WESTPORT INNOVATIONS INC.

2015 ANNUAL REPORT

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LETTER TO SHAREHOLDERS

To our shareholders,

The transportation sector is undergoing a profound transformation, with the industry expected to change more in the next ten years than it has in the past one hundred. The Paris Climate Accord signals a strong call to action with more than 175 countries committing to large greenhouse gas ("**GHG**") emissions reductions over the next 15 years. The increasing availability of low-carbon fuels, the rise of a poly-fuel economy with natural gas, electric vehicles, biofuels, and hydrogen competing with diesel and gasoline, continued technological advancements and breakthroughs on both incumbent and new powertrains, the participation of non-traditional industry players like Google and Apple with capital to invest in autonomous vehicles, and the emergence of new transportation companies like Uber have already begun to influence how people and freight are moved, and how and where we live.

Our 2015 strategy was crafted to ensure that Westport maintains its position as the global leader in alternative fuel solutions for the transportation sector. There were four key elements to this strategy and we had confidence in our ability to achieve them despite macro headwinds in multiple end markets. We are pleased to report our progress this year.

Firstly, **Westport is about advanced technology**. The first-generation of natural gas vehicles are now well established in the marketplace-with many delivered through our joint ventures or incorporate Westport proprietary components-and with some major customers now having years of experience, we believe the market opportunity is becoming clear. Customers know what to expect and are demanding alternative fuel solutions that have the performance, cost, and emissions characteristics to match the best diesel- and gasoline-powered products currently available.

We will continue to **invest in our technology portfolio** to deliver the best product solutions to our original equipment manufacturer ("**OEM**") customers, who will in turn launch world-leading products that shift the world from its reliance on petroleum-based fuels. In 2015, for example, we launched the next-generation vehicles with Volvo Car and Ford F-150 pickup trucks powered by Westport WiNG™ Power System. As urban air quality remains a critical environmental challenge in key markets, we are particularly proud of the announcement for the Cummins Westport ISL G Near Zero NOx natural gas engine launch, because this product will reduce the already low NOx emissions from our current Cummins Westport Inc. ("**CWI**") engines by another 90%.

We continue to invest heavily in delivering the Westport high pressure direct injection ("**Westport™ HPDI**") 2.0 program to meet the performance and durability standards demanded by our OEM customers. We also announced a new alliance with AVL of Austria and successfully advanced or completed technology proof of concept studies with new OEM partners. The Westport™ HPDI 2.0 program is on schedule, on budget, and expected to be ready for field test trucks in late 2016, with early production trials commencing in 2017 with our first demonstration customers. Given the challenge of economically replacing the energy density of fossil fuels, we believe Westport™ HPDI 2.0 remains the only viable alternative fuel solution for heavy-duty vehicles in the market today.

Secondly, we said we would **rationalize and consolidate our current product portfolio** to reduce cost, improve margin, ensure customer value and leading price performance, and achieve full system sales beyond individual component sales. We delivered examples of this in 2015, and the process will continue as we complete our proposed merger with Fuel Systems Solutions, Inc. ("**Fuel Systems**") and rationalize our joint product offerings.

Thirdly, we committed to **identifying and executing the sale of non-core assets**. We have reached satisfactory terms with several counterparties, including the previously announced asset sale to Cartesian Capital Group. We will announce details as these transactions close and continue to do so throughout 2016 as we reach for synergies following the anticipated merger with Fuel Systems.

Finally, as we make the transition from a research and development company to a growing and profitable operating company, we made relentless progress to **drive cost efficiencies** and reduce our global overhead expenses. This year was a challenge due to currency volatility and the tremendous uncertainty of global energy prices. However, while some lines of business were seriously impacted by market conditions, we were still able to reduce our operating expenses by $37 million for the year, compared to 2014. This came through cost discipline, prioritization of investments, improved efficiencies, and some favourable currency exchange factors.

As a result, the Westport Operations business unit's adjusted EBITDA improved significantly to a $1.7 million loss in Q4 2015, compared with $11.6 million in Q4 2014, an 85% improvement. This is despite a drop in revenue year-over-year (partly as a result of our product line reduction process). Our cash used in operations during the year saw a similarly dramatic improvement with $46.8 million used in the year, compared with $97.6 million in 2014, an improvement of 52%. CWI delivered a particularly strong financial performance after two years of warranty reserve adjustments. In addition, CWI had two important new product announcements that will position us for a strong performance in 2016.

After the year-end, we strengthened our balance sheet through a strategic financing with Cartesian Capital Group and the sale of non-core assets. This solid foundation is expected to be further bolstered following completion of the proposed merger with Fuel Systems. We expect that our proposed merger with Fuel Systems will improve both companies' competitive positioning across the spectrum going forward. We believe we will have strong offerings at the low-cost end of the spectrum, as well as unique technologies, such as Westport™ HPDI 2.0, for customers demanding the same efficiency, emissions, and engine performance as diesel. We believe that we will have distinctive systems development capabilities for OEMs who are now looking to move into the next generation of differentiated products.

In 2016, we will continue to advance our strategy and focus on the key elements that will drive success which include:

- Completion of the proposed Fuel Systems merger including associated integration;
- Advancement of Westport™ HPDI 2.0 to commercialization;
- Continued rationalization of our portfolio, while maintaining openness to market growth opportunities;
- Strengthening of our balance sheet; and
- Relentless pursuit of finding cost efficiencies and lowering expenses.

The transportation sector is facing unrelenting pressure to innovate on engine and vehicle performance, find cost reductions, and reduce emissions. The global focus on greenhouse gases also introduces a new opportunity for Westport. Our technologies present the right solutions to OEMs, with the economic benefits of using a less expensive and even renewable fuel like renewable natural gas. According to the California Air Resources Board Low Carbon Fuel Standard reporting tool, more than 50% of natural gas vehicles in California are now powered by renewable natural gas from landfills, dairies, and other sources, rather than fossil natural gas. This is a global trend that we expect to grow rapidly.

With the compelling performance of next-generation natural gas vehicles, increased product choice, and emissions reductions benefits, we believe that Westport is well-positioned in key markets and segments as policy makers and OEMs bring more alternative fuel solutions into the transportation energy mix.

We look forward to continuing to develop our global business in 2016, and progressing our vision of a diverse transportation energy mix powered by clean, low-carbon, inexpensive natural gas. On behalf of our Board of Directors, the management team and employees around the world, thank you for your continued interest and support for Westport.

Sincerely,

David R. Demers
Chief Executive Officer

Ashoka Achuthan
Chief Financial Officer

CHANGING THE WAY THE WORLD MOVES

The transportation sector is undergoing profound change, with the industry expected to change more in the next ten years than it did in the last 100. The Paris Climate Accord signals a strong call to action as nearly 200 countries committed to large reductions in greenhouse gas ("**GHG**") emissions over the next 15 years, quantified carbon dioxide ("**CO_2**") mitigation targets, and $100 billion in financing of actions. The increasing availability of low-carbon fuels, the rise of a poly-fuel economy with natural gas, electric vehicles, biofuels, and hydrogen competing with diesel and gasoline, continued technological advancements and breakthroughs on both incumbent and new powertrains, and the emergence of new transportation companies like Uber have already begun to influence how people and freight are moved, and how and where we live.

Our 2015 Sustainability Report highlights Westport's updates, progress, and challenges in reaching our vision of a sustainable transportation future. We continue to strive to create leading edge technologies that meet or exceed the requirements of legislation and industry codes and standards to shift the transportation sector to natural gas. Working in conjunction with our partners, we are committed to delivering low-emission natural gas solutions that will meet the demand for high-efficiency, high-performance, and low-carbon transportation.

We appreciate your time in reviewing our progress for 2015 and welcome your feedback or inquiries.

A CATALYST FOR INNOVATION

The heightened focus on the environmental performance of the transportation sector with more stringent requirements for increased engine efficiency, improved urban air quality, and GHG emission reductions has put pressure on engine and vehicle manufacturers but introduced an opportunity for collaboration and innovation.

INCREASED ENGINE EFFICIENCY

The United States Environmental Protection Agency ("**EPA**") and the National Highway Traffic Safety Administration ("**NHTSA**") announced their intention to create a national program to establish the next phase of greenhouse gas emissions and fuel efficiency standards for medium- and heavy-duty vehicles. The draft proposal released in July 2015 covered medium- and heavy-duty trucks and commercial vehicles beginning with model year 2021 through 2027 and a continuation of the Phase 1 GHG rules established from 2014–2018.

The agencies sought comments from industry on the impacts of the rule, and the ability of engine and technology providers to comply and provide the next generation of fuel efficient engines. We contributed to this discussion with our partners by providing comprehensive comments about issues critical to natural gas vehicle compliance and to ensure that the agencies were well informed about the potential of natural gas vehicles to help meet future GHG limits. A final rule is expected in 2016.

Under the draft rule, natural gas engine technologies remain a strong pathway for the long term reduction of CO_2 emissions and will comply with the stringent new limits set for medium- and heavy-duty vehicles.

IMPROVED URBAN AIR QUALITY

The California Air Resources Board ("**CARB**") adopted *optional* low oxides of nitrogen ("**NOx**") emission standards for on-road heavy-duty engines in 2013. For California to meet its 2023 and 2023 ambient ozone air quality standards, CARB estimates that it will require a 90% reduction in NOx emissions below 2010 baseline levels measured in the South Coast air basin.

The Cummins Westport ISL G Near Zero became the first mid-range engine in North America to receive emissions certifications from both the U.S. EPA and ARB in California that meet the 0.02 g/bhp-hr optional Near Zero NOx Emissions standards for medium-duty truck, urban bus, school bus, and refuse applications. Methane emissions have also been cut dramatically though the combined use of closed crankcase ventilation and revised catalyst formulations. Coupled with renewable natural gas ("**RNG**"), an ISL G Near Zero will offer zero-emission benefits comparable to an electric vehicle.

REDUCED GHG EMISSIONS

As an engine and fuel system manufacturer, Westport's first priority is to ensure that our products comply with the latest and most stringent environmental regulations. This has historically been focused on reducing urban air pollutants, an area where natural gas engines and vehicles have been very successful. Increasingly we are tasked to comply with stringent GHG regulations that focus specifically on reducing carbon dioxide and other greenhouse gases such as methane and nitrous oxide ("**N_2O**"). Current regulations cover the GHG emissions produced by the engine alone, on a tank-to-wheels ("**TTW**") basis.

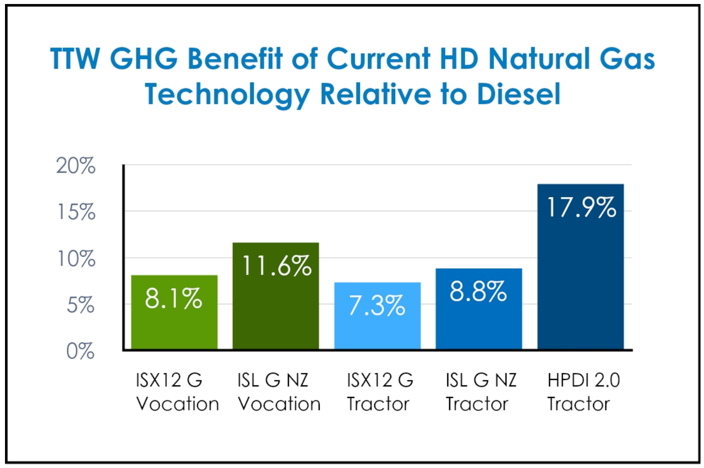
The chemical and physical properties of natural gas (predominantly methane) position it as a low carbon fuel for transportation. For every mega Joule ("**MJ**") of energy released through the combustion of natural gas, approximately 25% less CO_2 emissions are produced compared to combusting diesel or gasoline.

We continuously look for technology solutions to simultaneously:

- Improve engine efficiency (increase the amount of energy output per MJ of fuel energy input),
- Reduce CO_2 emissions, and
- Reduce emissions of methane (using the most advanced combustion optimisation tools and techniques).

The Cummins Westport ISL G Near Zero NOx 8.9L engine is scheduled for launch in 2016 will remove a significant source of methane emissions via the use of closed crankcase ventilation ("**CCV**") technology.

Westport™ HPDI 2.0 technology, which is optimum for heavy-duty ("**HD**") vehicles, includes further improvements to maximize the GHG benefits of natural gas. These include a closer match to the base diesel engine efficiency, careful optimisation of combustion to limit unburnt methane emissions to less than 0.2% of total fuel flow, and capture of regulator ventilation.



For the CWI ISX12 G, ISL G and ISL G Near Zero engines, the tailpipe CO_2, methane, and N_2O emissions were taken from EPA and CARB certification Executive Orders. HPDI 2.0 attributes are based on Westport internal data. GHG benefits are calculated using the EPA specified methods applicable to Phase 1 GHG Regulations.

Westport's North American products are certified in accordance with the relevant stringent regulatory requirements set by the EPA and CARB, and with the equivalent regulatory frameworks in place in our global markets. In many of these markets, engine emissions of both CO_2 and methane are measured and accounted for as part of the certification process, this ensures compliance with the latest GHG aspects of regulation.

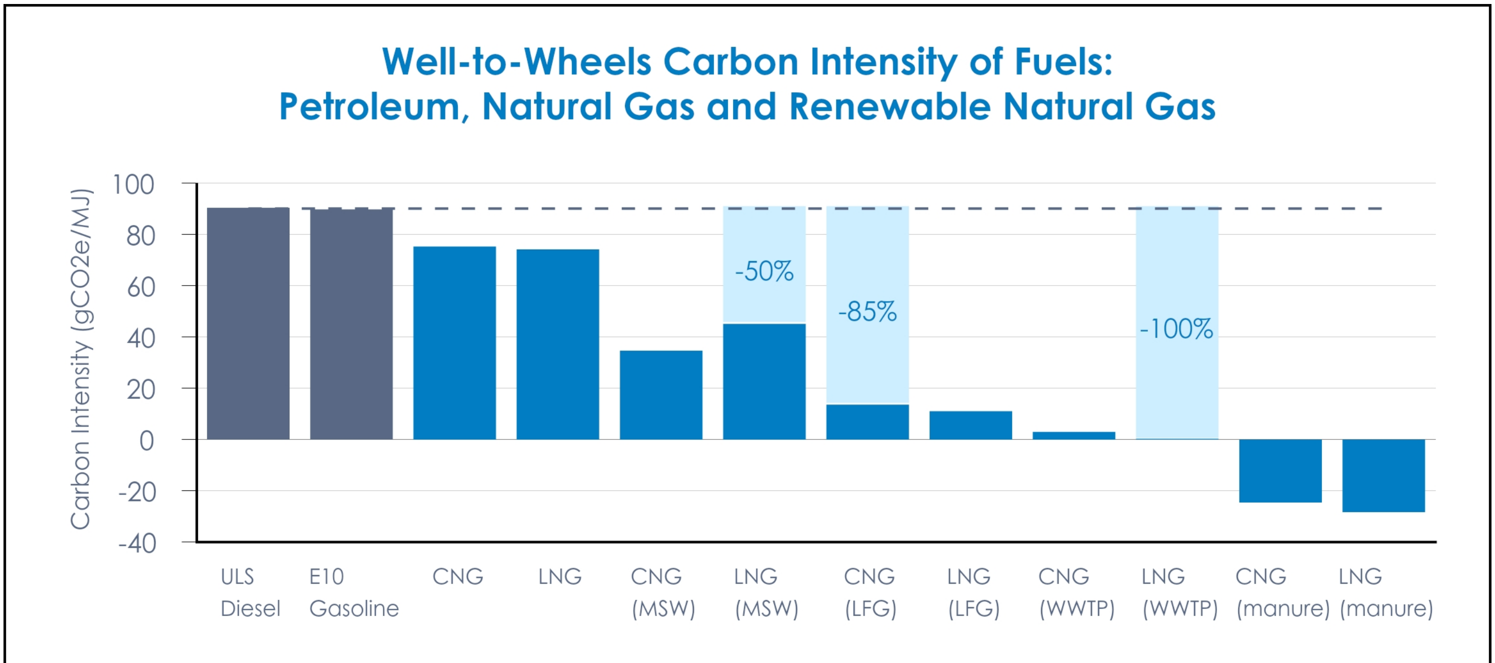
With modest engineered enhancements, our product plans will see us fully compliant with even the strictest requirements of the newest CO_2 regulations out to 2021 and beyond.

THE POTENTIAL OF RNG

As an engine and fuel system manufacturer, our direct responsibility is for the performance of fuels in the engines we develop and the emissions created by the engine. However, when any transportation fuels are used, it is not just the direct emissions that are factored in the decision. There are emissions that are generated in the production of all fuels (i.e. oil extraction, refining, electricity generation, natural gas processing and transmission). When these emissions are taken into account, a well-to-wheel ("**WTW**") comparison can be made that includes the carbon intensity in producing, delivering, and combusting fuels.

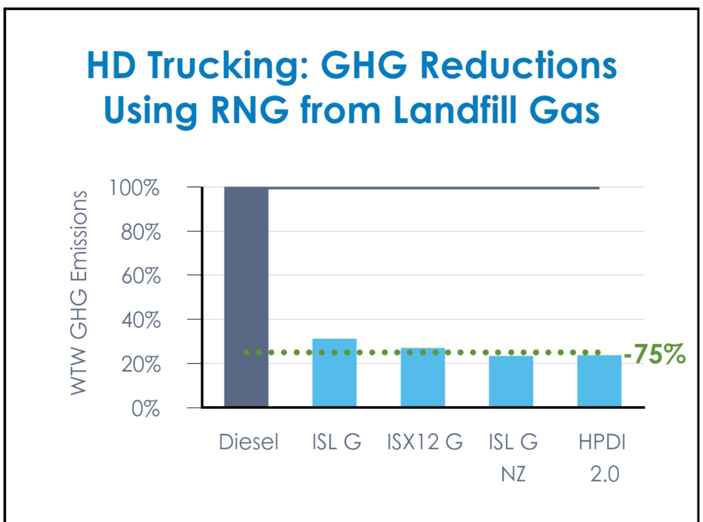
Depending on the upstream production and supply chain energy and emissions characteristics, some of the low carbon benefit of fossil natural gas is reduced (from ~25% lower to ~17% lower than petroleum). However, transportation grade natural gas is increasingly being produced from non-fossil sources, in the form of RNG or biomethane. Feedstocks for RNG include landfill gas ("**LFG**"), municipal solid waste ("**MSW**"), waste water treatment plants ("**WWTP**"), or agricultural manure.

