 | 10,574 |
| | | |
| Total net deferred income tax liabilities | $ 2,127 | $ 2,498 |
| **Allocated as follows*** | | |
| Current deferred income tax assets | $ 7,183 | $ 5,654 |
| Current deferred income tax liabilities | (65) | - |
| Long-term deferred income tax liabilities | (9,245) | (8,152) |
| Total net deferred income tax liabilities | $ (2,127) | $ (2,498) |

* restated—[note 2(a)]

The valuation allowance is reviewed on a quarterly basis to determine if, based on all available evidence, it is more-likely-than-not that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent on the generation of income during the future periods in which those temporary differences are expected to reverse. If the evidence does not exist that all the deferred income tax assets will be fully realized, a valuation allowance has been recorded.

The following is a summary of the changes in the deferred income tax asset valuation allowance:

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 |
|---|---|---|
| Beginning balance | $ 61,456 | $ 48,065 |
| Additions | 27,639 | 13,391 |
| Reductions | (62) | - |
| Ending valuation allowance | $ 89,033 | $ 61,456 |

**c** The components of the Company's income tax recovery (expense) are as follows:

| | net income (loss) before income taxes | income tax recovery (expense) | | |
|---|---|---|---|---|
| | | current | deferred | total |
| **12 mo. ended Dec. 31, 2012** | | | | |
| Canada | $ (93,688) | $ (1,339) | $ (53) | $ (1,392) |
| United States | (1,589) | 62 | - | 62 |
| Italy | (318) | (775) | (25) | (800) |
| Other | (1,441) | (95) | 487 | 392 |
| | $ (97,036) | $ (2,147) | $ 409 | $ (1,738) |
| **9 mo. ended Dec. 31, 2011** | | | | |
| Canada | $ (45,899) | $ (500) | $ - | $ (500) |
| United States | (1,862) | (95) | - | (95) |
| Italy | (1,342) | (388) | 2,205 | 1,817 |
| Other | 2,149 | (45) | (17) | (62) |
| | $ (46,954) | $ (1,028) | $ 2,188 | $ 1,160 |
| **12 mo. ended Mar. 31, 2011** | | | | |
| Canada | $ (39,219) | $ (304) | $ (32) | $ (336) |
| United States | (2,121) | - | - | - |
| Italy | 1,015 | 372 | (457) | (85) |
| Other | (1,396) | - | - | - |
| | $ (41,721) | $ 68 | $ (489) | $ (421) |

**d** As at December 31, 2012, there were no uncertain tax positions that require recognition in the consolidated financial statements. The Company files income tax returns in Canada, the U.S., Italy, and various other foreign jurisdictions. All taxation years remain open to examination by the Canada Revenue Agency, the 2008 to 2012 taxation years remain open to examination by the Internal Revenue Service and the Italian Revenue Agency, and various years remain open in the other foreign jurisdictions.

**e** The Company has loss carry forwards in the various jurisdictions available to offset future taxable income as follows:

| expiring in: | 2013 | 2014 | 2015 | 2016 | 2017 | 2025+ | total |
|---|---|---|---|---|---|---|---|
| Canada | $ 2,717 | $ 2,521 | $ - | $ - | $ - | $ 283,624 | $ 288,862 |
| Italy | - | - | - | - | - | 4,247 | 4,247 |
| United States | - | - | - | - | - | 3,433 | 3,433 |
| Sweden | - | - | - | - | - | 4,752 | 4,752 |
| Other | 63 | 522 | 215 | 303 | 1,821 | 44 | 2,968 |
| Total | $ 2,780 | $ 3,043 | $ 215 | $ 303 | $ 1,821 | $ 296,100 | $ 304,262 |

## 21 Related Party Transactions

Pursuant to the amended and restated JVA, Westport engages in transactions with CWI.

As at December 31, 2012, net amounts due from CWI total $2,127 (2011 ▸ $416). Amounts receivable relate to costs incurred by Westport on behalf of CWI. The amounts are generally reimbursed by CWI to Westport in the month following the month in which the payable is incurred. During the twelve month ended December 31, 2012, nine months ended December 31, 3011 and twelve months ended March 31, 2011 cost reimbursements from CWI consisted of the following:

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011 | 12 mo. ended Mar. 31, 2011 |
|---|---|---|---|
| Research and development | $ 223 | $ 148 | $ 314 |
| General and administrative | 1,007 | 338 | 1,164 |
| Sales and marketing | 2,830 | 2,598 | 3,501 |
| | $ 4,060 | $ 3,084 | $ 4,979 |

CWI also provided a loan to the Company under a demand loan agreement. The loan receivable bore interest monthly at a rate equal to the Bank of Canada prime corporate paper one-month rate in effect on the last day of each month. All outstanding interest was payable in United States dollars on or before December 15, 2012. Interest began accruing on the date in which monies were advanced under the loan agreement. The loan principal and accrued interest was repaid during the year ended December 31, 2012. Loan payable of $19,409 owing to CWI as at December 31, 2011. During the year ended December 31, 2012, interest of $114 (nine months ended December 31, 2011 ▸ $116; year ended March 31, 2011 ▸ $19) was paid to CWI.