In the case of these alternative natural gas feedstocks, substantial carbon intensity reductions can be achieved since turning these waste products into transportation fuel eliminates direct emissions of CO_2 and methane that occur naturally and without any end-use benefit.



This chart shows the fuel carbon intensity on a per unit energy basis. For example, for 1 MJ of energy of CNG made from landfill gas and used in an engine, the total amount of CO_2 WTW that results is about 85% lower than using 1 MJ of diesel. This chart addresses only the fuel, and as such does not take into account engine tailpipe emissions of methane, or any differences in engine efficiency.

When vehicle efficiency and tailpipe emissions are accounted for, RNG (in this case from landfill gas) can reduce the greenhouse gas emissions of natural gas heavy duty trucks by approximately 75% compared to the level produced from equivalent diesel trucks[1].



Landfill Gas fuel carbon intensity from GREET (greet.es.anl.gov) life-cycle emissions model maintained by Argonne National Labs.

KEY COLLABORATIONS IN 2015

Industry leadership begins with outreach and dialogue and we have contributed to many technical working groups, committees, and advisory panels to learn, share our expertise, and help build a body of knowledge about natural gas vehicles, their benefits, and challenges with deployment.

While the economic value proposition remains the primary driver of natural gas for transportation, policy makers, OEM partners and industry stakeholders are looking to the other compelling energy, environmental, and sustainability benefits. It is critical for Westport to contribute sound, intelligent, data driven, and defensible analysis to a discussion on sustainable mobility and the transition to alternative fuels.

BUSINESS FOR SOCIAL RESPONSIBILITY
Future of Fuels
www.bsr.org

Westport has been a member of Business for Social Responsibility ("**BSR**") since 2012 and was a founding member of the Future of Fuels working group.[2] The mission of Future of Fuels is to identify and promote transportation fuel pathways that enhance the sustainability and availability of emerging alternative fuel choices. The working group's objectives are to develop tools and research to map, measure, and manage a sustainable transition to low-carbon commercial freight, convene value chain stakeholders to identify and address the greatest challenges to the deployment of sustainable fuels, and build partnerships that catalyze and test low-carbon commercial freight solutions.

In 2015, Future of Fuels published *The Sustainability Impacts of Fuel*[3] and five fuel briefs (petroleum, natural gas, electrification, hydrogen, biofuels) for sustainability practitioners outlining tactical approaches to accelerate the transition to low-carbon fuels. The Fuel Sustainability Tool was launched in 2015 to enable corporate decision-makers to compare fuel pathways within different types of fuels used in medium-and heavy-duty trucks.

THE CARBON DISCLOSURE PROJECT
www.cdp.net

The Carbon Disclosure Project ("**CDP**") is an international, not-for-profit organization providing the only global system for companies to measure, disclose, manage and share environmental performance information. It works with 822 investors with US$95 trillion in assets and holds the largest collection of self-reported corporate climate data.

We prepared our first CDP report in 2012 and have committed to file annual reports detailing our environmental performance in accordance with the CDP methodology. Our 2015 report is available for viewing at the CDP website.[4] As a clean technology leader, we recognize that we must accurately account for and mitigate the environmental impact of natural gas engines and vehicles. Our work with the CDP is a major step in expanding the reach and rigour of Westport's sustainability transparency.

COP 21
Implications for the Transport Sector

The Paris Climate Accord signals a strong call to action as nearly 200 countries committed to large reductions in greenhouse gas emissions over the next 15 years, quantified CO_2 mitigation targets, and $100 billion in financing of actions.

As part of the many activities concurrent with the annual Conference of Parties ("**COP**") 21, Westport was invited by the World Intellectual Property Organization and the National Institute of Industrial Property ("**INPI**"), France to display Westport™ HPDI technology as part of their innovation poster showcase at the Solutions COP21 exposition in Paris. Westport was one of only two Canadian companies selected to display its technology along with cutting edge sustainable technologies from 70 countries.

There is an urgent need for sustainable, low-carbon solutions for the transportation and energy sectors. Because natural gas vehicles can operate with 100 percent renewable natural gas or any percentage of blended renewable and conventional gas, they are a promising technology for freight transportation now and into the future as renewable fuels are expected to represent a greater market share of fuel consumed.

ENVIRONMENTAL DEFENSE FUND
Pump to Wheels Methane Leakage Study

The Environmental Defense Fund ("**EDF**") has a history of cross-sector collaboration and balanced environmental analysis. In 2012, the EDF initiated a series of studies with academic and industry partners to better understand the source and quantity of methane emissions along the natural gas supply chain.[5] Westport is a core supporting member of a multi-partner study initiated by EDF and conducted by the Center for Alternative Fuels, Engines and Emission ("**CAFEE**") at West Virginia University.

The study was completed in 2015 and provides an important data baseline of in-use natural gas vehicles and fueling stations. We anticipate the module covering natural gas vehicle and fuel systems will be published in 2016. Participation in working groups and studies of this nature help to advance Westport and industry leadership by providing credible and defensible data using widely accepted methodologies and scientific principles.

OUR APPROACH AND SCOPE

This is our seventh published sustainability report, documenting our strategy, programs and achievements related to the environment, the safety of people and products, our employees, and our community. The scope of this report relates only to our operations in British Columbia, Canada. We have identified a need to extend the scope to encompass all of our global operations and are working to establish processes to achieve this goal. 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. This report discloses data from January to December 2015. Historical data from the past four fiscal years have been included for comparative purposes, where appropriate.

REPORT CONTENT

This report has been developed in accordance with the Global Reporting Initiative ("**GRI**") G3 standard reporting guidelines. The GRI is an independent institution that provides a standard framework for sustainability reporting across companies and industries. We have applied the principles of materiality and stakeholder inclusiveness as recommended by the GRI to assess the relevance of sustainability priorities to Westport and our stakeholders.

Westport has self-declared this report to correspond to application level B in the sex-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.

DETERMINING MATERIAL ISSUES

The intent of the new GRI G4 materiality review process is to ensure that content included in our annual sustainability report represents the key environmental, economic, and social issues that are most critical to our stakeholders.

In 2015 we undertook an extensive internal risk management exercise which will guide and supplement our process for determining materiality in accordance with the framework of the new G4 reporting guidelines. We reviewed our existing mechanisms for gathering stakeholder feedback and sought additional input where possible to organize our findings using the prioritization matrix system recommended by GRI. While the GRI has recommended that we comply with the G4 guidelines by December 31, 2015, we will be able to do so by December 31, 2016.

GRI INDICATOR INDEX

LEGEND	
AA1	(we report on this indicator) [indicator description] » (report location)
BB2	(we partially report on this indicator)
ECONOMIC PERFORMANCE	
EC1	Direct economic value generated and distributed » (2014 Audited Financial Statements)
EC2	Financial implications and risks and opportunities of climate change » (Climate Change Risks and Opportunities)
SOCIAL PERFORMANCE	
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 INDICATORS

Human Rights

Westport is dedicated to preserving all fundamental and universally recognized human rights as outlined by the United Nations and the International Labour Organization. Our commitment is stated and reinforced by our Code of Conduct which is reviewed and signed annually by each of our employees.

Total Workforce

Westport is committed to providing a healthy work environment, defined by respectful relationships, professional development and advancement potential and an execution-focused culture to capitalize on business opportunities. We are dedicated to ensuring that Westport remains a desirable employer in all our locations. A similar benefits package is offered to both full-time and part-time employees.[6]

TOTAL WORKFORCE

as of Dec. 31, 2015	Full Time	Part Time	Fixed Term		Co-op	Grand Total
			Payroll	Agency		
Argentina	18			10		**28**
Australia	23		1	1		**25**
Canada	282		10	5	5	**302**
China	32					**32**
France	1	1	1			**3**
India	1					**1**
Italy	234	20	2	5		**261**
Korea	3					**3**
Netherlands	46	8	1	2		**57**
Sweden	18	1	2	7		**28**
United Kingdom	1					**1**
United States	66	0	3	7	0	**76**
Grand Total	**725**	**30**	**21**	**36**	**5**	**817**

Health and Safety

The health and safety of our employees, facilities, and communities is an integral part of Westport's operations. 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 for workplace safety. Westport maintains a Health and Safety Committee in British Columbia or approximately one Committee for every 300 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

as of Dec. 31	2015	2014	2013	2012	2011
Recordable injury frequency	1	3	5	2	1
Recordable injury rate[7]	0.33	0.96	1.22	0.46	0.31
Lost time injury frequency	1	1	2	1	1
Lost time injury rate[8]	0.33	0.32	0.49	0.23	0.31

Our rate of recordable injuries and lost time injuries remained in line with our historical average. We continue put the health and safety of our employees at the center of our operational priorities.

Community Impacts

The importance of being a good neighbour is captured within our Environmental Policy statement. 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. We received one noise complaint in 2015 associated with the filling of our liquid nitrogen tank and were able to expediently resolve this issue with our neighbour.

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.

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 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 & 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

Being active in the community has always been central to Westport's values. Since 2002, Westport has been a strong supporter of the United Way of the Lower Mainland. From modest beginnings, our annual workplace campaign has grown steadily and in 2015 our cumulative fundraising total reached $1.272 million CDN.

United Way of the Lower Mainland Community Schools

Westport is a proud partner of the United Way and Vancouver School Board's Community Schools Program. Community schools provide safe and structured after-school activities to students aged 6-12. After-school programs play a critical role in providing structured, supervised time for children to be active, to develop positive social skills, and to build overall capabilities. Studies have linked participation in these programs with greater academic success, increased self-confidence and self-esteem, and better relationships with peers and adults.

Through this partnership, Westport employees lead classes over seven weeks in cooking, acrobatics, guitar, electronics, and visual arts at Lloyd George Elementary School.

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. In 2015, we made 60 donations. Since 2006, Westport employees have donated over 560 pints of blood or enough to impact more than 120 lives.[9]

ENVIRONMENTAL PERFORMANCE INDICATORS

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. We recognize that providing only an estimate and not actual water use is a limitation of our current sustainability report.

Energy Consumption

Our energy consumption decreased significantly in 2015. This is due in part to product development cycles but also to our ability to test components on systems capable of recycling fuel, and a greater focus on energy efficiency improvements. The bulk of our LNG test rigs continue to operate on liquid nitrogen and we continue to return power to the grid through the use of transient dynamometers in our test cells.

ENERGY CONSUMPTION					
	for the 12 months ending Dec. 31				
(values in gigajoules)	**2015**	**2014**	**2013**	**2012**	**2011**
DIRECT					
Diesel	749	2,000	2,722	2,250	1,250
LPG	0	0	0	35	99
LNG	5,436	21,730	8,559	8,466	11,193
CNG	18,887	35,449	38,148	28,802	19,352
NG returned	(4,351)	(13,937)	(1,024)	(1,860)	(3,663)
Net direct consumption	**20,721**	**45,242**	**48,405**	**37,693**	**28,232**
INDIRECT					
Electrical	12,576	16,249	14,956	12,239	7,392

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 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.[10] We have not measured scope three emissions to date.

GREENHOUSE GAS INVENTORY[11] (unaudited)					
	for the 12 months ended Dec. 31				
(values in tonnes CO_2 equivalent)	**2015**	**2014**	**2013**	**2012**	**2011**
Total Scope 1 Direct Emissions	1,272.8	2,389.7	2,576.1	2,224.2	1,805.5
Total Scope 2 Indirect Emissions	303.0	413.0	387.0	288.0	237.0
Total GHG impact	**1,575.8**	**2,802.7**	**2,963.1**	**2,512.2**	**2,042.5**

Finding comparable organizations against which to benchmark our GHG emissions remains a challenge, as the research and development of new engine technologies is necessarily an energy-intensive process. There are currently no regulatory requirements for a company of our size to disclose its emissions.[12] The process of compiling a GHG inventory provides an important foundation for understanding reduction opportunities and measuring progress. Westport works through the internationally-recognized Carbon Disclosure Project to inventory and make public our GHG emissions. We have identified future opportunities to reduce the impacts of our operations, as well as 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			
Absorbent pads & materials	Aluminum	Batteries	Beverage containers
Cardboard	Coolant	Diesel	E-waste
Filters/rags	Light bulbs	Lube oil	Organics & kitchen waste
Paper	Hard & soft plastic	Plastic oil pails	Solvents
Steel	Viscor	Wastewater	Wood

FOOTNOTES

1. The graphs shown here are illustrative, based on the assumptions within GREET. However, the carbon intensity of renewable natural gas can be highly variable based on the type of feedstock, the geography, energy consumption to produce the biomethane, and the outcome for the feedstock if not used to make RNG.
2. Future of Fuels working group: www.bsr.org/en/our-work/working-groups/future-of-fuels
3. The Sustainability Impacts of Fuel, Future of Fuels: www.bsr.org/en/our-insights/report-view/the-sustainability-impacts-of-fuel
4. Registration at no cost is required to view corporate reports filed on The Carbon Disclosure Project website: www.cdp.net/en-US/Results/Pages/Company-Responses.aspx?company=36607.
5. The five study modules are production, gathering lines and processing facilities, pipelines and storage, local distribution, and commercial trucks and refueling stations. The first peer-reviewed study has now been published in the journal Proceedings of the National Academy of Science and is available online at www.pnas.org/content/110/44/17768.
6. 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.
7. 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.
8. 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.
9. According to Canadian Blood Services an average of 4.6 pints are required per patient.
10. 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.
11. 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.
12. In Canada, Large Final Emitters ("**LFEs**")—facilities that emit the equivalent of 100,000 tonnes 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, 2015. 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 as of March 29, 2016.

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, 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, liquidity, 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 AIF 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, merger with Fuel Systems Inc., Cartesian financing, 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 AIF. 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- (less than 5.9 litre), medium- (5.9 to 10 litre), heavy-duty- (10 to 16 litre) and high-horsepower- (greater than 16 litre) petroleum-based fuel engines and vehicles 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, we sell natural gas and propane engines, fuel systems, and components to customers in more than 79 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 seven of the world's top ten automotive manufacturers. 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.

Since our founding in 1995, we have invested over $863 million towards the research, development and commercialization of our proprietary technologies and related products. Conversely, 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. Our technologies and related products enable combustion engines to use gaseous fuels, such as natural gas, propane, renewable natural gas (“**RNG**”) or hydrogen. The substitution of natural gas for petroleum-based fuel drives a reduction in harmful combustion emissions, such as particulate matter and greenhouse gases, in addition to providing a relatively inexpensive alternative fuel from a more plentiful natural resource.

The principle focus of the operating business units are summarized below:

OPERATING BUSINESS UNITS

During the first quarter of 2015, Westport realigned the structure of the Company's internal organization. The realignment combines, our historical operating segments, Westport Applied Technologies, Westport On-Road Systems and Westport Off-Road Systems into a single operating segment, Westport Operations. This change reflects the manner in which operating decisions and assessing business performance is currently managed by the Chief Operating Decision Makers (the CEO and the COO “**CODMs**”). As Westport narrows its focus within certain business units, including its investments in joint ventures, and defers certain products and related programs, the CODMs manage the combined businesses as a whole. Therefore, the Westport Operations segment provides more meaningful information to users of Westport’s financial statements. All comparable prior period information has been recast to reflect this change.

Westport Operations

Westport Operations designs, manufactures and sells compressed natural gas ("**CNG**"), liquefied natural gas ("**LNG**"), and liquefied petroleum gas ("**LPG**") components and systems to over 20 global OEMs, including Fiat, Volkswagen, Tata Motors, the GAZ Group, Chrysler, General Motors, Ford Motor Company ("**Ford**"), PACCAR Inc., Volvo Car Group, Hyundai and Kia and to aftermarket customers in over 79 countries. Sales from Westport's wholly-owned Italian subsidiaries, OMVL S.p.A. ("**OMVL**") and Emer S.p.A ("**EMER**"), including Emer's wholly-owned subsidiary Valtek S.p.A., Westport's Australian operations, and, recently acquired Netherlands based Prins Autogassystemen Holding B.V. ("**Prins**") are made either directly to OEMs or through one of their many global distributors. Westport Operations has a strong customer base in Europe and North America and is growing in Asia, South America, and Africa.

Westport supports customers with vehicle conversions through the Ford Qualified Vehicle Modifier ("**QVM**") program with products in the Ford line, including transit, cargo shuttle and taxi vehicles. Sold under the Westport WiNG™ Power System brand, product offerings include the Ford Transit Van dedicated, F-250/F-350 bi-fuel (CNG and gasoline) and dedicated, F-450 to F-650, F-59 dedicated, E-450 dedicated and Transit Connect bi-fuel vehicle models. Westport also provides aftermarket conversion products, alternative fuel systems and application engineering.

Other products include Volvo Car bi-fuel systems (CNG and gasoline) for the V60 and V70 bi-fuel wagon; Westport mobile LNG fuel services; Westport iCE PACK™ LNG Tank System for spark-ignited ("**SI**") engines; LNG tender products for the rail market; and Westport industrial engines sold to Clark Material Handling and Cummins Western Canada for forklift and oilfield applications.

Corporate & Technology Investments

The Corporate and Technology Investments business unit ("**Corporate and Technology Investments**") is responsible for investments in new research and 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. Once a product is launched, the associated revenue will be recognized under Westport Operations.

Cummins Westport Joint Venture

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 for use in transit, school and shuttle buses, conventional trucks and tractors, and refuse collection trucks, as well as specialty vehicles such as short-haul port drayage trucks and street sweepers. The fuel for CWI engines is typically carried on the vehicles as CNG or LNG. CWI engines are produced at certain of 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. CWI is the leading supplier of natural gas engines to the North American medium- and heavy-duty truck and transit bus industries.

Weichai Westport Joint Venture

Weichai Westport Inc. ("**WWI**") is a joint venture between Westport [35% interest], Weichai Holding Group Co. Ltd. ("**Weichai**") [40% interest] and Hong Kong Peterson (CNG) Equipment Ltd. ("**Hong Kong Peterson**") [25% interest] focusing 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.

GENERAL DEVELOPMENTS

Subsequent to year end, the Company announced that it has entered into an agreement with Cartesian Capital Group for up to $71.3 million in financing to support global growth initiatives. The financing agreement immediately provides $17.5 million in non-dilutive capital with additional capital contingent on reaching key milestones and establishing new investment opportunities. This financing package includes a contingent payment (derived substantially from future HPDI product sales), a convertible debenture, non-core asset sales, and incremental funding capacity to support future product development. As part of the financing agreement, Peter Yu, Managing Partner and Founder of Cartesian, has been appointed to Westport's Board of Directors.

On September 1, 2015, the Company announced a proposed business combination (the "**Merger**") with Fuel Systems Solutions, Inc. ("**Fuel Systems**"). Under the terms of the Merger, the Company will acquire all of the outstanding shares of Fuel Systems common stock in a stock-for-stock transaction under which Fuel Systems shareholders will receive 2.129 Company shares for each share of Fuel Systems common stock they own at closing.

On March 7, 2016, the Company signed an Amendment to the Agreement and Plan of Merger (the "**Amendment**") in relation to the Merger between the Company and Fuel Systems. The exchange ratio of the Agreement has been amended to include a collar mechanism. In the event that the NASDAQ volume weighted average price ("**VWAP**") of the Company common shares during a specified measuring period is equal to or greater than $2.37, then Fuel Systems stockholders will receive 2.129 Company common shares per Fuel Systems share on closing of the Merger and through the exchange process. In the event that the Company's VWAP is equal to or less than $1.64, then Fuel Systems stockholders will receive approximately 3.08 Company common shares per Fuel Systems share on closing of the Merger and through the exchange process. In the event that the Company's VWAP is greater than $1.64 and less than $2.37, then Fuel Systems stockholders would receive a number of Company common shares per Fuel Systems share equal to dividing $5.05 by the Company's VWAP, rounded to four decimal places. The measuring period will be the ten consecutive trading days ending on and including the trading day five business days prior to the anticipated closing date.

On March 18, 2016, the Company announced that its shareholders approved the issuance of such number of Company common shares as required to complete the Merger.

The Merger requires certain regulatory approvals and approval by a majority of the shareholders of Fuel Systems. All substantive regulatory approvals have been received. The Merger is currently anticipated to close in April 2016.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth a summary of our financial results for the years ended December 31, 2015, December 31, 2014 and the year ended December 31, 2013:

SELECT CONSOLIDATED STATEMENTS OF OPERATIONS DATA

(expressed in millions of USD, except per share amounts and shares outstanding)	Years ended December 31		
	2015	**2014**	**2013**
Total revenue	$ 103.3	$ 130.6	$ 164.0
Gross margin[1]	20.0	32.7	15.3
GM %	19.4%	25.0%	9.3%
Net loss	(98.4)	(149.6)	(185.4)
Net loss per share —basic and diluted[2]	(1.53)	(2.37)	(3.22)
Weighted average shares outstanding	64,109,703	63,130,022	57,633,190

1. *Gross margin is calculated as revenue less cost of product revenue. 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. Gross margin as defined above applies to the discussion of gross margin throughout the MD&A. (For the years ended December 31, 2015, 2014, and 2013 depreciation and amortization is excluded from the calculation of gross margin).*
2. *Fully diluted loss per share is the same as basic loss per share as the effect of conversion of stock options, restricted share units and performance share units would be anti-dilutive.*

The following table sets forth a summary of our financial position as at December 31, 2015 and December 31, 2014:

SELECTED BALANCE SHEET DATA

(expressed in millions of United States dollars)	**Dec 31, 2015**	**Dec 31, 2014**
Cash and short-term investments	$ 27.8	$ 94.0
Total assets	209.7	335.8
Long-term debt	62.5	76.7

The following tables set forth a summary of the financial results of our joint ventures for the years ended December 31, 2015, December 31, 2014 and the year ended December 31, 2013:

SELECTED CWI STATEMENTS OF OPERATIONS DATA

(expressed in millions of United States dollars)	Years ended Dec 31		
	2015	**2014**	**2013**
Total revenue	$ 331.9	$ 337.2	$ 310.7
Gross margin	103.8	66.4	64.2
GM %	31.3%	19.7%	20.7%
Net income before income taxes	50.5	21.0	23.1
Net income attributable to the Company	17.1	8.1	9.4

SELECTED WWI STATEMENTS OF OPERATIONS DATA

(expressed in millions of United States dollars)	Years ended Dec 31		
	2015	**2014**	**2013**
Total revenue	$ 186.0	$ 618.5	$ 466.6
Gross margin	21.4	52.5	37.3
GM %	11.5%	8.5%	8.0%
Net income before income taxes	3.8	20.3	14.5
Net income attributable to the Company	1.0	6.0	4.3

RESULTS FROM OPERATIONS

REVENUE

2015 / 2014

Total segments revenues, including 100% of CWI and WWI revenue, decreased $465.1 million, or 43% from $1,086.3 million in 2014 to $621.2 million in 2015.

The following table summarizes revenues by segment for the year ended December 31, 2015 compared to the year ended December 31, 2014:

REVENUES (2015 / 2014)

(expressed in millions of U.S. dollars)	Years ended Dec 31		Change	
	2015	**2014**	**$**	**%**
Westport Operations	$ 100.1	$ 127.0	$ (26.9)	(21)%
Corporate and Technology Investments	3.2	3.6	(0.4)	(11)%
CWI	331.9	337.2	(5.3)	(2)%
WWI	186.0	618.5	(432.5)	(70)%
Total segment revenues	$ 621.2	$ 1,086.3	$ (465.1)	(43)%
Less: Equity investees' revenues	517.9	955.7	(437.8)	(46)%
Total consolidated revenues	**$ 103.3**	**$ 130.6**	**$ (27.3)**	**(21)%**

Westport Operations revenue for the year ended December 31, 2015 decreased $26.9 million, or 21% from $127.0 million to $100.1 million**.** Westport Operations has been impacted significantly by the decline in the price of oil and the strengthening of the US dollar. Revenue from European operations for the year ended December 31, 2015, including the Prins acquisition increased by €6.2 million, while revenue from North American operations decreased by approximately $17.1 million. The decrease in revenue from North American operations was driven by decreases in Westport's Ford qualified vehicle modifier ("**QVM**") business, decreased sales of Westport iCE PACK™, and a decrease in engineering service contracts. A further decrease of approximately $12.0 million in revenue was driven by unfavourable impacts of foreign currency translation from the Euro to the US dollar equivalent.

Corporate and Technology Investments revenue for the year ended December 31, 2015 decreased $0.4 million, or 11% from $3.6 million to $3.2 million**.** The decrease is primarily driven by unfavourable impacts of foreign currency translation from the Canadian to the US dollar equivalent. The Company is pleased to report that it met several key milestones during the year with our OEM partners.

CWI revenue for the year ended December 31, 2015 decreased $5.3 million, or 2% from $337.2 million to $331.9 million**.** CWI product revenue for the year ended December 31, 2015 decreased $9.6 million, or 3%, to $274.0 million on sales of 9,940 units compared to $283.6 million and 10,512 units for the year ended December 31, 2014, which was primarily attributed to the decline of the price of oil and other macroeconomic conditions. CWI parts revenue for the year ended December 31, 2015 was $57.8 million compared with $53.7 million for the year ended December 31, 2014 which was primarily attributed to the increase of natural gas engine population in service.

WWI revenue for the year ended December 31, 2015 decreased $432.5 million, or 70% , from $618.5 million to $186.0 million**.** WWI shipped 15,956 units in 2015 compared with 51,006 units for the year ended December 31, 2014. Westport's WWI results are in-line with general market conditions in China and in-line with diesel truck sales. Truck demand remains subdued, as demonstrated by the decrease of recent monthly commercial vehicle sales in China year-over-year, according to China Association of Automotive Manufacturers ("**CAAM**").

2014 / 2013

Total segments revenues, including 100% of CWI and WWI revenue, increased $145.0 million, or 15% from $941.3 million in 2013 to $1,086.3 million in 2014.

The following table summarizes total revenue by segment for the years ended December 31, 2014 compared to the year ended December 31, 2013:

REVENUES (2014 / 2013)

(expressed in millions of U.S. dollars)	Years ended Dec 31		Change	
	2014	**2013**	**$**	**%**
Westport Operations	$ 127.0	$ 151.6	$ (24.6)	(16)%
Corporate and Technology Investments	3.6	12.4	(8.8)	(71)%
CWI	337.2	310.7	26.5	9 %
WWI	618.5	466.6	151.9	33 %
Total segment revenues	$ 1,086.3	$ 941.3	$ 145.0	15 %
Less: Equity investees' revenues	955.7	777.3	178.4	23 %
Total consolidated revenues	**$ 130.6**	**$ 164.0**	**$ (33.4)**	**(20)%**

Westport Operations revenue for the year ended December 31, 2014 decreased $24.6 million, or 16% to

$127.0 million from $151.6 million for the year ended December 31, 2013. Revenue from European operations decreased $7.0 million driven by an unfavourable impact of foreign currency translation from the Euro to the US dollar equivalent and weaknesses in certain markets, particularly Europe and Asia. Revenue from North American operations decreased $18.1 million due to the discontinuation of the first generation Westport™ HPDI system in December 2013, offset by increased shipments of Westport iCE PACK, and increased service revenue.

Corporate and Technology Investments revenue for the year ended December 31, 2014 decreased $8.8 million, or 71% from $12.4 million to $3.6 million**.** The decrease is driven by decreases in license fees earned from our development agreements. 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 year ended December 31, 2014 increased $26.5 million, or 9% from $310.7 million to $337.2 million**.** CWI product revenue for the year ended December 31, 2014 increased $22.6 million, or 9%, to $283.6 million on sales of 10,512 units compared to $261.0 million and 10,314 units for the year ended December 31, 2013, which was primarily attributed to the launch of the ISX12 G heavy duty truck engine in April of 2013 contributing to the increased volumes in North America. CWI parts revenue for the year ended December 31, 2014 was $53.7 million compared with $49.6 million for the year ended December 31, 2013 which was primarily attributed to the increase of natural gas engine population in service.

WWI revenue for the year ended December 31, 2014 increased $151.9 million, or 33%, from $466.6 million to $618.5 million**.** WWI shipped 51,006 units in 2014 compared with 38,138 units for the year ended December 31, 2013.

GROSS MARGIN

2015 / 2014

Total segments gross margin, including 100% share of CWI and WWI decreased $6.4 million, or 4% from $151.6 million in 2014 to $145.2 million in 2015.

The following table presents gross margin by segment for the year ended December 31, 2015 compared to the year ended December 31, 2014:

GROSS MARGIN (2015 / 2014)

(expressed in millions of U.S. dollars)	Year ended Dec 31, 2015	% of Revenue	Year ended Dec 31, 2014	% of Revenue	Change $	Change %
Westport Operations	$ 16.7	16.7%	$ 29.1	22.9%	$ (12.4)	(43)%
Corporate and Technology Investments	3.3	100.0%	3.6	100.0%	(0.3)	(8)%
CWI	103.8	31.3%	66.4	19.7%	37.4	56 %
WWI	21.4	11.5%	52.5	8.5%	(31.1)	(59)%
Total segment gross margin	$ 145.2	23.4%	$ 151.6	14.0%	$ (6.4)	(4)%
Less: Equity investees' gross margin	125.2	24.2%	118.9	12.4%	6.3	5 %
Total consolidated gross margin	**$ 20.0**	**19.4%**	**$ 32.7**	**25.0%**	**$ (12.7)**	**(39)%**

Westport Operations gross margin decreased $12.4 million to $16.7 million, or 16.7% of revenue, for the year ended December 31, 2015 compared to $29.1 million, or 22.9% of revenue for the year ended December 31, 2014. The decrease in gross margin percentage is due to inventory obsolescence charges of $8.7 million in the current year compared to $2.1 million in the prior year. Adjusted gross margin would have been 24.0% of revenue without the obsolescence, compared to 24.6% in the prior year. Gross margin also decreased due to lower revenue and changes in product mix.

CWI gross margin increased $37.4 million to $103.8 million, or 31.3% of revenue from $66.4 million or 19.7% of revenue. CWI product margin and product gross margin percentage for the year ended December 31, 2015 were $84.2 million and 30.7%, respectively, compared to $52.2 million and 18.4%, respectively, for the year ended December 31, 2014. This increase in CWI gross margin percentage was due primarily to a favourable decrease of $23.5 million in net warranty adjustments and net extended coverage claims compared to the year ended December 31, 2014. Reliability of the ISL G engine has continued to improve as a result of hardware and calibration changes. CWI parts gross margin percentage was 33.9% for the year ended December 31, 2015 compared to 26.5% for the year ended December 31, 2014. The increase in parts gross margin is primarily due to a change in product mix.

WWI gross margin decreased $31.1 million to $21.4 million, from $52.5 million. The decrease in gross margin relates to a decrease in the number of engines sold. Gross margin as a percentage of revenue increased from 8.5% to 11.5% as a result of changes in product mix and product pricing.

2014 / 2013

Total segments gross margin, including 100% share of CWI and WWI increased $34.8 million, or 30% from $116.8 million in 2013 to $151.6 million in 2014.

The following table presents gross margin by segment for the year ended December 31, 2014 compared to year ended December 31, 2013:

GROSS MARGIN (2014 / 2013)

(expressed in millions of U.S. dollars)	Year ended Dec 31, 2014	% of Revenue	Year ended Dec 31, 2013	% of Revenue	Change $	Change %
Westport Operations	$ 29.1	22.9%	$ 3.0	2.0%	$ 26.1	870 %
Corporate and Technology Investments	3.6	100.0%	12.3	100.0%	(8.7)	(71)%
CWI	66.4	19.7%	64.2	20.7%	2.2	3 %
WWI	52.5	8.5%	37.3	8.0%	15.2	41 %
Total segment gross margin	$ 151.6	14.0%	$ 116.8	12.4%	$ 34.8	30 %
Less: Equity investees' gross margin	118.9	12.4%	101.5	13.1%	17.4	17 %
Total consolidated gross margin	**$ 32.7**	**25.0%**	**$ 15.3**	**9.3%**	**$ 17.4**	**114 %**

Westport Operations gross margin increased $26.1 million to $29.1 million, or 22.9% of revenue, for the year ended December 31, 2014 compared to $3.0 million, or 2.0% of revenue for the year ended December 31, 2013. Gross margin from North American operations increased $30.9 million as a result of the prior year including $26.3 million of warranty adjustments and inventory net realizable write downs related to the discontinuation of the first generation Westport™ HPDI system. Gross margin from European operations decreased $4.8 million as a result of changes in product mix and weaknesses in certain markets including Europe and Asia.

Corporate and Technology Investments gross margin decreased $8.7 million from $12.3 million to $3.6 million. The decrease in gross margin is driven by a reduction in revenue. The gross margin percentage was 100% in both periods as Corporate and Technology Investments gross margin relates entirely to service revenue and revenue earned under our development agreements and other fee payments.

CWI gross margin increased $2.2 million to $66.4 million, or 19.7% of revenue from $64.2 million or 20.7% of revenue. CWI product margin and product gross margin percentage for the year ended December 31, 2014 were $52.2 million and 18.4%, respectively, compared to $42.7 million and 16.4%, respectively, for the year ended December 31, 2013. This increase in CWI gross margin percentage was due primarily to a decrease of $8.3 million in net warranty adjustments and net extended coverage claims and mix of sales compared to the year ended December 31, 2013. Warranty adjustments and net extended coverage claims totaling $21.7 million were recorded for the year ended December 31, 2014 which is a decrease of $15.1 million from prior year claims of $36.8 million. CWI parts gross margin percentage was 26.5% for the year ended December 31, 2014 compared to 43.5% for the year ended December 31, 2013, which was due to a change in product mix and pricing.

WWI gross margin increased $15.2 million to $52.5 million, or 8.5% of revenue from $37.3 million or 8.0% of revenue. The increase in gross margin percentage related primarily to a change product mix and product pricing.

RESEARCH & DEVELOPMENT EXPENSES

2015 / 2014

The following table presents details of research and development ("**R&D**") expense by segment for the year ended December 31, 2015 compared to year ended December 31, 2014:

RESEARCH & DEVELOPMENT (2015 / 2014)

(expressed in millions of U.S. dollars)	Years ended Dec 31 2015	Years ended Dec 31 2014	Change $	Change %
Westport Operations	$ 13.6	$ 21.3	$ (7.7)	36%
Corporate and Technology Investments	39.2	55.3	(16.1)	29%
Total research and development	**$ 52.8**	**$ 76.6**	**$ (23.8)**	**31%**

Westport Operations research and development expenses decreased $7.7 million due to reduction in program expenses, decreased headcount, and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Corporate and Technology Investments research and development expenses decreased $16.1 million from $55.3 million to $39.2 million due to reduction in program expenses and prioritizing of investment programs, decreased headcount and favorable impacts of foreign currency translation from the Canadian to the US dollar equivalent.

2014 / 2013

The following table presents details of R&D expense by segment for the year ended December 31, 2014 compared to year ended December 31, 2013:

RESEARCH & DEVELOPMENT (2014 / 2013)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	2014	2013	$	%
Westport Operations	$ 21.3	$ 23.0	$ (1.7)	(7)%
Corporate and Technology Investments	55.3	68.1	(12.8)	(19)%
Total research and development	**$ 76.6**	**$ 91.1**	**$ (14.5)**	**(16)%**

Westport Operations research and development expenses decreased $1.7 million primarily due to lower R&D expenses spent on Westport WiNG Systems as product development was completed in 2013.