All material transactions between the Company and CWI have been eliminated on application of equity accounting.

## 22 Service and Other Revenue

Service and other revenue for the year ended December 31, 2012 consisted of a one-time license revenue of $7,923 for the transfer of proprietary know-how, other fee payments of $1,414, and service revenue of $13,907 under existing development agreements.

During the year ended December 31, 2012, the Company entered into an agreement with an original equipment manufacturer ("OEM") to co-develop natural gas technology for off-road equipment, including mining trucks and locomotives. Under the agreement, the Company provided its proprietary know-how related to the high pressure direct injection ("HPDI") technology by granting a non-exclusive license to the OEM. The Company will also provide ongoing development services to the OEM to assist with the development and commercialization of products. These are considered to be multiple deliverables arrangements and the Company has determined that the license and the development services are separate units of accounting.

Service revenue of $13,907 was recognized as the Company achieved and delivered certain milestones during the year ended December 31, 2012 under certain development agreements. All costs associated with the development agreements were recorded as research and development expenses in the period incurred.

## 23 Commitments and Contingencies

The Company has obligations under operating lease arrangements that require the following minimum annual payments during the respective fiscal years:

| | |
|---|---|
| 2013 | $ 4,785 |
| 2014 | 4,264 |
| 2015 | 3,700 |
| 2016 | 3,372 |
| 2017 | 2,118 |
| Thereafter | 1,119 |
| | $ 19,358 |

For the year ended December 31, 2012, the Company incurred operating lease expense of $4,492 (nine months ended December 31, 2011 ▸ $2,070; year ended March 31, 2011 ▸ $1,599).

As at December 31, 2012, the Company's wholly owned subsidiary Emer has provided a total amount of guarantees to third parties of $489 (€371) (December 31, 2011 ▸ $771 (€594)), which include guarantees to its customers for the completion of specific supplies.

The Company is a party to a variety of agreements in the ordinary course of business under which it is obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts for sale of the Company's product to customers where the Company provides indemnification against losses arising from matters such as product liabilities.

The potential impact on the Company's financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, the Company has not incurred significant costs related to these types of indemnifications.

The Company is engaged in certain legal actions in the ordinary course or business and believes that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

## 24 Segmented Information

In December 2012, the Company realigned its business units to focus on product commercialization and global partnerships development. To accommodate the variety in product, system and service solutions, Westport has created three new reportable operating segments. The financial information for the Company's business segments evaluated by the Company's chief operating decision maker ("CODM") includes the results of the CWI and WWI as if it were consolidated, which is consistent with the way Westport manages its business segments. As CWI and WWI is accounted for under the equity method of accounting, an adjustment is reflected in the tables below to reconcile the segment measures to the Company's consolidated measures.

The Company's business operates in six reportable operating segments:

- **Applied Technologies**, designs, produces, and sells compressed natural gas (CNG), liquefied petroleum gas (LPG), and liquefied natural gas (LNG) components and subsystems for natural gas vehicles of all types;
- **On-Road Systems**, engineers, designs, and markets complete vehicle systems from automotive to trucking applications and industrial systems to Westport's existing OEM customers;
- **New Markets and Off-Road Systems**, engineers, designs, and markets Westport proprietary natural gas technologies, including the Westport™ high-pressure direct injection (HPDI) technology, and fuel systems for the off-road, large-engine applications such as mine trucks, locomotives, workboats, and petroleum exploration equipment;
- **Corporate and Technology Investments**, which includes corporate costs such as research and development, general and administrative, marketing, interest and other charges, foreign exchange and depreciation that cannot be attributed to a particular segment and are incurred by all segments;
- **CWI** which serves the medium- to heavy-duty engine markets. The fuel for CWI engines is typically carried on vehicles as compressed natural gas or liquefied natural gas; and
- **WWI** develops, manufactures, and sells advanced, alternative fuel engines and parts that are widely used in city bus, coach, and heavy-duty truck applications in China or exported to other regions globally.

These reporting segments offer different products and services and are managed separately as each business requires different technology and marketing strategies.

Comparative periods have been recast to conform to current segment presentation.

The accounting policies for the reportable segments are consistent with those described in [note 2]. The CODM evaluates segment performance based on the net operating income (loss), which is before income taxes and does not include depreciation and amortization, foreign exchange gains and losses, bank charges, interest and other expenses, interest and other income, and gain on sale of long-term investments. The Company did not record any intersegment sales or transfers for the year ended December 31, 2012, nine months ended December 31, 2011 and the year ended March 31, 2011.