Corporate and Technology Investments research and development expenses decreased $12.8 million from $68.1 million to $55.3 million primarily driven by reduction in program expenses and prioritizing of investment programs.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

2015 / 2014

The following table presents details of Selling, General and Administrative ("**SG&A**") expense by segment for the year ended December 31, 2015 compared to the year ended December 31, 2014:

SELLING, GENERAL & ADMINISTRATIVE (2015 / 2014)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	2015	2014	$	%
Westport Operations	$ 18.3	$ 30.5	$ (12.2)	(40)%
Corporate and Technology Investments	34.4	35.3	(0.9)	(3)%
Total selling, general and administrative	**$ 52.7**	**$ 65.8**	**$ (13.1)**	**(20)%**

Westport Operations SG&A expenses decreased $12.2 million due to decreased headcount and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Corporate and Technology Investments SG&A expenses decreased $0.9 million due to decreased headcount and favorable impacts of foreign currency translation from the Canadian to the US dollar equivalent.

Within 2015 SG&A are one time costs of $4.5 million related to the proposed merger between the Company and Fuel Systems. Without these merger costs, SG&A would have decreased 15.3% year over year.

2014 / 2013

The following table presents details of SG&A expense by segment for the year ended December 31, 2014 compared to the year ended December 31, 2013:

SELLING, GENERAL & ADMINISTRATIVE (2014 / 2013)

	Years ended Dec 31		Change	
(expressed in millions of U.S. dollars)	2014	2013	$	%
Westport Operations	$ 30.5	$ 47.5	$ (17)	(36)%
Corporate and Technology Investments	35.3	27.7	7.6	27 %
Total selling, general and administrative	**$ 65.8**	**$ 75.2**	**$ (9.4)**	**(13)%**

Westport Operations SG&A expenses decreased $17.0 million primarily due to decreased headcount from consolidating our facilities, discontinuation of activity related to the first generation Westport™ HPDI system and decreased scope of off-road programs.

Corporate and Technology Investments SG&A expenses increased $7.6 million due to increase in headcount to support new programs and global market development initiatives and severance recorded during the year.

FOREIGN EXCHANGE GAINS & 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 Euro denominated monetary assets and liabilities where the functional currency of the subsidiary is not the Euro. For the year ended December 31, 2015, we recognized a net foreign exchange gain of $11.6 million with the decline in the Canadian dollar relative to the U.S. dollar. A majority of the foreign exchange gain for the year ended December 31, 2015 is unrealized.

For the year ended December 31, 2014, we recognized a net foreign exchange gain of $3.4 million with the movement in the Canadian dollar relative to the U.S. dollar. This compares to a net foreign exchange gain of $15.2 million for the year ended December 31, 2013.

DEPRECIATION & AMORTIZATION

Depreciation and amortization for the year ended December 31, 2015 was $13.7 million compared to $18.7 million for the year ended December 31, 2014 and $16.3 million for the year ended December 31, 2013. The decrease primarily related to depreciation of property and equipment purchases, which decreased due to favourable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

INCOME FROM INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

Income from investments accounted for by the equity method primarily relates to our 50% interest in CWI and our 35% interest in WWI and our increase in equity income results primarily from higher revenues and gross margins for CWI and WWI in the current year compared to the prior year.

INCOME FROM INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

	Years ended Dec 31		
(expressed in millions of U.S. dollars)	**2015**	**2014**	**2013**
CWI – 50% interest	$ 17.1	$ 8.1	$ 9.4
WWI – 35% interest	1.0	6.0	4.3
Other	0.2	0.1	(0.3)
Income from investment accounted for by the equity method	**$ 18.3**	**$ 14.2**	**$ 13.4**

During the first quarter of 2015, the Company identified adjustments in CWI's estimated 2014 financial statement results, which primarily related to warranty accrual. The identified adjustments resulted in a cumulative $1.2 million understatement of the Company's income from investments accounted for by the equity method for the year ended December 31, 2014. The Company corrected the amounts related to CWI in the first quarter of 2015, which had the net effect of increasing income from investments accounted for by the equity method by $1.2 million for the year ended December 31, 2015. The Company did not believe this adjustment was material to its consolidated financial statements for the year ended December 31, 2014 and, therefore, did not restate any prior period amounts. The Company does not believe the adjustment is material to the year ended December 31, 2015 consolidated financial statements.

INTEREST ON LONG-TERM DEBT & AMORTIZATION OF DISCOUNT EXPENSE

Interest on long-term debt and amortization of discount expense primarily relates to our interest expense on Canadian dollar and Euro denominated debentures.

INTEREST ON LONG-TERM DEBT & AMORTIZATION OF DISCOUNT EXPENSE

	Years ended Dec 31		
(expressed in millions of U.S. dollars)	**2015**	**2014**	**2013**
Canadian debentures – 9% per annum	$ 3.9	$ 3.7	$ 3.1
Senior financing facilities	0.9	1.6	1.0
Amortization of discount and non-cash interest expense	0.7	0.5	0.7
Total Interest on long-term debt	**$ 5.5**	**$ 5.8**	**$ 4.8**

Interest on long-term debt for the year ended December 31, 2015 of $5.5 million is lower compared to the year ended December 31, 2014 due to favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent.

Interest on long-term debt for the year ended December 31, 2014 of $5.8 million is higher compared to the year ended December 31, 2013 due to additional interest on senior financing facilities as a result of increased borrowings.

INCOME TAX EXPENSE

Income tax expense for the year ended December 31, 2015 was $0.7 million compared to an income tax recovery of $0.6 million for the year ended December 31, 2014 and an income tax expense of $0.9 million for year ended December 31, 2013.

The increase for the year ended December 31, 2015 primarily relates to higher distributable earnings from our investment in CWI. The decrease in income tax expense for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily relates to lower distributable earnings from our investment in CWI and a recovery of the deferred income tax liability relating to the intangible and goodwill impairment charges.

CAPITAL REQUIREMENTS, RESOURCES & LIQUIDITY

As at December 31, 2015, our cash, cash equivalents and short-term investment position was $27.8 million, a decrease of $66.2 million from $94.0 million at December 31, 2014. 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.

The Company has sustained net losses since inception and as at December 31, 2015 has an accumulated deficit of $863.3 million. As at December 31, 2015 the Company has cash and cash equivalents and short-term investments of $27.8 million. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing or raise cash through the sale of assets while in pursuit of operating profitability. There can be no assurance that the Company will be successful in achieving its objectives. Management believes that the cash balances available as of December 31, 2015, combined with cost cutting measures in place and its ability to find new sources of financing or raise cash through the sale of assets subsequent to the balance sheet date, provides sufficient funds for the Company to meet its obligations beyond the next 12 months. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. See also "Cartesian Financing" in the subsequent events of the General Developments section of this MD&A for cash raised subsequent to year end.

Our plan is to use our current cash, cash equivalents and short-term investments, our share of CWI dividends (typically declared and paid quarterly) 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.

CASH FLOW FROM OPERATING ACTIVITIES

We prepare our statement of cash flows using the indirect method. Under this method, we reconcile net loss to cash flows from operating activities by adjusting net loss for those items that impact net loss but may not result in actual cash receipts or payments during the period. These reconciling items include but are not limited to depreciation and amortization, stock-based compensation expense, unrealized foreign exchange gain, income from investments accounted for by the equity method, provisions for inventory reserves and doubtful accounts, and changes in the consolidated balance sheet for working capital from the beginning to the end of the period.

2015 compared to 2014

In 2015, our net cash flow used in operating activities was $69.1 million, a decrease of $37.7 million from the net cash flow used in operating activities in the year ended December 31, 2014. This change was primarily driven by a reduction in program expenses, decreased headcount, and favorable impacts of foreign currency translation from the Euro and the Canadian to the US dollar equivalent. Cash used in operations decreased by $4.3 million compared to the prior year. These changes include increases in positive operating cash flow associated with accounts payables (primarily in relation with timing of payments), offset by an increase in accounts receivables (primarily as a result of increased sales in Q4 2015 versus Q4 2014).

CASH FLOW FROM INVESTING ACTIVITIES

Our net cash used in investing activities consisted primarily of dividends received from joint ventures, offset by purchases of property, plant and equipment property ("**PP&E**").

2015 compared to 2014

In 2015, our net cash flow received from investing activities was $16.4 million, a decrease of $4.9 million. Dividends received from joint ventures increased by $17.3 million to $20.5 million, primarily as a result of stronger net income attributable to CWI. CWI improved the reliability of the ISL G engine, which resulted in a favourable decrease of $23.5 million in net warranty adjustments and net extended coverage claims compared to the year ended December 31, 2014. PP&E additions decreased by $5.4 million to $4.8 million primarily as a result of prioritizing investments and capital asset projects. Net cash flow received from investing activities decreased because no short-term investments matured in 2015, compared to $31.4 million in 2014.

CASH FLOW FROM FINANCING ACTIVITIES

2015 compared to 2014

In 2015, our net cash flow from financing activities was negative because our repayment of operating lines of credit and long term facilities was greater than our infusion of cash from drawing on operating lines of credit. In 2014, our net cash flow from financing activities was positive, primarily as a result of raising an extra $17.8 million in unsecured subordinated debentures.

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 AIF.

CONTRACTUAL OBLIGATIONS & COMMITMENTS

CONTRACTUAL OBLIGATIONS & COMMITMENTS

	Carrying amount	Contractual cash flows	Years < 1	1–3	4–5	5+
Accounts payable and accrued liabilities	$ 57.5	$ 57.5	$ 57.5	$ —	$ —	$ —
Unsecured subordinated debentures [1]	38.4	46.0	3.6	42.4	—	—
Senior financing [2]	9.1	9.4	6.3	1.8	0.7	0.7
Senior revolving financing [3]	10.9	11.4	0.3	11.1	—	—
Other bank financing [4]	3.2	3.6	2.0	0.2	0.1	1.3
Capital lease obligations	0.8	0.8	0.4	0.4	—	—
Operating lease commitments	—	56.5	3.3	8.0	9.4	35.8
Royalty payments [5]	—	14.5	1.2	2.1	1.9	9.1
	$ 119.9	**$ 199.7**	**$ 74.6**	**$ 66.0**	**$ 12.1**	**$ 46.9**

1. *Includes interest at 9%.*
2. *Includes interest at rates disclosed in note 13(b) of the annual financial statements in effect at at December 31, 2015.*
3. *Includes interest at rates disclosed in note 13(c) of the annual financial statements in effect at December 31, 2015.*
4. *Includes interest at rates disclosed in note 13(d) in effect at December 31, 2015.*
5. *The Company is obligated to pay annual royalties equal to the greater of CDN $1.4 million or 0.33% of the Company's gross annual revenue from all sources, including CWI, provided that gross revenue exceeds CDN $13.5 million in any aforementioned fiscal year, until a total of CDN $28.2 million has been paid. The Company has assumed the minimum required payments.*

CAPITAL LEASE OBLIGATIONS & OPERATING LEASE 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 3.1% to

4.9%. Operating lease commitments represent our future minimum lease payments under leases related primarily to our operating premises and office equipment.

SENIOR FINANCING

Senior financing consists of three arrangements with a combined $15.9 million in principal outstanding.

The Emer S.p.A ("**Emer**") senior financing agreement with outstanding principal of $9.4 million is denominated in EUROS and bears interest at the 6-month Euribor plus 2.5% (2.6% as at December 31, 2015) and is recorded at amortized cost using the effective interest rate method. Interest is paid semi-annually. The Company has pledged its interest in Emer as a general guarantee for its senior financing. The senior financing matures in 2017.

The outstanding principal for the Prins senior financing as of December 31, 2015 is $2.0 million. The senior financing agreement is denominated in EUROS and bears interest at the 3-month Euribor plus 3.5% (3.6% as at December 31, 2015). Interest is paid quarterly. The Company has pledged its interest in Prins as a general guarantee for its senior financing. The senior financing matures in 2016.

The Prins senior mortgage loan was assumed on the acquisition of Prins. The senior mortgage loan is denominated in EUROS and bears interest at 3-month Euribor plus 1% (1.1% as at December 31, 2015). Interest is paid quarterly. The Company has pledged its interest in Prins's building as a general guarantee for its senior mortgage loan. The senior mortgage loan matures in 2020.

The three senior financing agreements will be repaid in accordance with [note 13(b)] of the annual financial statements.

SENIOR REVOLVING FINANCING

The senior revolving financing facility is denominated in EUROS and bears interest at the 6-month Euribor plus 2.6% (2.7% as at December 31, 2015) and will be repaid through one principal payment of €10 million on March 31, 2017. Interest is paid semi-annually. The Company has pledged its interest in Emer as a general guarantee for its senior revolving financing.

The principal repayment schedule of the senior financings are as follows for the years ended December 31:

SENIOR REVOLVING FINANCING

	Subordinated debenture notes	Senior financing		Prins Senior Mortgage Loan	Senior revolving financing	Total
		Emer	Prins			
2016	$ —	$ 3.8	$ 1.9	$ 0.3	$ —	$ 6.0
2017	38.3	1.0	0.1	0.3	10.9	50.6
2018	—	—	—	0.3	—	0.3
2019	—	—	—	0.4	—	0.4
2020+	—	—	—	1.0	—	1.0
	$ 38.3	**$ 4.8**	**$ 2.0**	**$ 2.3**	**$ 10.9**	**$ 58.3**

SUBORDINATED DEBENTURE NOTES

On September 23, 2011, the Company raised CDN$36.0 million through the issuance of debentures (the "**Initial Debentures**"). The Initial Debentures were unsecured and subordinated to senior indebtedness, matured on September 22, 2014, and bore interest at 9% per annum, were 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.

On June 27, 2014, the Company raised CDN$19.0 million through the issuance of debentures on a private placement basis (the “**Additional Debentures**”). In conjunction with the issuance of the Additional Debentures, the Company amended the terms of the Initial Debentures (the “**Amended Initial Debentures**”). The Amended Initial Debentures are ranked *pari passu* with the Additional Debentures and both shall be treated as the same series of debentures (the “**New Debentures**”) with the same terms. The New Debentures totaling CDN$55.0 million are composed of the Additional Debentures CDN$19.0 million and the Amended Initial Debentures CDN$36.0 million. The New Debentures are unsecured and subordinated to senior indebtedness, mature on September 15, 2017, 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.

The New Debentures contain an extension option that will allow each debenture holder to have the option to extend, a maximum of six times, the maturity date for an additional period of six months provided that greater than CDN $10,000 of the aggregate principal amount of the New Debentures remain outstanding.

The Company has performed the assessment of embedded derivatives within the New Debentures and concluded that there is an embedded derivative that requires bifurcation related to the extension option from the New Debentures.

The extension option was deemed not clearly and closely related to the New Debentures and is separately accounted for as a standalone derivative. The Company recorded this embedded derivative as a non-current liability on its consolidated balance sheet. At issuance on June 27, 2014, the embedded derivative's fair value was determined to be CDN$1.3 million, which was recorded as a reduction to the carrying value of the New Debentures. The Company is accreting the carrying value of the debt to interest expense by using the effective interest method through to the maturity date of the New Debentures. The embedded derivative is subsequently adjusted to fair value at each reporting date, with the associated fair value loss (gain) recorded in interest and other income (loss). The derivative liability is included in other long term liabilities on the consolidated balance sheets. The Company determined the fair value of the embedded derivative using the Interest Rate Option Pricing Method which incorporated the Black-Karasinski model.

The table below discloses the accounting values assigned to the subordinated debenture notes. All values are disclosed in CDN ("C$"). The approximate exchange rate used to value the subordinated debenture notes to USD at December 31, 2015 was 0.72 (2014 – 0.86).

SUBORDINATED DEBENTURE NOTES

	Dec 31			
(All values in Canadian dollars)		2015		2014
Balance, beginning of period	C$	52.0	C$	34.0
Issuance of Additional Debentures		—		19.0
Extension Option Discount		—		(1.2)
Accretion for extension option		0.4		0.2
Accretion of share issuance costs		0.7		—
Balance, end of period	C$	53.1	C$	52.0

1. *We adopted ASU 2015-03 in the fourth quarter of 2015. We applied the change retrospectively to Jan. 1, 2014 for prior period balances of unamortized debt issuance costs, resulting in a CDN $2.0 million reduction in other assets and long-term debt on our consolidated balance sheet as of Dec. 31, 2014.*

ROYALTY PAYMENTS

Royalty payments include annual royalties payable to Industry Canada's Industrial Technologies Office ("**ITO**") as outlined in "Government Funding" below.

PURCHASE COMMITMENTS

The Company purchases components from a variety of suppliers and contract manufacturers. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with suppliers and contract manufacturers. A portion of our reported estimated purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. The Company may be subject to penalties, and may lose important suppliers, if it is unable to meet its purchase commitments. In 2014, the Company entered into several long-term fixed price contracts to purchase parts to produce certain products. These contracts represent firm purchase commitments which are evaluated for potential market value losses. The Company estimated a loss on these firm purchase commitments with reference to the estimated future sales price of these products and recognized a provision for inventory purchase commitments of $4.1 million in 2014. The provision is recognized in other payables in accounts payable and accrued liabilities. During 2015 the provision has been drawn down to $2.1 million.

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 $0.2 million in government funding during the year ended December 31, 2015 compared with $0.9 million for the year ended December 31, 2014 and $0.6 million for the year ended December 31, 2013.

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

Industrial Technologies Office

(formerly Technology Partnerships Canada)

DESCRIPTION: Fund 30% of the eligible costs of, among other research projects, the adaptation of Westport's technology to diesel engines, up to CDN $18.9 million.

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.

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.

For the year ended December 31, 2015, royalties of $0.3 million relating to ITO were paid. $2.4 million remain accrued at December 31, 2016. Cumulative royalties paid to date relating to ITO at December 31, 2015 total CDN $10.0 million.

SHARES OUTSTANDING

For the years ended December 31, 2015, December 31, 2014 and the year ended December 31, 2013, the weighted average number of shares used in calculating the loss per share was 64,109,703, 63,130,022 and 57,633,190, respectively. During the year ended December 31, 2015, we granted 5,556,630 RSUs and PSUs (together the "**Share Units**"). The Common Shares, share options and Share Units outstanding and exercisable as at the following dates are shown below:

SHARES OUTSTANDING

*(weighted average exercise prices ("**WAEP**") are presented in Canadian dollars)*	Dec 31, 2015		Mar 29, 2016	
	Shares / units	WAEP	Shares / units	WAEP
Common Shares outstanding	64,380,819		64,487,305	
Share Units				
Outstanding [1][2]	9,657,921	N/A	9,118,870	N/A
Exercisable	1,150,294	N/A	1,379,694	N/A

1. *As at December 31, 2015, excludes 41,302 (March 29, 2016 - 35,315) of phantom share units, respectively, which when vested, are exercisable in exchange for a cash payment and do not result in the issuance of common shares.*
2. *As at December 31, 2015, includes 3,561,433 (March 29, 2016 - 3,140,200) PSUs with payout levels ranging between 0% and 200% upon achieving the required performance criteria over the measurement period. None of these PSUs are currently known to be issuable based on the prior achievement of the required 200% conversion ratio as at the date hereof, however such awards have not yet become vested.*

CRITICAL ACCOUNTING POLICIES & 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. 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 2015 annual consolidated financial statements. Actual amounts may vary significantly from estimates used.

VARIABLE INTEREST ENTITIES

A variable interest entity ("**VIE**") is any type of legal structure not controlled by voting equity but rather by contractual and/or other financial arrangements. Interests in VIEs are consolidated by the company that is the primary beneficiary. 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 and our statement of operations. 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 and estimated future direct warranty costs are accrued and charged to cost of revenue in the period when the related revenues are recognized while indirect warranty overhead salaries and related costs are charged to cost of revenue in the period incurred.

During the fourth quarter of 2013, a study of the historical data indicated that the cost to repair product defects continued to increase significantly primarily associated with our extended warranty contracts. As a result, the Company recognized a change in estimate in our base warranty liability and a loss on our extended warranty contracts representing the excess of the estimated cost to service these contracts over the amount of the deferred revenue recognized associated with the contracts. The warranty liability was reviewed in the fourth quarter of 2014 and 2015, and no change in estimate was required.

REVENUE RECOGNITION

Product Revenue

The Company's 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 revenue is recognized when contractual terms are agreed upon, the price is fixed or determinable, the products are shipped and title passes to the customer and collectability is reasonably assured.

Revenue from Research & Development

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. These contracts provide for the payment for services based on our achieving defined milestones or on the performance of work under product development programs. Revenues are recognized using the milestone method based on assessment of progress achieved against the defined milestones. Revenue may also be recognized using the proportionate performance method of accounting based on the performance of work under the research and development arrangement. All costs incurred related to revenue earned from research and development arrangements are recorded as research and development expense as incurred.

Revenue from Contracts

The Company earns revenue under certain contracts to provide engineering development services. These contracts provide for the payment for services based on the performance of work under product development programs. Revenues are recognized under these contracts based on the percentage of completion method of accounting. The components to measure percentage of completion may include estimated costs to complete a contract, estimated hours to completion or management's assessment of work to be performed. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined. Changes to the estimated percentage of completion of a contract may result in an adjustment to previously recognized revenues. All costs incurred related to revenue earned from contracts are recorded in cost of products sold.

Arrangements with customers may include multiple deliverables, including any combination of products, services, and licenses. In these arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. The Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables:

a. vendor-specific objective evidence of fair value ("**VSOE**"),
b. third-party evidence of selling price ("**TPE**"), and
c. best estimate of selling price ("**BESP**"), which are determined as follows:

VSOE

In limited circumstances are products sold separately in stand-alone arrangements. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service falls within a reasonably narrow pricing range, generally evidenced by the pricing rates of approximately 85% of such historical stand-alone transactions falling within plus or minus 10% of the median rate. In addition, the Company considers the geographies in which the products or services are sold, major product and service groups, customer classification, and other environmental or marketing variables in determining VSOE.

TPE

VSOE exists only when the Company sells the deliverable separately. When VSOE does not exist, the Company attempts to determine TPE based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy for many of its products differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality sold by other companies cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE.

BESP

The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. When both VSOE and TPE do not exist, the Company determines BESP by first collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. Second, the Company makes any reasonably required adjustments to the data based on market and Company-specific factors. Third, the Company stratifies the data points, when appropriate, based on customer, magnitude of the transaction and sales volume.

Once elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

Changes in cost estimates and the fair values of certain deliverables could negatively impact the Company's operating results. In addition, unforeseen conditions could arise over the contract term that may have a significant impact on the Company's operating results.

License Revenue

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.

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. The Company provides inventory write-downs based on excess and obsolete inventories determined primarily by future demand forecasts. In addition, the Company records a liability for firm, noncancelable, and unconditional purchase commitments with manufacturers for quantities in excess of the Company's future demand forecast consistent with its valuation of excess and obsolete inventory.

PROPERTY, PLANT & EQUIPMENT & 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.

Intangible Assets

Based on the revenue and operating results and decline in the oil price, the Company concluded there were impairment indicators requiring the performance of a long-lived assets impairment test for customer contracts, technology and other intangibles as of November 30, 2014. Accordingly non-cash impairment charges aggregating to

$5.8 million were recorded during the year ended December 31, 2014 which reduced the carrying values of technology by $0.1 million, customer contracts by $4.7 million and other intangibles by $1.0 million for the Westport Operations segment.

Based on the revenue and operating results and decline in the oil price, the Company concluded there were impairment indicators requiring the performance of a long-lived assets impairment test for customer contracts, technology and other intangibles as of November 30, 2015. The Company completed its annual assessment at November 30, 2015 and concluded that intangible assets were not impaired.

Impairment of Property, Plant & Equipment

During the year ended December 31, 2015, the Company recorded an impairment charge of $4.0 million. The impairment resulted primarily from the write-down of Orca LNG trailers ("**Orcas**") which provide in-yard fleets convenient refueling in the absence of a permanent liquefied natural gas ("**LNG**") solution. The method used to determine fair value was recent sales of Orcas and the impairment charge was recorded in the Westport Operations segment.

During the year ended December 31, 2014, the Company recorded an impairment charge of $5.2 million. The impairment was primarily recorded against non-utilized test cells, and non-utilized equipment related to facility closures.

STOCK-BASED COMPENSATION

We account for stock-based compensation related to stock options, Performance Share Units (“**PSUs**”) and Restricted Share Units (“**RSUs**”) 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 RSUs 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.

The Company's annual assessment date is November 30. However, based on the revenue and operating results of the Italian reporting unit, which is within the Westport Operations segment in the nine months ended September 30, 2015, the decline in the outlook for the remainder of 2015 and future years and the decline in the Company's share price, the Company concluded there were impairment indicators requiring an interim goodwill impairment assessment as of September 30, 2015. Based on the Company's assessment, it was determined that the carrying amount of goodwill exceeded the implied fair value of goodwill and as a result an impairment of $18.7 million was recorded in the Italian reporting unit.

The remaining goodwill of $3.0 relates to the Netherlands reporting unit, which is within the Westport Operations' segment. The Company completed its annual assessment at November 30, 2015 and concluded that the goodwill was not impaired.

An assessment of the carrying value of goodwill was previously conducted as of November 30, 2014. Based on the Company's assessment, it was determined that carrying amount of goodwill exceeded the implied fair value of goodwill and as a result an impairment of $18.5 million was recorded in the US reporting unit, which is within the Westport Operations segment for the year ended December 31, 2014.

For 2014 and 2015, the fair value of the reporting units was determined using the present value of expected future cash flows discounted at a rate equivalent to a market participant's weighted-average cost of capital. The estimates and assumptions regarding expected future cash flows and the appropriate discount rates are in part based upon historical experience, financial forecasts and industry trends and conditions.

NEW ACCOUNTING PRONOUNCEMENTS & DEVELOPMENTS

ADOPTED IN 2015

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, which requires debt issuance costs related to a debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability instead of being presented as an asset. The recognition and measurement guidance for debt issuance costs has not changed. ASU 2015-03 requires retrospective application and represents a change in accounting principle. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted for financial statements that have not been previously issued. We adopted this update in the fourth quarter of 2015. We applied the change retrospectively to January 1, 2014 for prior period balances of unamortized debt issuance costs, resulting in a $1.5 million (CDN $2.0 million) reduction in other assets and long-term debt on our consolidated balance sheet as of December 31, 2014.

Simplifying the Accounting for Measurement-Period Adjustments (Topic 805): Business Combinations

In September 2015, the FASB issued ASU 2015-16, which replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. For public business entities, ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, with earlier application permitted for financial statements that have not been issued. Our early adoption of ASU 2015-16 in the third quarter of 2015 did not have a material impact on our consolidated financial statements.

Simplifying the Balance Sheet Classification of Deferred Taxes (Topic 740): Income Taxes

In November 2015, the FASB issued ASU 2015-17 amending the accounting for income taxes and requiring all deferred tax assets and liabilities to be classified as non-current on the consolidated balance sheet. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The ASU may be adopted either prospectively or retrospectively. We adopted this update as of December 31, 2015 and applied the change retrospectively to January 1, 2014 for prior period balances of deferred tax assets and liabilities, resulting in a $3.6 million reduction in total current assets and corresponding increase in long term assets, along with a $0.4 million reduction in total current liabilities and corresponding increase in long term liabilities on our consolidated balance sheet as of December 31, 2014.

TO BE ADOPTED IN THE FUTURE

Revenue

In May 2014, Financial Accounting Standards Board ("**FASB**") issued ASU 2014-09, *Revenue From Contracts With Customers* ("**Topic 606**"). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2017. Early adoption would be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within the annual periods). The Company has not yet evaluated the impact of the adoption of this new standard.

Going Concern

In August 2014, the FASB issued ASU 2014-15 *Presentation of Financial Statements - Going Concern*, outlining management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016 with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

Amendments to the Consolidation Analysis (Topic 810): Consolidation

In February 2015 the FASB issued ASU 2015-02, which revises the current consolidation guidance which results in a change in the determination of whether an entity consolidates certain types of legal entities. The Company is currently assessing the impact of the new standard on its consolidated financial statements. The new standard is effective for annual and interim reporting periods beginning after December 15, 2015 and may be applied on a full or modified retrospective basis.

Simplifying the Measurement of Inventory (Topic 330): Inventory

In July 2015, the FASB issued ASU 2015-11, which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

DISCLOSURE CONTROLS & PROCEDURES & INTERNAL CONTROLS OVER FINANCIAL REPORTING

EVALUATION OF DISCLOSURE CONTROLS & 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**").

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.

On July 23, 2015, we reported that we had identified a material weakness in our internal control over financial reporting as further described in our amended Management's Discussion and Analysis for the year ended December 31, 2014. 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 annual financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, our CEO and CFO concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of December 31, 2014. Accordingly, management had concluded that the Company's internal control over financial reporting was not effective as of December 31, 2014. In response to the identified material weakness, management took specific actions to address the material weakness as further described in our amended Management's Discussion and Analysis for the year ended December 31, 2014 filed on July 23, 2015. As a result of these actions, management has concluded that the material weakness has been remediated as of December 31, 2015.

Management, including the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, in relation to criteria described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"). Based on this evaluation, management has determined that our internal control over financial reporting was effective as of December 31, 2015.

KPMG LLP, our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2015.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Other than the changes described above with respect to the remediation of the material weakness at December 31, 2014, there were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

SUMMARY OF QUARTERLY RESULTS

DISCUSSION OF THE QUARTER ENDED DECEMBER 31, 2015

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, impairment charges, stock-based compensation awards 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, recognition of tax benefits and other similar events.

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

SELECTED CONSOLIDATED QUARTERLY OPERATIONS DATA (unaudited)

(expressed in millions of United States dollars except for per share amounts)	2014				2015			
Three months ended:	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Product revenue [1]	$ 34.8	$ 31.8	$ 24.0	$ 27.4	$ 27.0	$ 24.6	$ 21.3	$ 24.9
Service and other revenue	5.1	6.1	1.4	—	1.0	3.2	1.0	0.2
Total revenue	39.9	37.9	25.4	27.4	28.0	27.8	22.3	25.1
Cost of product and parts revenue	27.6	24.3	17.3	28.7	22.6	18.1	21.0	21.6
Gross margin	$ 12.3	$ 13.6	$ 8.1	$ (1.3)	$ 5.4	$ 9.7	$ 1.3	$ 3.5
Gross margin percentage	*30.8%*	*35.9%*	*31.9%*	*(4.7)%*	*19.3%*	*34.9%*	*5.8%*	*13.9%*
Net loss for the period	$ (23.9)	$ (35.4)	$ (25.5)	$ (64.8)	$ (17.2)	$ (20.5)	$ (37.4)	$ (23.3)
EBITDA [2]	$ (18.8)	$ (28.8)	$ (20.8)	$ (57.5)	$ (11.7)	$ (14.8)	$ (32.5)	$ (19.3)
Adjusted EBITDA [3]	$ (22.1)	$ (16.9)	$ (22.0)	$ (23.0)	$ (9.2)	$ (7.7)	$ (9.8)	$ (12.3)
Loss per share								
Basic and diluted	$ (0.38)	$ (0.56)	$ (0.40)	$ (1.03)	$ (0.30)	$ (0.30)	$ (0.58)	$ (0.35)
Income from unconsolidated joint ventures								
CWI net income attributable to the Company	$ (0.8)	$ 0.4	$ 0.9	$ 7.6	$ 5.9	$ 3.4	$ 3.5	$ 4.3
WWI net income attributable to the Company	$ 0.5	$ 0.7	$ 1.2	$ 3.6	$ 0.3	$ 0.1	$ 0.1	$ 0.5

1. *In 2014, the Company combined the parts revenue with product revenue into a single line item in the consolidated statement of operations and comprehensive loss for all periods presented.*
2. *The term EBITDA (earnings before interest, taxes, depreciation and amortization) does not have a standardized meaning according to U.S. GAAP. See non-GAAP measures for more information.*
3. *The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Westport defines Adjusted EBITDA as EBITDA adjusted for amortization of stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other unusual adjustments. See non-GAAP measures for more information.*

THREE MONTHS ENDED DECEMBER 31, 2015 & 2014

Our consolidated revenue for the three months ended December 31, 2015 was $25.1 million, a decrease of $2.3 million, or 8.4%, from $27.4 million for the three months ended December 31, 2014.

Our consolidated net loss for the three months ended December 31, 2015 was $23.3 million, or a loss of $0.36 per diluted share, compared to a net loss of $64.8 million, or a loss of $1.03 per diluted share, for the three months ended December 31, 2014. The decrease in net loss primarily relates to lower SG&A and R+D costs in 2015 and higher non-cash and other unusual adjustments taken in the fourth quarter of 2014.

NON-GAAP MEASURES

We use certain non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed in U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

EBITDA

The term EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. The Company defines EBITDA as loss before income taxes adjusted for interest expense (net) and depreciation and amortization.

Management believes that EBITDA is an important indicator commonly reported and widely used by investors and analysts as an indicator of the Company's operating performance and ability. The intent is to provide additional useful information to investors and analysts and such measures do not have any standardized meaning under U.S. GAAP. These measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. Other issuers may define EBITDA differently.

EBITDA increased $13.2 million in the three months ended December 31, 2015 to a loss of $19.3 million from a loss of $32.5 million for the three months ended September 30, 2015 primarily as a result of a goodwill impairment charge taken in the third quarter of 2015.

QUARTERLY EBITDA DATA

	2014				2015			
Three months ended:	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Loss before income taxes	$ (23.9)	$ (35.1)	$ (26.2)	$ (65.1)	$ (16.7)	$ (19.9)	$ (37.2)	$ (23.9)
Interest expense, net [(1)]	0.8	1.7	0.7	2.5	1.4	1.6	1.4	1.3
Depreciation	4.3	4.6	4.7	5.1	3.6	3.5	3.3	3.3
EBITDA	**$ (18.8)**	**$ (28.8)**	**$ (20.8)**	**$ (57.5)**	**$ (11.7)**	**$ (14.8)**	**$ (32.5)**	**$ (19.3)**

1. *Interest expense, net is the aggregate of bank charges, interest, and other, interest on long term-debt and amortization of discount.*

ADJUSTED EBITDA

The term Adjusted EBITDA is not defined under U.S. GAAP and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP.

Adjusted EBITDA is used by management to review operational progress of its business units and investment programs over successive periods and as a long-term indicator of operational performance since it ties closely to the unit's ability to generate sustained cash flows.

Westport defines Adjusted EBITDA as EBITDA adjusted for stock-based compensation, unrealized foreign exchange gain or loss, and non-cash and other unusual adjustments. Adjusted EBITDA has limitations as an analytical tool, and when assessing Westport's operating performance, investors should not consider Adjusted EBITDA in isolation, or as a substitute for net loss or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Among other things, Adjusted EBITDA does not reflect Westport's actual cash expenditures. Other companies may calculate similar measures differently than Westport, limiting their usefulness as comparative tools. Westport compensates for these limitations by relying primarily on its U.S. GAAP results.

Adjusted EBITDA decreased $2.5 million in the three months ended December 31, 2015 to a loss of $12.3 million from a loss of $9.8 million for the three months ended September 30, 2015 primarily as a result of lower margins, and higher R&D and SG&A expenses.