| | 12 mo. ended Dec. 31, 2012 | 9 mo. ended Dec. 31, 2011* | 12 mo. ended Mar. 31, 2011* |
|---|---|---|---|
| **Revenue** | | | |
| Applied Technologies | $ 91,675 | $ 55,064 | $ 22,053 |
| On-Road Systems | 40,706 | 22,451 | 6,594 |
| Corporate & Technology Investments | 23,245 | 10,181 | 8,128 |
| Cummins Westport | 198,015 | 138,844 | 111,287 |
| Weichai Westport | 272,086 | 84,917 | 53,127 |
| Total segment revenues | 625,727 | 311,457 | 201,189 |
| Less: equity investees' revenues | 470,101 | 223,761 | 164,414 |
| Total consolidated revenues | $ 155,626 | $ 87,696 | $ 36,775 |
| **Net operating income (loss) excluding depreciation and amortization, foreign exchange loss (gain), bank charges and other:** | | | |
| Applied Technologies | $ 10,868 | $ 1,051 | $ (5,170) |
| On-Road Systems | (43,503) | (32,625) | (19,985) |
| New Markets and Off-Road | (12,324) | (2,670) | - |
| Corporate & Technology Investments | (50,022) | (19,767) | (15,698) |
| Cummins Westport | 35,368 | 42,832 | 25,399 |
| Weichai Westport | 9,765 | 4,879 | 3,373 |
| Net segment operating loss | (49,848) | (6,300) | (12,081) |
| Less: equity investees' operating income | 45,133 | 47,711 | 28,772 |
| Net consolidated operating loss excluding depreciation and amortization, foreign exchange loss (gain) and bank charges and other: | $ (94,981) | $ (54,011) | $ (40,853) |
| **Depreciation and amortization** | | | |
| Applied Technologies | $ (7,905) | $ (5,048) | $ (1,305) |
| On-Road Systems & Corporate | (3,490) | (1,152) | (2,070) |
| | (11,395) | (6,200) | (3,375) |
| Net consolidated operating loss before foreign exchange loss (gain), bank charges and other | (106,376) | (60,211) | (44,228) |
| Foreign exchange loss (gain), bank charges and other | 1,922 | (1,136) | 3,735 |
| Loss before undernoted | (108,298) | (59,075) | (47,963) |
| Interest on long debt and other income (expenses), net | (4,928) | (2,337) | (2,385) |
| Income from investment accounted for by the equity method [note 7] | 16,190 | 14,458 | 8,627 |
| Loss before income taxes | $ (97,036) | $ (46,954) | $ (41,721) |
| Total additions to long-lived assets excluding business combinations: | $ 31,566 | $ 13,392 | $ 3,613 |

* restated—[note 2(a)]

It is impracticable for the Company to allocate additions to long lived assets to the new reporting segment.

It is impracticable for the Company to provide geographical revenue information by individual countries; however, it is practicable to provide it by geographical regions. Product and service and other revenues are attributable to geographical regions based on location of the Company's customers. For the year ended December 31, 2012, 38% (nine months ended December 31, 2011 ▸ 28%; year ended March 31, 2011 ▸ 11%) of the Company's product and service revenues were from sales in the Americas (including the United Sates), 9% (nine months ended December 31, 2011 ▸ 15%; year ended March 31, 2011 ▸ 12%) from sales in Asia (including China), and 53% (nine months ended December 31, 2011 ▸ 57%; year ended March 31, 2011 ▸ 77%) from sales elsewhere (including Italy). The Company's revenue earned from Canadian customers is not significant and has been included in revenue from sales in the Americas.

Total goodwill of $51,711 was allocated to Applied Technologies and $5,168 On-Road Systems reporting segments.

As at December 31, 2012, total long-term investments of $18,544 (December 31, 2011 ▸ $25,670) was allocated to the Corporate segment and $574 (December 31, 2011 ▸ $637) was allocated to the On-Road Systems. Total assets are allocated as follows:

| | Dec. 31, 2012 | Dec. 31, 2011* |
|---|---|---|
| Applied Technologies | $ 161,206 | $ 169,898 |
| On-Road Systems | 85,401 | 49,347 |
| Corporate and unallocated assets | 243,470 | 106,517 |
| Cummins Westport | 69,577 | 72,436 |
| Weichai Westport | 86,997 | 41,911 |
| | 646,651 | 440,109 |
| Less: equity investees total assets | 156,574 | 114,347 |
| Total consolidated assets | $ 490,077 | $ 325,762 |

* restated—[note 2(a)]

The Company's long-lived assets consist of property, plant and equipment, intangible assets and goodwill.

Long-lived assets information by geographic area:

| | Dec. 31, 2012* | Mar. 31, 2011* |
|---|---|---|
| Italy | $ 99,099 | $ 105,601 |
| Canada | 29,707 | 16,294 |
| United States | 12,463 | 1,312 |
| Sweden | 7,720 | 5,378 |
| China | 6,524 | 3,087 |
| Australia | 601 | 32 |
| | 156,114 | 131,704 |
| Less: equity investees long-lived assets | 5,826 | 3,900 |
| Total consolidated long-lived assets | $ 150,288 | $ 127,804 |

* restated—[note 2(a)]

# 25 Financial Instruments

## a Financial Risk Management

The Company has exposure to liquidity risk, credit risk, foreign currency risk, and interest rate risk.