QUARTERLY ADJUSTED EBITDA DATA

	2014				2015			
Three months ended:	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
EBITDA	$ (18.8)	$ (28.8)	$ (20.8)	$ (57.5)	$ (11.7)	$ (14.8)	$ (32.5)	$ (19.3)
Stock based compensation	4.7	3.3	1.0	—	3.4	4.7	3.3	3.5
Unrealized foreign exchange (gain) loss	(8.9)	8.6	(2.2)	(0.9)	(2.9)	(1.2)	(8.0)	0.5
Non-cash and other unusual adjustments [(1)]	0.9	—	—	35.4	2.0	3.6	27.4	3.0
Adjusted EBITDA	**$ (22.1)**	**$ (16.9)**	**$ (22.0)**	**$ (23.0)**	**$ (9.2)**	**$ (7.7)**	**$ (9.8)**	**$ (12.3)**

1. *Non-cash and other unusual adjustments include impairment of long lived assets, provision for inventory purchase commitments, intangible impairment, goodwill impairment, one time inventory obsolescence charges and one time costs related to the proposed merger between the Company and Fuel Systems. The three month ended December 31, 2015 figure included other unusual adjustments related to the discontinuation of the first generation of Westport HPDI systems.*

RELATED PARTY TRANSACTIONS

As part of our joint venture agreement, we engage in transactions with CWI.

As at December 31, 2015, net amounts due from CWI total $1.2 million (2014 – $2.5 million). Amounts receivable relate to costs incurred by the Company on behalf of CWI. The amounts are generally reimbursed by CWI to the Company in the month following the month in which the payable is incurred. Cost reimbursements from CWI consisted of the following:

COST REIMBURSEMENTS FROM CWI

	2015	2014	2013
Research and development	$ —	$ —	$ 0.2
General and administrative	0.9	1.5	1.4
Sales and marketing	4.8	4.9	4.7
Total	**$ 5.7**	**$ 6.5**	**$ 6.3**

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

SUBSEQUENT EVENTS

See the "General Developments" section of this MD&A for updates related to Cartesian Financing and The Merger with Fuel Systems Solutions, Inc.

BUSINESS RISKS AND UNCERTAINTIES

An investment in our business involves risk and readers should carefully consider the risks described in our AIF 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 AIF, 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 AIF 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 AIF for the year ended December 31, 2015 under the heading "Risk Factors" and is available on SEDAR at www.sedar.com.

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 sheet as at December 31, 2015, the consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2015 and December 31, 2013 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 U.S. 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, 2015, and its consolidated results of operations and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2013, in accordance with US generally accepted accounting principles.

Comparative Information

Without modifying our opinion, we draw attention to [Note 3(a)] to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2014 has been adjusted for the adoption of new accounting standards in 2015.

The consolidated financial statements of Westport Innovations Inc. as at and for the year ended December 31, 2014, excluding the adjustments described in [Note 3(a)] to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 9, 2015 (October 15, 2015 as to the change in reportable segments discussed in [Note 23] to the consolidated financial statements).

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2015, we audited the adjustments described in [Note 3(a)] to the consolidated financial statements that were applied to adjust the comparative information presented as at and for the year ended December 31, 2014. In our opinion, the adjustments are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the December 31, 2014 consolidated financial statements, other than with respect to the adjustments described in [Note 3(a)] to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

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, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**"), and our report dated March 29, 2016 expressed an unmodified (unqualified) opinion on the effectiveness of Westport Innovations Inc.'s internal control over financial reporting.

KPMG LLP

KPMG LLP
Chartered Professional Accountants
March 29, 2016
Vancouver, Canada

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Westport Innovations Inc.

We have audited Westport Innovations Inc.'s ("**the Company**") internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) 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 opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**").

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 balance sheet of the Company as of December 31, 2015, and the consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years ended December 31, 2015 and December 31, 2013 and our report dated March 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

KPMG LLP
Chartered Professional Accountants
March 29, 2016
Vancouver, Canada

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited, before the effects of the adjustments to retrospectively apply accounting standards adopted in 2015 as discussed in Note 3 to the consolidated financial statements, the accompanying consolidated financial statements of Westport Innovations Inc. and subsidiaries (the "**Company**"), which comprise the consolidated balance sheet as of December 31, 2014, and consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity and cash flows for the year ended December 31, 2014 and a summary of significant accounting policies and other explanatory information, (the 2014 consolidated financial statements before the effects of the adjustments discussed in [Note 3] to the consolidated financial statements are not presented herein).

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 accounting principles generally accepted in the United States of America, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 the auditor's 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, the auditor considers 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, such 2014 consolidated financial statements, before the effects of the adjustments to retrospectively apply accounting standards adopted in 2015 as discussed in [Note 3] to the consolidated financial statements, present fairly, in all material respects, the financial position of Westport Innovations Inc. and subsidiaries as at December 31, 2014, and its financial performance and its cash flows for the year ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply accounting standards adopted in 2015 as discussed in [Note 3] to the consolidated financial statements and, accordingly, we do not express an opinion on any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ Deloitte LLP
Chartered Professional Accountants
Vancouver, Canada
March 9, 2015
(October 15, 2015 as to the change in reportable segments discussed in [Note 23] to the consolidated financial statements)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(expressed in thousands of United States dollars, except share amounts)	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 27,143	$ 93,282
Short-term investments	696	723
Accounts receivable [note 5]	38,324	46,849
Inventories [note 6]	35,660	41,824
Prepaid expenses	3,475	4,641
	105,298	187,319
Long-term investments [note 7]	31,111	33,324
Other assets	2,863	1,973
Property, plant and equipment [note 9]	42,527	58,134
Intangible assets [note 10]	22,307	27,920
Deferred income tax assets [note 19(b)]	2,538	3,827
Goodwill [note 11]	3,008	23,352
	$ 209,652	**$ 335,849**
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities [note 12]	$ 57,454	$ 55,502
Current portion of deferred revenue	1,779	1,782
Current portion of long-term debt [note 13]	8,257	18,955
Current portion of warranty liability [note 14]	5,554	9,696
	73,044	85,935
Warranty liability [note 14]	8,437	13,413
Long-term debt [note 13]	54,190	57,741
Deferred revenue	1,513	3,795
Deferred income tax liabilities [note 19(b)]	3,570	5,352
Other long-term liabilities [note 15]	1,302	1,605
	142,056	167,841
Shareholders' Equity		
Share capital [note 17]		
Authorized:		
Unlimited common shares, no par value		
Unlimited preferred shares in series, no par value		
Issued:		
64,380,819 (2014 – 63,480,722) common shares	937,029	930,857
Other equity instruments	16,460	7,767
Additional paid in capital	9,837	9,837
Accumulated deficit	(863,348)	(764,960)
Accumulated other comprehensive income	(32,382)	(15,493)
	67,596	168,008
Commitments and contingencies [note 22]		
	$ 209,652	**$ 335,849**

See accompanying notes to consolidated financial statements. Approved on behalf of the Board:

Brenda J. Eprile

Brenda J. Eprile
Director

Warren J. Baker

Warren Baker
Director

CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME (LOSS)

	Years ended December 31		
(expressed in thousands of United States dollars, except share and per share amounts)	**2015**	**2014**	**2013**
Product revenue	$ 97,844	$ 118,015	$ 148,001
Service and other revenue [note 21]	5,460	12,554	16,031
	103,304	130,569	164,032
COST OF REVENUE & EXPENSES			
Cost of product revenue	83,314	97,923	148,690
Research and development [note 17(d)] [note 18]	52,777	76,580	91,132
General and administrative [note 17(d)]	35,201	40,319	46,475
Sales and marketing [note 17(d)]	17,496	25,489	28,707
Foreign exchange (gain) loss	(11,601)	(3,433)	(15,168)
Depreciation and amortization [note 9] [note 10]	13,654	18,666	16,288
Bank charges, interest and other	378	703	595
Impairment of long lived assets	4,015	5,238	4,838
Provision for inventory purchase commitments [note 12] [note 22(b)]	—	4,106	—
Intangible impairment [note 10]	—	5,823	1,721
Goodwill impairment [note 11]	18,707	18,543	34,964
	213,941	289,957	358,242
Loss from operations	(110,637)	(159,388)	(194,210)
Income from investments accounted for by the equity method	18,317	14,222	13,444
Interest on long-term debt and amortization of discount	(5,529)	(5,849)	(4,789)
Interest and other income	192	817	1,018
Loss before income taxes	(97,657)	(150,198)	(184,537)
INCOME TAX EXPENSE (RECOVERY) [note 19]			
Current	1,245	606	1,414
Deferred	(514)	(1,185)	(541)
	731	(579)	873
Net loss for the year	$ (98,388)	$ (149,619)	$ (185,410)
OTHER COMPREHENSIVE INCOME (LOSS)			
Cumulative translation adjustment	(16,889)	(15,201)	(17,308)
Comprehensive loss	**$ (115,277)**	**$ (164,820)**	**$ (202,718)**
LOSS PER SHARE			
Basic and diluted	**$ (1.53)**	**$ (2.37)**	**$ (3.22)**
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic and diluted	**64,109,703**	**63,130,022**	**57,633,190**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(expressed in thousands of United States dollars, except share amounts)	Common shares outstanding	Share capital	Other equity instruments	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
JANUARY 1, 2013	55,294,091	$ 733,385	$ 9,228	$ 6,384	$ (429,932)	$ 17,016	$ 336,081
Issue of common shares:							
On exercise of stock options	111,986	1,147	—	(406)	—	—	741
On exercise of share units	609,200	10,599	(10,599)	—	—	—	—
In connection with acquisition	718,485	24,091	—	—	—	—	24,091
On public offering	6,000,000	152,340	—	—	—	—	152,340
Acquisition to be settled by issuance of common shares	—	—	3,285	—	—	—	3,285
Share issue costs	—	(5,065)	—	—	—	—	(5,065)
Stock-based compensation	—	—	11,920	2,227	—	—	14,147
Net loss for the year	—	—	—	—	(185,410)	—	(185,410)
Other comprehensive loss	—	—	—	—	—	(17,308)	(17,308)
DECEMBER 31, 2013	**62,733,762**	**916,497**	**13,834**	**8,205**	**(615,342)**	**(292)**	**322,902**
Issue of common shares:							
On exercise of stock options	43,071	374	—	(132)	—	—	242
On exercise of share units	608,975	10,701	(10,701)	—	—	—	—
In connection with acquisition	94,914	3,285	(3,285)	—	—	—	—
Stock-based compensation	—	—	7,919	1,764	—	—	9,683
Net loss for the year	—	—	—	—	(149,619)	—	(149,619)
Other comprehensive loss	—	—	—	—	—	(15,201)	(15,201)
DECEMBER 31, 2014	**63,480,722**	**930,857**	**7,767**	**9,837**	**(764,960)**	**(15,493)**	**168,008**
Issue of common shares:							
On exercise of share units	575,024	5,010	(5,010)	—	—	—	—
In connection with acquisition	325,073	1,162	—	—	—	—	1,162
Stock-based compensation	—	—	13,703	—	—	—	13,703
Net loss for the year	—	—	—	—	(98,388)	—	(98,388)
Other comprehensive loss	—	—	—	—	—	(16,889)	(16,889)
DECEMBER 31, 2015	**64,380,819**	**$ 937,029**	**$ 16,460**	**$ 9,837**	**$ (863,348)**	**$ (32,382)**	**$ 67,596**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of United States dollars)	Years ended December 31 2015	2014	2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss for the year	$ (98,388)	$ (149,619)	$ (185,410)
Items not Involving Cash			
Depreciation and amortization	13,654	18,666	16,288
Stock-based compensation expense	14,871	9,683	14,283
Unrealized foreign exchange gain	(11,601)	(3,434)	(15,168)
Deferred income tax (recovery) expense	(514)	(1,185)	(541)
Income from investments accounted for by the equity method	(18,317)	(14,222)	(13,444)
Amortization of long-term debt	876	2,139	1,643
Impairment of long lived assets	4,015	5,238	4,838
Inventory write-downs to net realizable value	8,743	2,102	4,925
Provision for inventory purchase commitments	—	4,106	—
Intangible impairment	—	5,823	1,721
Goodwill impairment	18,707	18,543	34,964
Change in fair value of derivative liability and bad debt expense	587	1,338	(37)
Changes in Non-Cash Operating Working Capital			
Accounts receivable	975	11,629	(12,289)
Inventories	(5,997)	(1,367)	5,179
Prepaid expenses	661	(556)	513
Accounts payable and accrued liabilities	9,526	(4,749)	(2,064)
Deferred revenue	(1,507)	(5,096)	5,208
Warranty liability	(5,359)	(5,797)	22,602
	(69,068)	(106,758)	(116,789)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(4,845)	(10,249)	(26,450)
Maturity (purchase) of short-term investments, net	—	31,369	(5,771)
Acquisitions, net of acquired cash [note 4]	787	(3,053)	1,178
Dividends received from joint ventures	20,464	3,200	8,287
	16,406	21,267	(22,756)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of operating lines of credit and long term facilities	(8,308)	(9,540)	(13,678)
Increase in operating lines of credit and issuance of long term facilities	5,432	17,797	—
Finance costs incurred	—	(2,033)	—
Proceeds from stock options exercised	—	242	741
Shares issued for cash	—	—	152,340
Share issuance costs	—	—	(5,065)
	(2,876)	6,466	134,338
Effect of foreign exchange on cash and cash equivalents	(10,601)	(6,206)	(5,238)
Decrease in cash and cash equivalents	(66,139)	(85,231)	(10,445)
Cash and cash equivalents, beginning of year	93,282	178,513	188,958
Cash and cash equivalents, end of year	**$ 27,143**	**$ 93,282**	**$ 178,513**
SUPPLEMENTARY INFORMATION			
Interest paid	$ 4,551	$ 4,702	$ 3,911
Taxes paid, net of refunds	1,238	871	1,321
Non-Cash Transactions			
Shares issued on exercise of share units	5,010	10,701	10,599

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDTATED FINANCIAL STATEMENTS

1. COMPANY ORGANIZATION & 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-duty (<5.9 litre), medium-duty (5.9 to 10 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 using 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, renewable natural gas 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.

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

The Company has sustained net losses since inception and as at December 31, 2015 has an accumulated deficit of $863,348. As at December 31, 2015 the Company has cash and cash equivalents of $27,143. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing or raise cash through the sale of assets while in pursuit of operating profitability. There can be no assurance that the Company will be successful in achieving its objectives. Management believes that the cash balances available as of December 31, 2015, combined with cost cutting measures in place and its ability to find new sources of financing or raise cash through the sale of assets subsequent to the balance sheet date, provides sufficient funds for the Company to meet its obligations beyond the next 12 months. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. See also "Cartesian Financing" and "Merger with Fuel Systems Solutions, Inc." in Note 25 of these financial statements for cash raised subsequent to year end.

b. Foreign Currency Translation

The Company's reporting currency for its consolidated financial statement presentation is the United States dollar. The functional currencies of the Company's operations and subsidiaries include the following: United States, Canadian ("**CDN**") and Australian dollar, Euro, Chinese Renminbi ("**RMB**"), and Swedish Krona. The Company translates assets and liabilities of non-U.S. dollar functional currency operations using the period end exchange rates, shareholders' equity balances using the weighted average of historical exchange rates, and revenues and expenses using the monthly average rate for the period with the resulting exchange differences recognized in other comprehensive income. Transactions that are denominated in currencies other than the functional currency of the Company's operations 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 to the applicable functional currency 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. For the periods presented, the Company used the following exchange rates:

EXCHANGE RATES AS AT DEC 31

	Period end		Average	
	2015	2014	2015	2014
Canadian dollar	0.72	0.86	0.78	0.91
Australian dollar	0.73	0.82	0.75	0.90
Euro	1.09	1.21	1.11	1.33
RMB	0.15	0.16	0.16	0.16
Swedish Krona	0.12	0.13	0.12	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 Receivable, Net

Accounts receivable are measured at amortized cost. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Past due balances over 90 days are reviewed individually for collectibility. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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. The Company provides inventory write-downs based on excess and obsolete inventories determined primarily by future demand forecasts. In addition, the Company records a liability for firm, noncancelable, and unconditional purchase commitments with manufacturers for quantities in excess of the Company's future demand forecast consistent with its valuation of excess and obsolete inventory.

g. Property, Plant & Equipment

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

DEPRECIATION CLASSES

Assets	Basis	Rate
Buildings	Straight-line	15 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 method of accounting. Under the equity method, the Company recognizes its share of income from equity accounted 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 & 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 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 recorded at the time of purchase for the excess of the amount of the purchase price over the fair values of the identifiable assets acquired and liabilities assumed. 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. Future adverse changes in market conditions or poor operating results of underlying assets could result in an inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge.

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, which may include 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.

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 ending 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 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 warranty 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 costs expected to be incurred related to servicing these contracts and recognizes a loss to the extent such costs exceed the related deferred revenue. Extended warranty costs are expensed as period costs as incurred.

q. Revenue Recognition

PRODUCT REVENUE

The Company's 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 revenue is recognized when contractual terms are agreed upon, the price is fixed or determinable, the products are shipped and title passes to the customer and collectability is reasonably assured.

REVENUE FROM RESEARCH & DEVELOPMENT

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. These contracts provide for the payment for services based on our achieving defined milestones or on the performance of work under product development programs. Revenues are recognized using the milestone method based on assessment of progress achieved against the defined milestones. Revenue may also be recognized using the proportionate performance method of accounting based on the performance of work under the research and development arrangement. All costs incurred related to revenue earned from research and development arrangements are recorded as research and development expense as incurred.

REVENUE FROM CONTRACTS

The Company earns revenue under certain contracts to provide engineering development services. These contracts provide for the payment for services based on the performance of work under product development programs. Revenues are recognized under these contracts based on the percentage of completion method of accounting. The components to measure percentage of completion may include estimated costs to complete a contract, estimated hours to completion or management's assessment of work to be performed. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined. Changes to the estimated percentage of completion of a contract may result in an adjustment to previously recognized revenues. All costs incurred related to revenue earned from contracts are recorded in cost of products sold.

Arrangements with customers may include multiple deliverables, including any combination of products, services, and licenses. In these arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. The Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables:

i. vendor-specific objective evidence of fair value ("**VSOE**"),
ii. third-party evidence of selling price ("**TPE**"), and
iii. best estimate of selling price ("**BESP**"), which are determined as follows:

VSOE In limited circumstances are products sold separately in stand-alone arrangements. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service falls within a reasonably narrow pricing range, generally evidenced by the pricing rates of approximately 85% of such historical stand-alone transactions falling within plus or minus 10% of the median rate. In addition, the Company considers the geographies in which the products or services are sold, major product and service groups, customer classification, and other environmental or marketing variables in determining VSOE.

TPE VSOE exists only when the Company sells the deliverable separately. When VSOE does not exist, the Company attempts to determine TPE based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy for many of its products differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality sold by other companies cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE.

BESP The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. When both VSOE and TPE do not exist, the Company determines BESP by first collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. Second, the Company makes any reasonably required adjustments to the data based on market and Company-specific factors. Third, the Company stratifies the data points, when appropriate, based on customer, magnitude of the transaction and sales volume.

Once elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

Changes in cost estimates and the fair values of certain deliverables could negatively impact the Company's operating results. In addition, unforeseen conditions could arise over the contract term that may have a significant impact on the Company's operating results.

LICENSE REVENUE

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.

r. Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the accounting basis and tax basis of the assets and liabilities and for loss carry-forwards, tax credits and other tax attributes, using the enacted tax rates in effect for the years in which the differences are expected to reverse. The effect of a change in tax rates on the deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred income tax assets to the extent the assets are more-likely-than-not to be realized. In making such a determination the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If it is determined that, 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, a valuation allowance is provided to reduce the deferred income tax assets.

The Company uses a two-step process to recognize and measure the income tax benefit of uncertain tax positions taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is recognized if it is more-likely-than-not that the position will be sustained upon examination by a tax authority based solely on the technical merits of the position. A tax benefit that meets the more-likely-than-not recognition threshold is measured as the largest amount that is greater than 50% likely to be realized upon settlement with the tax authority. To the extent a full benefit is not expected to be realized, an income tax liability is established. Any change in judgment related to the expected resolution of an uncertain tax position is recognized in the year of such a change.

3. ACCOUNTING CHANGES

a. New Accounting Pronouncements Adopted in 2015

SIMPLIFYING THE PRESENTATION OF DEBT ISSUANCE COSTS

In April 2015, the FASB issued ASU 2015-03, which requires debt issuance costs related to a debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability instead of being presented as an asset. The recognition and measurement guidance for debt issuance costs has not changed. ASU 2015-03 requires retrospective application and represents a change in accounting principle. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted for financial statements that have not been previously issued. We adopted this update in the fourth quarter of 2015. We applied the change retrospectively to January 1, 2014 for prior period balances of unamortized debt issuance costs, resulting in a $1,486 (CDN$1,964) reduction in other assets and long-term debt on our consolidated balance sheet as of December 31, 2014.

SIMPLIFYING THE ACCOUNTING FOR MEASUREMENT-PERIOD ADJUSTMENTS (TOPIC 805): BUSINESS COMBINATIONS

In September 2015, the FASB issued ASU 2015-16, which replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. For public business entities, ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, with earlier application permitted for financial statements that have not been issued. Our early adoption of ASU 2015-16 in the third quarter of 2015 did not have a material impact on our consolidated financial statements.

SIMPLIFYING THE BALANCE SHEET CLASSIFICATION OF DEFERRED TAXES (TOPIC 740): INCOME TAXES

In November 2015, the FASB issued ASU 2015-17 amending the accounting for income taxes and requiring all deferred tax assets and liabilities to be classified as non-current on the consolidated balance sheet. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The ASU may be adopted either prospectively or retrospectively. We adopted this update as of December 31, 2015 and applied the change retrospectively to January 1, 2014 for prior period balances of deferred tax assets and liabilities, resulting in a $3,556 reduction in total current assets and corresponding increase in long term assets, along with a $398 reduction in total current liabilities and corresponding increase in long term liabilities on our consolidated balance sheet as of December 31, 2014.

b. New Accounting Pronouncements to be Adopted in the Future

REVENUE

In May 2014, Financial Accounting Standards Board ("**FASB**") issued ASU 2014-09, *Revenue From Contracts With Customers* ("**Topic 606**"). Topic 606 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance in this update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts. Topic 606 is effective for public entities with reporting periods beginning after December 15, 2017. Early adoption would be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within the annual periods). The Company has not yet evaluated the impact of the adoption of this new standard.

GOING CONCERN

In August 2014, the FASB issued ASU 2014-15 *Presentation of Financial Statements - Going Concern*, outlining management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures. ASU 2014-15 is effective for the annual periods ending after December 15, 2016 with early adoption permitted. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

AMENDMENTS TO THE CONSOLIDATION ANALYSIS (TOPIC 810): CONSOLIDATION

In February 2015 the FASB issued ASU 2015-02, which revises the current consolidation guidance which results in a change in the determination of whether an entity consolidates certain types of legal entities. The Company is currently assessing the impact of the new standard on its consolidated financial statements. The new standard is effective for annual and interim reporting periods beginning after December 15, 2015 and may be applied on a full or modified retrospective basis.

SIMPLIFYING THE MEASUREMENT OF INVENTORY (TOPIC 330): INVENTORY

In July 2015, the FASB issued ASU 2015-11, which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not anticipate a material impact to the Company's financial statements as a result of this change.

4. BUSINESS COMBINATIONS

a. Acquisition of Prins Autogassystemen Holding B.V.

On December 2, 2014 ("**the acquisition date**"), the Company acquired 100% of the outstanding shares of Prins Autogassystemen Holding B.V. ("**Prins**") for a base purchase price of EUR 12,200 ($15,017). The Company paid cash of EUR 2,500 ($3,112) and assumed debt of EUR 9,700 ($11,905). The results of Prins's consolidated operations have been included since December 2, 2014. Prins is a world leader in the development of alternative fuel systems and provides cost-effective and innovative solutions for a wide range of engine types.

The Company recognized $342 of acquisition related costs in General and Administrative expense under the Corporate and Technology Investments segment during the year ended December 31, 2014.

During the three months ended September 30, 2015, the Company finalized the allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on it estimates of their fair values on the acquisition date. The measurement period adjustments to goodwill for the Prins acquisition were primarily due to a settlement agreement reached with the sellers during the third quarter of 2015 for working capital disputes related to the acquisition. The Company received a cash settlement of EUR 700 ($787) from the sellers, which contributed to the purchase price of Prins being revised to EUR 11,500 ($14,230). The fair values of acquired assets and liabilities were revised from the estimated values filed on Form 40-F/A on October 15, 2015 as a result of the Company's finalizing the valuation of the acquired assets and assumed liabilities. Goodwill increased by $149, while current assets decreased by $791 and current liabilities increased by $145. There was no effect on current period earnings as a result of the changes to the provisional amounts recognized.

The following table summarizes the final allocation of the purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition, as well as the adjustments made during the measurement period.

PRINS PURCHASE PRICE ALLOCATION	Preliminary Purchase Price Allocation	Measurement Period Adjustments	Final Purchase Price Allocation
Consideration allocated to			
Other tangible assets	$ 13,138	$ (791)	$ 12,347
Property, plant and equipment	3,824	—	3,824
Intangible assets subject to amortization over 5 years	3,024	—	3,024
Goodwill	3,221	149	3,370
Total assets acquired	**$ 23,207**	**$ (642)**	**$ 22,565**
Less			
Current liabilities	$ 7,211	$ 145	$ 7,356
Deferred income tax liabilities	979	—	979
Debt assumed	11,905	—	11,905
	$ 20,095	**$ 145**	**$ 20,240**
Total net assets acquired	**$ 3,112**	**$ (787)**	**$ 2,325**
Consideration			
Paid to sellers	**$ 3,112**	**$ (787)**	**$ 2,325**

INTANGIBLE ASSETS

The fair value of intangible assets is $3,024 and is assigned to customer relationships. The intangible assets are being amortized over their estimated useful life of five years.

INVENTORY

The fair value of $4,975 assigned to inventory was based on estimated selling prices and selling costs associated with the inventory.

GOODWILL

Of the total consideration paid, $3,370 (measured at the December 31, 2014 EURO/USD exchange rate) has been allocated to goodwill. The entire goodwill recognized is assigned to the Westport Operations and is not deductible for tax purposes.

LAND AND BUILDING

The fair value of $3,824 assigned to land and building was based on valuations of similar buildings in the area and will be amortized over its estimated useful life of 15 years.

The consolidated financial statements reflect consolidated revenue and net loss for Prins of $1,196 and $(301), respectively, from December 2, 2014 to December 31, 2014.

PRO FORMA RESULTS

The following unaudited supplemental pro forma information presents the consolidated financial results as if the acquisition of Prins had occurred on January 1, 2013. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2013, nor are they indicative of any future results.

PRINS PRO FORMA RESULTS	Years ended Dec 31	
	2014	**2013**
Revenue		
Revenue for the period	$ 130,569	$ 164,032
Add: BAF [note 4(b)]	—	7,249
Add: Prins	30,993	30,885
Pro forma revenue for the period	**$ 161,562**	**$ 202,166**
Net Loss		
Net loss for the period	$ (149,619)	$ (185,410)
Add: BAF [note 4(b)]	—	(4,038)
Add: Prins	91	(1,381)
Pro forma net loss for the period	**$ (149,528)**	**$ (190,829)**

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Prins to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2013, together with the consequential tax effects.

b. Acquisition of BAF Technologies

On June 28, 2013 ("**the acquisition date**"), the Company acquired 100% of the outstanding common shares of BAF Technologies ("**BAF**") and its subsidiary, ServoTech Engineering, Inc. ("**ServoTech**") from Clean Energy Fuels Corp. ("**Clean Energy**"). The results of BAF's consolidated operations have been included since July 1, 2013 in these consolidated financial statements in the Westport Operations segment. BAF is a natural gas vehicle business that supports customers with vehicle conversions under Ford's Qualified Vehicle Modifier ("**QVM**") program. ServoTech is an engineering company that provides a total engineering solution from initial concept phase to prototype hardware and validation.

Pursuant to the Stock Purchase Agreement, the acquisition was settled with 816,460 of the Company's common shares. The number of shares transferred was determined using the 10-day volume weighted average price ("**VWAP**") per share prior to and including the acquisition date ($30.62 per share). Of the 816,460 common shares, 718,485 shares, with a fair value of $24,091, were issued on the acquisition date and 97,975 shares ("**Holdback shares**"), with a fair value of $3,285, were issued. The fair value of the shares transferred or to be transferred was determined by the closing share price on the acquisition date ($33.53 per share).

As part of the business acquisition, the Company entered into a marketing agreement ("**Marketing Agreement**") with Clean Energy, effective on the acquisition date for a period of two years. The Company was required to make a cash payment of $5,000 to Clean Energy in March 2014. Under the terms of the Marketing Agreement, Clean Energy will provide products and services to the Company.

The products and services received pursuant to the Marketing Agreement have been accounted for as a separate transaction from the business combination and the Company has determined the fair value of these products and services to be $2,678. The fair value has been allocated to the products and services and will be recognized when the goods are received and services performed. The fair value of the products and services of the Marketing Agreement was determined using Level 1 and Level 2 inputs.

The excess of the consideration payable of $5,000 and the fair value of the goods and services to be received separate from the business combination of $2,322 has been included as purchase consideration for the acquisition of BAF.

The following table summarizes management's final fair market valuation of the assets acquired and liabilities assumed at the acquisition date based on the results of a valuation report issued by a third-party valuation firm.

BAF FAIR MARKET VALUATION

Consideration allocated to	
Other tangible assets, including cash of $1,178	$ 9,116
Property, plant and equipment	905
Intangible assets subject to amortization over 3–10 yrs	7,729
Goodwill	18,542
Total assets acquired	36,292
Less: Total liabilities	(6,594)
Total net assets acquired	**$ 29,698**
Consideration	
Payable to Clean Energy	$ 2,322
Common shares issued	24,091
Common shares to be issued	3,285
	$ 29,698

The Company recognized $493 of acquisition related costs in General and Administrative expense under the Corporate and Technology Investments segment during the year ended December 31, 2013.

INTANGIBLE ASSETS

The fair values for specifically identifiable intangible assets by major asset class are as set forth below.

BAF INTANGIBLE ASSETS

	Assigned fair value	Weighted average amortization period
Customer relationships	$ 6,350	8 years
Core technology	160	10 years
Other intangibles	1,219	3 years
Total	**$ 7,729**	**7 years**

INVENTORY

The fair value of $5,792 assigned to inventory was based on assumptions about the selling prices and selling costs associated with the inventory.

DEFERRED INCOME TAXES

The Company recognized a deferred income tax liability of $296 relating to the difference in book and tax bases of acquired assets.

GOODWILL

Of the total consideration paid, $18,542 has been allocated to goodwill. The entire goodwill amount recognized is assigned to the Westport Operations segment. The goodwill recognized is attributable primarily realizing expected synergies that are specific to the Company's business. The goodwill is not deductible for tax purposes.

The consolidated financial statements reflect consolidated revenue and net loss for BAF of $17,097 and $3,512, respectively, from June 28, 2013 to December 31, 2013.

PRO FORMA RESULTS

The following unaudited supplemental pro forma information presents the consolidated financial results as if the acquisition of BAF had occurred on January 1, 2012. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2012, nor are they indicative of any future results.

BAF PRO FORMA RESULTS

	Years ended Dec 31	
	2013	2012
Revenue	$ 171,281	$ 181,972
Net loss	$ (189,448)	$ (100,946)

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of BAF to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2012, together with the consequential tax effects.

5. ACCOUNTS RECEIVABLE

ACCOUNTS RECEIVABLE

	Dec 31, 2015	Dec 31, 2014
Customer trade receivable	$ 35,517	$ 43,256
Due from joint venture [note 20]	1,165	2,538
Other receivables	3,617	3,307
Income tax receivable	1,047	499
Allowance for doubtful accounts	(3,022)	(2,751)
Total	**$ 38,324**	**$ 46,849**

6. INVENTORIES

INVENTORIES

	Dec 31, 2015	Dec 31, 2014
Purchased parts	$ 20,864	$ 28,227
Work-in-process	3,485	4,879
Finished goods	11,311	8,718
Total	**$ 35,660**	**$ 41,824**

During the year ended December 31, 2015, the Company recorded write-downs to net realizable value of approximately $8,743 (year ended December 31, 2014 - $2,102; year ended December 31, 2013 - $4,925).

7. LONG-TERM INVESTMENTS

LONG-TERM INVESTMENTS

	Dec 31, 2015	Dec 31, 2014
Weichai Westport Inc. (a)	$ 19,065	$ 18,791
Cummins Westport Inc. (b)	10,731	13,196
Other equity accounted investees	1,315	1,337
Total long-term investments	**$ 31,111**	**$ 33,324**

a. Weichai Westport Inc.

On July 3, 2010, the Company invested $4,316 under an agreement with Weichai Holding Group 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, 2015, the Company recognized its share of WWI's income of $1,044 (year ended December 31, 2014 - $6,027; year ended December 31, 2013 - $4,264), as income from investment accounted for by the equity method.

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

WWI ASSETS & LIABILITIES

	Dec 31, 2015	Dec 31, 2014
Current assets		
Cash and short-term investments	$ 4,898	$ 11,734
Accounts receivable	67,302	72,121
Inventory	38,267	83,594
Other current assets	729	1,249
Long-term assets		
Property, plant and equipment	6,401	5,736
Deferred income tax assets	6,611	7,781
Other long-term assets	$ 1,516	$ —
Total assets	**125,724**	**182,215**
Current liabilities		
Accounts payable and accrued liabilities	$ 71,162	$ 128,838
Total liabilities	**$ 71,162**	**$ 128,838**

WWI REVENUES & EXPENSES			
	Years ended Dec 31		
	2015	2014	2013
Product revenue	$ 185,967	$ 618,465	$ 466,580
Cost of revenue & expenses			
Cost of product revenue	164,581	565,943	429,238
Operating expenses	17,602	32,227	22,846
	182,183	598,170	452,084
Income before income taxes	3,784	20,295	14,496
Income tax expense	844	3,076	2,315
Income for the year	**$ 2,940**	**$ 17,219**	**$ 12,181**

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.

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.

The joint venture has a term of ten years from the date of the JVA 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 determined that CWI is a variable interest entity ("**VIE**"). 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.

For the year ended December 31, 2015, the Company recognized its share of CWI's income of $17,105 (year ended December 31, 2014 - $8,136; year ended December 31, 2013 - $9,433), as income from investment accounted for by the equity method.

During the first quarter of 2015, the Company identified adjustments in CWI's estimated 2014 financial results, which primarily related to warranty accrual. The identified adjustments resulted in a cumulative $1,184 understatement of the Company's income from investments accounted for by the equity method for the year ended December 31, 2014. The Company corrected the amounts related to CWI in the first quarter of 2015, which had the net effect of increasing income from investments accounted for by the equity method by $1,184 for the year ended December 31, 2015. The Company did not believe this adjustment was material to its consolidated financial statements for the year ended December 31, 2014 and, therefore, did not restate any prior period amounts. The Company does not believe the adjustment is material to the year ended December 31, 2015 consolidated financial statements.

Assets, liabilities, revenue and expenses of CWI are as follows:

CWI ASSETS & LIABILITIES		
	Dec 31, 2015	Dec 31, 2014
Current assets		
Cash and short-term investments	114,053	107,415
Accounts receivable	4,632	12,741
Current portion of deferred income tax assets	18,990	21,967
Other current assets	287	116
Long-term assets		
Property, plant and equipment	1,212	1,294
Deferred income tax assets	32,015	29,408
Total assets	**$ 171,189**	**$ 172,941**
Current liabilities		
Current portion of warranty liability	$ 37,313	$ 48,818
Current portion of deferred revenue	13,858	8,029
Accounts payable & accrued liabilities	11,852	6,419
	63,023	63,266
Long-term liabilities		
Warranty liability	37,963	43,983
Deferred revenue	45,859	34,345
Other long-term liabilities	2,908	2,771
	86,730	81,099
Total liabilities	**$ 149,753**	**$ 144,365**

CWI REVENUES & EXPENSES

	Years ended Dec 31		
	2015	**2014**	**2013**
Product revenue	$ 274,033	$ 283,551	$ 261,012
Parts revenue	57,849	53,683	49,639
	331,882	337,234	310,651
Cost of revenue & expenses			
Cost of product and parts revenue	228,058	270,832	246,403
Research and development	30,165	21,131	21,522
General and administrative	1,414	1,202	1,348
Sales and marketing	21,236	22,514	17,839
Foreign exchange (gain) loss	28	34	(7)
Bank charges, interest & other	817	805	607
	281,718	316,518	287,712
Income from operations	50,164	20,716	22,939
Interest and investment income	367	260	117
Income before income taxes	50,531	20,976	23,056
Income tax expense (recovery)			
Current	19,785	21,514	24,600
Deferred	(648)	(15,719)	(18,566)
	19,137	5,795	6,034
Income for the year	**$ 31,394**	**$ 15,181**	**$ 17,022**

8. 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.