## b Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company has sustained losses and negative cash flows from operations since inception. At December 31, 2012, the Company has $215,860 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at December 31, 2012:

| | carrying amount | contractual cash flows | < 1 year | 1–3 years | 4–5 years | > 5 years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 48,509 | $ 48,509 | $ 48,509 | $ - | $ - | $ - |
| Unsecured subordinated debentures *(a)* | 36,185 | 40,929 | 2,302 | 38,627 | - | - |
| Long-term payable *(b)* | 9,836 | 10,021 | 10,021 | - | - | - |
| Senior financing *(c)* | 18,812 | 19,240 | 3,718 | 8,551 | 6,971 | - |
| Senior revolving financing *(d)* | 13,185 | 13,185 | 13,185 | - | - | - |
| Other bank financing | 1,171 | 1,176 | 392 | 300 | 342 | 142 |
| Other long-term debt | 1,533 | 1,533 | 836 | 661 | 36 | - |
| Operating lease commitments | - | 19,358 | 4,785 | 7,964 | 5,490 | 1,119 |
| Royalty payments *(e)* | - | 22,906 | 1,357 | 21,549 | - | - |
| | $ 129,231 | $ 176,857 | $ 85,105 | $ 77,652 | $ 12,839 | $ 1,261 |

*a) includes interest a 9%*

*b) includes interest at 3.72%*

*c) includes interest at 2.0%, the rate in effect at December 31, 2012*

*d) includes interest at 2.3%, the rate in effect at December 31, 2012*

*e) From fiscal 2011 to 2015, inclusive, the Company is obligated to pay annual royalties equal to the greater of $1,357 (CDN$1,350) or 0.33% of the Company's gross annual revenue from all sources, provided that gross revenue exceeds CDN$13,500 in any aforementioned fiscal year, up to a maximum of $28,333 (CDN$28,189). The Company has assumed the minimum required payments.*

The Company expects to be able to meet its future financial obligations with its current source of funds. However, there are uncertainties related to the timing of the Company's cash inflows and outflows, specifically around the sale of inventories and amounts required for market and product development costs. These uncertainties include the volume of commercial sales related to its natural gas engines and fuel system products and the development of markets for, and customer acceptance of, these products. As a result, the Company may need to seek additional equity or arrange debt financing, which could include additional lines of credit, in order to meet its financial obligations.

## c Credit Risk

Credit risk arises from the potential that a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and accounts receivable. The Company manages credit risk associated with cash and cash equivalents and short-term investments by regularly consulting with its current bank and investment advisors and investing primarily in liquid short-term paper issued by Schedule 1 Canadian banks, R1 rated companies and governments. The Company monitors its portfolio, and its policy is to diversify its investments to manage this potential risk.

The Company is also exposed to credit risk with respect to uncertainties as to timing and amount of collectability of accounts receivable and loans receivable. As at December 31, 2012, 83% (December 31, 2011 ▸ 83%) of accounts receivable relates to customer receivables, 1% (December 31, 2011 ▸ 1%) relates to government grants receivable and 16% (December 31, 2011 ▸ 16%) relates to amounts due from joint venture and indirect, income tax and value added taxes receivable. In order to minimize the risk of loss for customer receivables, the Company's extension of credit to customers involves review and approval by senior management as well as progress payments as contracts are executed. Most sales are invoiced with payment terms in the range of 30 days to 90 days. The Company reviews its customer receivable accounts and regularly recognizes an allowance for doubtful receivables as soon as the account is determined not to be fully collectible. Estimates for allowance for doubtful debts are determined by a customer-by-customer evaluation of collectability at each balance sheet reporting date, taking into consideration past due amounts and any available relevant information on the customers' liquidity and financial position.

The carrying amount of cash and cash equivalents, short-term investments and accounts receivable of $260,049 at December 31, 2012 represents the Company's maximum credit exposure.

## d Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company conducts a significant portion of its business activities in foreign currencies, primarily the United States dollar ("U.S.") and the Euro ("Euro"). Cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and long-term debt that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies.

The Company's functional currency is the Canadian dollar. The U.S. dollar and the Euro carrying amount of financial instruments subject to exposure to foreign currency risk in the consolidated balance sheet at December 31, 2012 is as follows:



Notes to Consolidated Financial Statements
expressed in thousands of USD, except share and per share amounts :: year ended Dec. 31, 2012, 9 months ended Dec. 31, 2011 and year ended Mar. 31, 2011

| | U.S. dollars |
|---|---|
| Cash and cash equivalents | $ 169,369 |
| Short-term investments | 24,442 |
| Accounts receivable | 7,864 |
| Accounts payable | 3,673 |

| | Euros |
|---|---|
| Cash and cash equivalents | € 387 |
| Current portion of long-term debt | 7,459 |

If foreign exchange rates on December 31, 2012 had changed by 25 basis points, with all other variables held constant, net loss for the year ended December 31, 2012 would have changed by $495 and $18 for US dollar denominated and Euro denominated financial instruments, respectively. The Company's exposure to currencies other than U.S. dollars and Euros is not material.

## e Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk on its loan receivable and certain long-term debt with variable rates of interest. The Company limits its exposure to interest rate risk by continually monitoring and adjusting portfolio duration to align to forecasted cash requirements and anticipated changes in interest rates.

If interest rates for the year ended December 31, 2012 had changed by 50 basis points, with all other variables held constant, net loss for the year ended December 31, 2012 would have changed by $57.

## f Fair Value of Financial Instruments

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

The Company's short-term investments are recorded at fair value. The long-term investment represents our interests in the CWI, WWI and other equity accounted for investees, which are accounted for using the equity method.

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 carrying value reported in the balance sheet for the unsecured subordinated debenture notes [note 13(a)] approximates its fair value, based on market rates of interest for similar indebtedness. Additionally, the interest rate on the notes approximates the interest rate being demanded in the market for debt with similar terms and conditions.

The carrying value reported in the balance sheet for other long-term payable [note 13(b)] is recorded at amortized cost using the effective interest rate method. It is being accreted to the gross proceeds of €7,600 that is payable to OMVL on July 2, 2013 at the effective interest rate of 3.65%. As at December 31, 2012, the fair value of the long-term debt is higher than its carrying value by $70 based on a market interest rate of 2.35%.

The carrying value reported in the balance sheet for senior financing agreements [note 13(c)] approximates its fair value as at December 31, 2012, as the interest rate on the debt is floating and therefore approximates the market rate of interest. The Company's credit spread also has not substantially changed from the 2.2% premium currently paid.

The Company categorizes its fair value measurements for items measured at fair value on a recurring basis into three categories as follows:

*Level 1*

Unadjusted quoted prices in active markets for identical assets or liabilities.

*Level 2*

Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3*

Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

When available, the Company uses quoted market prices to determine fair value and classify such items in Level 1. When necessary, Level 2 valuations are performed based on quoted market prices for similar instruments in active markets and/or model–derived valuations with inputs that are observable in active markets. Level 3 valuations are undertaken in the absence of reliable Level 1 or Level 2 information.

As at December 31, 2012, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

# 26 Restatement of Previously Issued Financial Statements

The following tables present the impact to the previously issued financial statements as at December 31, 2011 and for the nine months ended December 31, 2011 and the year ended March 31, 2011 and segmented information as at December 31, 2012 and December 31, 2011 of the restatements described in [note 2(a)]:

a "As previously reported" columns below represent amounts as reported in the Company's fiscal 2011 annual consolidated financial statements filed on or about February 29, 2012.

# 26 Restatement of Previously Issued Financial Statements (continued)

**a** (continued)

**Effect on Consolidated Balance Sheet**

| As at Dec. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | $ 70,298 | $ (7,013) | $ 63,285 |
| Short-term investments | 15,379 | (11,105) | 4,274 |
| Accounts receivable | 55,423 | (4,501) | 50,922 |
| Loan receivable | 19,409 | (19,409) | - |
| Inventories | 37,057 | (31) | 37,026 |
| Prepaid expenses | 6,551 | (89) | 6,462 |
| Current portion of deferred income tax assets | 6,447 | (793) | 5,654 |
| Other current assets | 2,034 | - | 2,034 |
| | 212,598 | (42,941) | 169,657 |
| Long-term investments | 8,369 | 17,938 | 26,307 |
| Other assets | 1,994 | - | 1,994 |
| Property, plant and equipment | 36,243 | (835) | 35,408 |
| Intangible assets | 36,582 | - | 36,582 |
| Deferred income tax assets | 5,075 | (5,075) | - |
| Goodwill | 55,814 | - | 55,814 |
| | $ 356,675 | $ (30,913) | $ 325,762 |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | $ 55,807 | $ (6,556) | $ 49,251 |
| Deferred revenue | 3,146 | (2,668) | 478 |
| Loan payable | - | 19,409 | 19,409 |
| Current portion of long-term debt | 20,568 | - | 20,568 |
| Current portion of warranty liability | 12,978 | (11,791) | 1,187 |
| | 92,499 | (1,606) | 90,893 |
| Warranty liability | 11,253 | (8,039) | 3,214 |
| Long-term debt | 65,577 | - | 65,577 |
| Deferred revenue | 10,327 | (7,451) | 2,876 |
| Deferred income tax liabilities | 3,446 | 4,706 | 8,152 |
| Other long-term liabilities | 3,104 | (644) | 2,460 |
| | 186,206 | (13,304) | 173,172 |
| **Shareholders' Equity** | | | |
| Share capital | 459,866 | - | 459,866 |
| Other equity instruments | 6,112 | - | 6,112 |
| Additional paid in capital | 4,499 | - | 4,499 |
| Accumulated deficit | (331,158) | - | (331,158) |
| Accumulated other comprehensive income | 13,271 | - | 13,271 |
| | 152,590 | - | 152,590 |
| Joint venture partners' share of net assets of joint ventures | 17,879 | (17,879) | - |
| | 170,469 | (17,879) | 152,590 |
| | $ 356,675 | $ (30,913) | $ 325,762 |

**Effect on Consolidated Statements of Operations**

| for the 9 months ended Dec. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| Product revenue | $ 189,682 | $ (114,518) | $ 75,164 |
| Parts revenue | 26,677 | (24,326) | 2,351 |
| Service and other revenue | 10,181 | - | 10,181 |
| | 226,540 | (138,844) | 87,696 |
| Cost of revenue and expenses: | | | |
| Cost of product and parts revenue | 145,930 | (78,837) | 67,093 |
| Research and development | 43,294 | (6,720) | 36,574 |
| General and administrative | 23,534 | (796) | 22,738 |
| Sales and marketing | 24,961 | (9,659) | 15,302 |
| Foreign exchange loss (gain) | (2,036) | (17) | (2,053) |
| Depreciation and amortization | 6,280 | (80) | 6,200 |
| Bank charges, interest and other | 1,206 | (289) | 917 |
| | 243,169 | (96,398) | 146,771 |
| Loss before undernoted | (16,629) | (42,446) | (59,075) |
| Income from investment accounted for by the equity method | 1,500 | 12,958 | 14,458 |
| Interest on long-term debt and amortization of discount | (2,998) | - | (2,998) |
| Interest and other income | 958 | (297) | 661 |
| Loss before income taxes | (17,169) | (29,785) | (46,954) |
| Income tax recovery (expense): | | | |
| Current | (19,630) | 18,602 | (1,028) |
| Deferred | 3,963 | (1,775) | 2,188 |
| | (15,667) | 16,827 | 1,160 |
| Net loss for the period | $ (32,836) | $ (12,958) | $ (45,794) |
| Net income (loss) attributed to: | | | |
| Joint venture partners | 12,958 | (12,958) | - |
| The Company | (45,794) | - | (45,794) |
| Loss per share—basic and diluted | $ (0.96) | $ - | $ (0.96) |
| Weighted average common shares outstanding—basic and diluted | 47,933,348 | | 47,933,348 |

**Effect on Consolidated Statements of Comprehensive Income (Loss)**

| for the 9 months ended Dec. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| Loss for the period | $ (32,836) | $ (12,958) | $ (45,794) |
| Other comprehensive loss: | | | |
| Cumulative translation adjustment | (12,370) | - | (12,370) |
| Comprehensive loss | $ (45,206) | $ (12,958) | $ (58,164) |
| Comprehensive income (loss) attributable to: | | | |
| Joint venture partners | 12,958 | (12,958) | - |
| The Company | (58,164) | - | (58,164) |

**Effect on Consolidated Statements of Operations**

| for the 12 months ended Mar. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| Product revenue | $ 110,475 | $ (84,612) | $ 25,863 |
| Parts revenue | 29,459 | (26,675) | 2,784 |
| Service and other revenue | 8,128 | - | 8,128 |
| | 148,062 | (111,287) | 36,775 |
| Cost of revenue and expenses: | | | |
| Cost of product and parts revenue | 90,982 | (66,989) | 23,993 |
| Research and development | 34,663 | (10,043) | 24,620 |
| General and administrative | 16,211 | (1,181) | 15,030 |
| Sales and marketing | 21,660 | (7,675) | 13,985 |
| Foreign exchange loss (gain) | 3,877 | (588) | 3,289 |
| Depreciation and amortization | 3,455 | (80) | 3,375 |
| Bank charges, interest and other | 665 | (219) | 446 |
| | 171,513 | (86,775) | 84,738 |
| Loss before undernoted | (23,451) | (24,512) | (47,963) |
| Income from investment accounted for by the equity method | 842 | 7,785 | 8,627 |
| Interest on long-term debt and amortization of discount | (3,323) | - | (3,323) |
| Interest and other income | 1,222 | (284) | 938 |
| Loss before income taxes | (24,710) | (17,011) | (41,721) |
| Income tax recovery (expense): | | | |
| Current | (8,886) | 8,954 | 68 |
| Deferred | (761) | 272 | (489) |
| | (9,647) | 9,226 | (421) |
| Net loss for the period | $ (34,357) | $ (7,785) | $ (42,142) |
| Net income (loss) attributed to: | | | |
| Joint venture partners | 7,785 | (7,785) | - |
| The Company | (42,142) | - | (42,142) |
| Loss per share—basic and diluted | $ (1.00) | $ - | $ (1.00) |
| Weighted average common shares outstanding—basic and diluted | 42,305,889 | | 42,305,889 |

**Effect on Consolidated Statements of Comprehensive Income (Loss)**

| for the 12 months ended Mar. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| Loss for the period | $ (34,357) | $ (7,785) | $ (42,142) |
| Other comprehensive income: | | | |
| Cumulative translation adjustment | 7,414 | - | 7,414 |
| Comprehensive loss | $ (26,943) | $ (7,785) | $ (34,728) |
| Comprehensive income (loss) attributable to: | | | |
| Joint venture partners | 7,785 | (7,785) | - |
| The Company | (34,728) | - | (34,728) |

**Effect on Consolidated Statements of Cash Flow**

| for the 9 months ended Dec. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Loss for the period | $ (32,836) | $ (12,958) | $ (45,794) |
| Items not involving cash: | | | |
| Depreciation and amortization | 6,280 | (80) | 6,200 |
| Stock-based compensation expense | 6,179 | - | 6,179 |
| Deferred income tax expense (recovery) | (3,963) | 1,775 | (2,188) |
| Change in deferred lease inducements | (47) | - | (47) |
| Income from investment accounted for by the equity method | (1,500) | (12,958) | (14,458) |
| Accretion of long-term debt | 1,016 | - | 1,016 |
| Other | 654 | - | 654 |
| Changes in non-cash operating working capital: | | | |
| Accounts receivable | (18,581) | 3,983 | (14,598) |
| Inventories | (2,051) | - | (2,051) |
| Prepaid expenses | (4,639) | (10) | (4,649) |
| Accounts payable and accrued liabilities | 3,255 | (4,112) | (857) |
| Deferred revenue | 4,430 | (2,869) | 1,561 |
| Warranty liability | 5,860 | (3,109) | 2,751 |
| | (35,943) | (30,338) | (66,281) |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment | (13,269) | 146 | (13,123) |
| Purchase of intangible assets | (123) | - | (123) |
| Sale of short-term investments, net | 15,516 | 11,105 | 26,621 |
| Advances on loan receivable | (29,816) | 29,816 | - |
| Increase in loan payable | - | 29,080 | 29,080 |
| Repayment on loan receivable | 24,013 | (24,013) | - |
| Repayment of loan payable | - | (23,840) | (23,840) |
| Acquisitions, net of acquired cash | (9,084) | - | (9,084) |
| Investment in equity interest | (955) | - | (955) |
| Dividends received from joint venture | - | 10,000 | 10,000 |
| | (13,718) | 32,294 | 18,576 |
| **Cash Flows from Financing Activities** | | | |
| Repayment on operating lines of credit | (3,240) | - | (3,240) |
| Repayment of short-term debt | (221) | - | (221) |
| Repayment of long-term debt | (53,057) | - | (53,057) |
| Issuance of subordinated debenture notes | 34,345 | - | 34,345 |
| Finance costs incurred | (1,392) | - | (1,392) |
| Proceeds from stock options exercised | 1,816 | - | 1,816 |
| Dividends paid to joint venture partner | (10,000) | 10,000 | - |
| | (31,749) | 10,000 | (21,749) |
| Effects of foreign exchange on cash and cash equivalents | 3,246 | (2,040) | 1,206 |
| Increase (decrease) in cash and cash equivalents | (78,164) | 9,916 | (68,248) |
| Cash and cash equivalents, beginning of period | 148,462 | (16,929) | 131,533 |
| Cash and cash equivalents, end of period | $ 70,298 | $ (7,013) | $ 63,285 |

**Effect on Consolidated Statements of Cash Flow**

| for the 12 months ended Mar. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Loss for the period | $ (34,357) | $ (7,785) | $ (42,142) |
| Items not involving cash: | | | |
| Depreciation and amortization | 3,455 | (80) | 3,375 |
| Stock-based compensation expense | 4,923 | - | 4,923 |
| Deferred income tax expense (recovery) | 761 | (272) | 489 |
| Change in deferred lease inducements | (58) | - | (58) |
| Income from investment accounted for by the equity method | (842) | (7,785) | (8,627) |
| Accretion of long-term debt | 1,992 | - | 1,992 |
| Other | (344) | 509 | 165 |
| Changes in non-cash operating working capital: | | | |
| Accounts receivable | 5,523 | (1,604) | 3,919 |
| Inventories | (1,927) | - | (1,927) |
| Prepaid expenses | (488) | 31 | (457) |
| Accounts payable and accrued liabilities | (2,831) | 2,958 | 127 |
| Deferred revenue | 3,058 | (2,896) | 162 |
| Warranty liability | (2,844) | 2,460 | (384) |
| | (23,979) | (14,464) | (38,443) |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment | (3,613) | 442 | (3,171) |
| Sale of short-term investments, net | 3,376 | - | 3,376 |
| Advances on loan receivable | (20,942) | 20,942 | - |
| Increase in loan payable | - | 18,961 | 18,961 |
| Repayment on loan receivable | 18,185 | (18,185) | - |
| Repayment of loan payable | - | (21,207) | (21,207) |
| Acquisitions, net of acquired cash | (13,016) | - | (13,016) |
| Investment in equity interest | (4,316) | - | (4,316) |
| Dividends received from joint venture | - | 6,000 | 6,000 |
| | (20,326) | 6,953 | (13,373) |
| **Cash Flows from Financing Activities** | | | |
| Repayment of demand installment loan | (3,206) | - | (3,206) |
| Repayment of long-term debt | (117) | - | (117) |
| Proceeds from stock options exercised | 3,298 | - | 3,298 |
| Shares issued for cash | 131,265 | - | 131,265 |
| Share issuance costs | (6,069) | - | (6,069) |
| Dividends paid to joint venture partner | (6,000) | 6,000 | - |
| | 119,171 | 6,000 | 125,171 |
| Effects of foreign exchange on cash and cash equivalents | 3,116 | 1,042 | 4,158 |
| Increase (decrease) in cash and cash equivalents | 77,982 | (469) | 77,513 |
| Cash and cash equivalents, beginning of period | 70,480 | (16,460) | 54,020 |
| Cash and cash equivalents, end of period | $ 148,462 | $ (16,929) | $ 131,533 |

**b** "As previously reported" columns below represent amounts as reported in the Company's fiscal 2012 annual consolidated financial statements filed on or about March 7, 2013.

**Effect on Total Assets Allocated by Segment**

| As at Dec. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| Applied Technologies | $ 165,192 | $ 4,706 | $ 169,898 |

**Effect on Long-Lived Assets Information by Geographic Area**

| As at Dec. 31, 2011: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| Italy | $ 94,889 | $ 10,712 | $ 105,601 |
| Canada | 27,006 | (10,712) | 16,294 |

**Effect on Long-Lived Assets Information by Geographic Area**

| As at Dec. 31, 2012: | as previously reported | correction | restated—[note 2(a)] |
|---|---|---|---|
| Italy | $ 90,474 | $ 8,625 | $ 99,099 |
| Canada | 40,799 | (11,092) | 29,707 |
| Sweden | 5,253 | 2,467 | 7,720 |





## Directors and Executive Officers

| name / position | residence | start | Audit | HR & Compensation | Nominating & Governance | Strategy |
|---|---|---|---|---|---|---|
| **John A. Beaulieu**<br>Chairman and Director | Vancouver, Washington | Sept. 1997 | ● | ● | ● | ● |
| **Warren J. Baker**<br>Director | Avila Beach, California | Sept. 2002 | | ● | ● | ● |
| **M.A. (Jill) Bodkin**<br>Director | Vancouver, British Columbia | July 2008 | ● | ● | | ● |
| **David R. Demers**<br>CEO and Director | West Vancouver, British Columbia | Mar. 1995 | | | | ● |
| **Nancy S. Gougarty**<br>Director | Shanghai, China | Feb. 2013 | | ● | | ● |
| **Philip B. Hodge**<br>Director | Calgary, Alberta | June 2012 | ● | | | ● |
| **Dezsö J. Horváth**<br>Director | Toronto, Ontario | Sept. 2001 | ● | | | ● |
| **Douglas R. King**<br>Director | Hillsborough, California | Jan. 2012 | ● | | ● | ● |
| **William (Bill) E. Larkin**<br>Chief Financial Officer | Blaine, Washington | Feb. 2010 | | | | |
| **Gottfried (Guff) Muench**<br>Director | West Vancouver, British Columbia | July 2010 | | ● | | ● |
| **Ian J. Scott**<br>Executive Vice President | North Vancouver, British Columbia | Jan. 2001 | | | | |
| **Nicholas C. Sonntag**<br>Executive Vice President & President, Westport Asia | Gibsons, British Columbia | Oct. 2006 | | | | |
| **Elaine A. Wong**<br>Executive Vice President | Vancouver, British Columbia | Sept. 2001 | | | | |

## Corporate Information

### Westport Shareholder Services

Shareholders with questions about their account—including change of address, lost stock certificates, or receipt of multiple mail-outs 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:** 604-661-9401

### Legal Counsel

Bennett Jones LLP :: Calgary, Alberta, Canada

### Auditors

KPMG LLP Chartered Accountants :: Vancouver, British Columbia, Canada

## Stock Listings

**NASDAQ:** WPRT :: **Toronto Stock Exchange:** WPT

## Annual & Special Meeting of Shareholders

Thursday, April 11, 2013 at 2:00 PM (Pacific) at the Pan Pacific Hotel, 999 Canada Place, Vancouver, British Columbia.

## Westport on the Internet

Topics featured in this Annual Report can be found on our websites:

| | |
|---|---|
| Westport | **westport.com** |
| Westport WiNG™ Power System | **wingpowersystem.com** |
| Fuel for Thought blog | **blog.westport.com** |
| YouTube Channel | **youtube.com/WestportDotCom** |
| Cummins Westport | **cumminswestport.com** |
| Weichai Westport | **weichai-westport.com** |

The information on these websites is not incorporated by reference into this Annual Report. Financial results, Annual Information Form, news, services, and other activities can also be found on the Westport website, on SEDAR at **www.sedar.com**, or at the SEC at **www.sec.gov**. Shareholders and other interested parties can also sign up to receive news updates:

| | |
|---|---|
| via email | **westport.com/contact/subscriptions** |
| via RSS | **westport.com/rss** |
| via Twitter | **@WestportDotCom** |

## Contact Information

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Vancouver, British Columbia, Canada :: V6P 6G2
**tel:** 604-718-2000 :: **fax:** 604-718-2001 :: **invest@westport.com**

### Forward Looking Statements

This document contains forward-looking statements about Westport's business, operations, technology development, products, the performance of our products, sources of revenue, our future market opportunities 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 and may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward looking statements. These risks include risks relating to the timing and demand for our products, future success of our business strategies and other risk factors described in our most recent Annual Information Form and other filings with securities regulators. 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 except as required by applicable legislation.

westport.com