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

The carrying amount and maximum exposure to losses relating to VIEs in which the Company holds a significant variable interest but is not the primary beneficiary, and which have not been consolidated, were as follows:

	Balance at Dec 31			
	2015		2014	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Equity method investment	$ 10,731	$ 10,731	$ 13,196	$ 13,196
Accounts receivable	1,165	1,165	2,538	2,538

9. PROPERTY, PLANT & EQUIPMENT

PROPERTY, PLANT & EQUIPMENT

	Cost	Accumulated depreciation	Net book value
December 31, 2015			
Land and buildings	$ 2,706	$ 165	$ 2,541
Computer equipment and software	7,171	6,234	937
Furniture and fixtures	5,163	2,084	3,079
Machinery and equipment	70,415	36,739	33,676
Leasehold improvements	10,394	8,100	2,294
Total 2015	**$ 95,849**	**$ 53,322**	**$ 42,527**
December 31, 2014			
Land and buildings	$ 3,015	$ —	$ 3,015
Computer equipment and software	9,277	7,063	2,214
Furniture and fixtures	6,194	1,798	4,396
Machinery and equipment	81,933	36,135	45,798
Leasehold improvements	12,460	9,749	2,711
Total 2014	**$ 112,879**	**$ 54,745**	**$ 58,134**

The Company reviews its long-lived assets for impairment including property, plant and equipment, and intangible assets whenever events and changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Based on the revenue and operating results and decline in the oil price, the Company concluded there were impairment indicators requiring the performance of a long-lived assets impairment test during the years ended December 31, 2015 and 2014.

During the year ended December 31, 2015, the Company recorded an impairment charge of $4,015. The impairment resulted primarily from the write-down of Orca LNG trailers ("**Orcas**") which provide in-yard fleets convenient refueling in the absence of a permanent liquefied natural gas ("**LNG**") solution. The method used to determine fair value was recent sales of Orcas and the impairment charge was recorded in the Westport Operations segment.

During the year ended December 31, 2014, the Company recorded an impairment charge of $5,238. The impairment was primarily recorded against non-utilized test cells, and non-utilized equipment related to facility closures.

Depreciation expense for the year ended December 31, 2015 was $10,703 (year ended December 31, 2014 - $14,106; year ended December 31, 2013 - $12,246).

10. INTANGIBLE ASSETS

INTANGIBLE ASSETS

	Cost	Accumulated depreciation	Net book value
December 31, 2015			
Patents and trademarks	$ 16,964	$ 4,094	$ 12,870
Technology	4,862	2,663	2,199
Customer contracts	12,025	4,952	7,073
Other intangibles	283	118	165
Total 2015	**$ 34,134**	**$ 11,827**	**$ 22,307**
December 31, 2014			
Patents and trademarks	$ 18,425	$ 3,445	$ 14,980
Technology [(1)]	6,449	3,142	3,307
Customer contracts [(1)]	13,762	4,163	9,599
Other intangibles [(1)]	62	28	34
Total 2014	**$ 38,698**	**$ 10,778**	**$ 27,920**

1. *The Company reviews its long-lived assets for impairment including property, plant and equipment, and intangible assets whenever events and changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Based on the revenue and operating results and decline in the oil price, the Company concluded there were impairment indicators requiring the performance of a long-lived assets impairment test for customer contracts, technology and other intangibles as of November 30, 2014. Accordingly non-cash impairment charges aggregating to $5,823 were recorded during the year ended December 31, 2014 which reduced the carrying values of technology by $115, customer contracts by $4,705 and other intangibles by $1,003 for the Westport Operations segment.*

Based on the revenue and operating results and decline in the oil price, the Company concluded there were impairment indicators requiring the performance of a long-lived assets impairment test for customer contracts, technology and other intangibles as of November 30, 2015. The Company completed its annual assessment at November 30, 2015 and concluded that intangible assets were not impaired.

During the year ended December 31, 2015, amortization of $2,951 (December 31, 2014 - $4,560; year ended December 31, 2013 - $4,042) was recognized in the statement of operations.

The expected amortization of intangible assets for fiscal 2016 to 2020 is $2,526 per year.

11. GOODWILL

A continuity of goodwill is as follows:

GOODWILL

	Dec 31, 2015	Dec 31, 2014
Balance, beginning of period:	$ 23,352	$ 41,500
Acquisition of Prins [note 4(a)]	—	3,221
Measurement period adjustments [note 4(a)]	149	—
Impairment losses	(18,707)	(18,543)
Impact of foreign exchange changes	(1,786)	(2,826)
Balance, end of period	**$ 3,008**	**$ 23,352**

Goodwill is subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company's annual assessment date is November 30. However, based on the revenue and operating results of the Italian reporting unit, which is within the Westport Operations segment in the nine months ended September 30, 2015, the decline in the outlook for the remainder of 2015 and future years and the decline in the Company's share price, the Company concluded there were impairment indicators requiring an interim goodwill impairment assessment as of September 30, 2015. Based on the Company's assessment, it was determined that the carrying amount of goodwill exceeded the implied fair value of goodwill and as a result an impairment of $18,707 was recorded in the Italian reporting unit.

The remaining goodwill of $3,008 relates to the Netherlands reporting unit, which is also within the Westport Operations segment. The Company completed its annual assessment at November 30, 2015 and concluded that the goodwill was not impaired.

An assessment of the carrying value of goodwill was previously conducted as of November 30, 2014. Based on the Company's assessment, it was determined that carrying amount of goodwill exceeded the implied fair value of goodwill and as a result an impairment of $18,543 was recorded in the US reporting unit, which is within the

Westport Operations segment for the year ended December 31, 2014.

For 2014 and 2015, the fair value of the reporting units was determined using the present value of expected future cash flows discounted at a rate equivalent to a market participant's weighted-average cost of capital. The estimates and assumptions regarding expected future cash flows and the appropriate discount rates are in part based upon historical experience, financial forecasts and industry trends and conditions.

12. ACCOUNTS PAYABLE & ACCRUED LIABILITIES

ACCOUNTS PAYABLE & ACCRUED LIABILITIES				
	Dec 31, 2015		Dec 31, 2014	
Trade accounts payable	$	42,851	$	41,796
Accrued payroll		3,839		5,270
Accrued interest		1,037		1,237
Taxes payable		2,014		580
Other payables [note 22(b)]		7,713		6,619
Total	**$**	**57,454**	**$**	**55,502**

13. LONG-TERM DEBT

LONG-TERM DEBT				
	Dec 31, 2015		Dec 31, 2014 [1]	
Subordinated debenture notes (a)	$	38,359	$	44,645
Senior financing (b)		9,123		15,910
Senior revolving financing (c)		10,859		12,101
Other bank financing (d)		3,312		2,646
Capital lease obligations (e)		794		1,394
		62,447		76,696
Current portion		(8,257)		(18,955)
Total	**$**	**54,190**	**$**	**57,741**

1. *We adopted ASU 2015-03 in the fourth quarter of 2015. We applied the change retrospectively to January 1, 2014 for prior period balances of unamortized debt issuance costs, resulting in a $1,486 (CDN$1,964) reduction in other assets and long-term debt on our consolidated balance sheet as of December 31, 2014.*

a. Subordinated Debenture Notes

On September 23, 2011, the Company raised CDN $36,000 through the issuance of debentures to Macquarie Private Wealth Inc. ("**Macquarie**") on a private placement basis (the "**Initial Debentures**"). The Initial Debentures were unsecured and subordinated to senior indebtedness, matured on September 22, 2014, and bore 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 Initial Debentures were redeemable at the option of the Company at a price equal to CDN$1,150 per CDN$1,000 principal amount of the debentures on or before March 22, 2013. After March 22, 2013 and before maturity, the debentures were redeemedable at a price equal to CDN$1,100 per CDN $1,000 principal amount.

On June 27, 2014, the Company raised CDN$19,000 through the issuance of debentures to Richardson GMP Limited ("**RGMP**"), formerly Macquarie Private Wealth Inc. on a private placement basis (the "**Additional Debentures**"). In conjunction with the issuance of the Additional Debentures, the Company amended the terms of the Initial Debentures (the "**Amended Initial Debentures**"). The Amended Initial Debentures are ranked *pari passu* with the Additional Debentures and both shall be treated as the same series of debentures (the "**New Debentures**") with the same terms. The New Debentures totaling CDN$55,000 are composed of the Additional Debentures CDN$19,000 and the Amended Initial Debentures CDN$36,000. The New Debentures are unsecured and subordinated to senior indebtedness, mature on September 15, 2017, 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. The New Debentures are redeemable at the option of the Company at a price equal to CDN$1,150 per CDN$1,000 principal amount of the debentures after September 15, 2015 and on or before March 15, 2016. After March 15, 2016 and before maturity, the debentures can be redeemed at a price equal to CDN$1,100 per CDN$1,000 principal amount.

The New Debentures contain an extension option that will allow each debenture holder to have the option to extend, a maximum of six times, the maturity date for an additional period of six months provided that greater than CDN $10,000 of the aggregate principal amount of the New Debentures remain outstanding.

The Company has performed the assessment of embedded derivatives within the New Debentures and concluded that there is an embedded derivative that requires bifurcation related to the extension option from the New Debentures. The extension option was deemed not clearly and closely related to the New Debentures and is separately accounted for as a standalone derivative. The Company recorded this embedded derivative as a non-current liability on its consolidated balance sheet. At issuance on June 27, 2014, the embedded derivative's fair value was determined to be CDN$1,249, which was recorded as a reduction to the carrying value of the New Debentures. The Company is accreting the carrying value of the debt to interest expense by using the effective interest method through to the maturity date of the New Debentures. The embedded derivative is subsequently adjusted to fair value at each reporting date, with the associated fair value loss (gain) recorded in interest and other income (loss). The derivative liability is included in other long term liabilities on the consolidated balance sheets. The Company determined the fair value of the embedded derivative using the Interest Rate Option Pricing Method which incorporated the Black-Karasinski model.

The table below discloses the accounting values assigned to the subordinated debenture notes. All values are disclosed in CDN ("**C$**"). The approximate exchange rate used to value the subordinated debenture notes to USD at December 31, 2015 was 0.72 (2014 - 0.86).

SUBORDINATED DEBENTURE NOTES ACCOUNTING VALUES

(values in Canadian dollars)	Dec 31, 2015	Dec 31, 2014
Balance, beginning of period	C$ 51,970	C$ 34,036
Issuance of Additional Debentures	—	19,000
Extension Option Discount	—	(1,249)
Accretion for extension option	395	183
Accretion of share issuance costs	724	—
Balance, end of period	C$ 53,089	C$ 51,970

b. Senior Financing

SENIOR FINANCING

	Dec 31, 2015	Dec 31, 2014
Emer Senior Financing (1)	$ 4,807	$ 9,376
Prins Senior Financing (2)	2,036	3,630
Prins Senior Mortgage Loan (3)	2,280	2,904
Total	**$ 9,123**	**$ 15,910**

1. *The Emer S.p.A ("Emer") senior financing agreement is denominated in Euros, bears interest at the 6-month Euribor plus 2.5% (2.6% as at December 31, 2015) and is recorded at amortized cost using the effective interest rate method. Interest is paid semi-annually. The Company has pledged its interest in Emer as a general guarantee for its senior financing. The senior financing matures in 2017.*
2. *A total of $7,521 Prins senior financing is denominated in Euros and was assumed on the acquisition of Prins [note 4(a)]. Principal of $3,891 was repaid on December 2, 2014. Additional principal has been repaid in 2015. The senior financing agreement bears interest at the 3-month Euribor plus 3.5% (3.6% as at December 31, 2015). Interest is paid quarterly. The Company has pledged its interest in Prins as a general guarantee for its senior financing. The senior financing matures in 2016.*
3. *The Prins senior mortgage loan is denominated in Euros and was assumed on the acquisition of Prins [note 4(a)]. The senior mortgage loan bears interest at 3-month Euribor plus 1% (1.1% as at December 31, 2015). Interest is paid quarterly. The Company has pledged its interest in Prins's building as a general guarantee for its senior mortgage loan. The senior mortgage loan matures in 2020.*

c. Senior Revolving Financing

The senior revolving financing facility is denominated in Euros and bears interest at the 6-month Euribor plus 2.6% (2.7% as at December 31, 2015) and will be repaid through one principal payment of €10,000 on March 31, 2017. Interest is paid semi-annually. The Company has pledged its interest in Emer as a general guarantee for its 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, 2015, the Company is in compliance with all covenants under the financing arrangements.

The principal repayment schedule of the senior financings are as follows for the years ended December 31:

SENIOR REVOLVING FINANCING

	Subordinated debenture notes	Senior financing		Prins Senior Mortgage Loan	Senior revolving financing	Total
		Emer	Prins			
2016	$ —	$3,796	$1,955	$ 326	$ —	$ 6,077
2017	38,359	1,011	81	326	10,859	50,636
2018	—	—	—	326	—	326
2019	—	—	—	325	—	325
2020+	—	—	—	977	—	977
	$ 38,359	**$4,807**	**$2,036**	**$ 2,280**	**$ 10,859**	**$58,341**

d. Other Bank Financing

OTHER BANK FINANCING

	Dec 31, 2015	Dec 31, 2014
Emer other financing (1)	$ 2,019	$ 1,129
Prins other financing (2)	1,269	1,424
Other financing	24	93
Total	**$ 3,312**	**$ 2,646**

1. *Emer other financing consists of various unsecured bank financing arrangements that carry rates of interest ranging from 1.01% to 2.90% (2014 - 1.01%% to 2.90%%) and are payable on maturity dates ranging from June 23, 2015 to June 23, 2017.*
2. *Prins other bank financing consists of a credit facility for maximum borrowings of €2,000. The credit facility bears interest at the 3 month Euribor +3.5% (3.6% as of December 31, 2015). The credit facility is governed by an accounts receivable list requirement limiting such borrowings to 60% of accepted accounts receivable.*

e. Capital Lease Obligations

The Company has capital lease obligations that have initial terms of three to five years at interest rates ranging from 3.1% to 4.9% (2014 - 3.1%% to 4.9%). The capital lease obligations require the following minimum annual principal payments during the respective fiscal years:

The capital lease obligations are as follows:

CAPITAL LEASE OBLIGATIONS		
2016	$	369
2017		256
2018		148
2019		21
2020		—
Total	**$**	**794**

14. WARRANTY LIABILITY

A continuity of the warranty liability is as follows:

WARRANTY LIABILITY	Years ended Dec 31		
	2015	**2014**	**2013**
Balance, beginning of period	$ 23,109	$ 28,845	$ 6,380
Warranty assumed on acquisition	—	1,952	582
Warranty claims	(9,438)	(10,709)	(5,397)
Warranty accruals	427	2,734	4,153
Change in estimate	—	—	22,837
Impact of foreign exchange changes	(107)	287	290
Balance, end of period	$ 13,991	$ 23,109	$ 28,845
Less: Current portion	(5,554)	(9,696)	(9,955)
Long-term portion	**$ 8,437**	**$ 13,413**	**$ 18,890**

During the fourth quarter of 2013, a study of the historical data indicated that the cost to repair product defects continued to increase significantly primarily associated with our extended warranty contracts. As a result, the Company recognized a change in estimate in our base warranty liability and a loss on our extended warranty contracts representing the excess of the estimated cost to service these contracts over the amount of the deferred revenue recognized associated with the contracts.

15. OTHER LONG-TERM LIABILITIES

OTHER LONG TERM LIABILITIES	Dec 31, 2015		Dec 31, 2014	
Severance indemnity (a)	$	1,230	$	1,519
Contingent consideration payable related to AFV acquisition (b)		—		1,240
Derivative Liability [note 13(a)]		72		86
	$	1,302	$	2,845
Current portion (included in accounts payable and accrued liabilities, other payables)		—		(1,240)
Total	**$**	**1,302**	**$**	**1,605**

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 included 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 had a fair value of $407 as at December 31, 2014.

The Company recorded compensation expense relating to two employees of AFV who received earn-out payments in the Company's shares. This contingent consideration had a fair value of $833 as at December 31, 2014.

During the year ended December 31, 2015, 325,073 shares were issued in connection with the earn-out payments described above at CDN $4.51 per share.

16. GOVERNMENT ASSISTANCE

From time to time, the Company enters into agreements for financial assistance with government agencies. During the years ended December 31, 2015, 2014 and 2013, government assistance of $215, $892 and $640 was received or receivable by the Company, respectively, which has been recorded as a reduction of the related research and development expenditures [Note 18].

Under the terms of an agreement with the Industry Canada's Industrial Technologies Office ("**ITO**"), from April 1, 2008 to March 31, 2015, inclusively, the Company is obligated to incur annual royalties equal to the greater of $1,164 (CDN$1,350) or 0.33%% of the Company's annual revenue provided that gross revenue exceeds $11,638 (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 $24,389 (CDN$28,200). For the year ended December 31, 2015 $285 (December 31, 2014 - $1,481) in royalties were paid. As at December 31, 2015 $2,387 remains accrued in accounts payable and accrued liabilities (December 31, 2014 - $1,269). As at December 31, 2015, cumulative royalties of CDN$10,014 have been paid.

17. SHARE CAPITAL, STOCK OPTIONS & OTHER STOCK-BASED PLANS

During the year ended December 31, 2015, the Company issued 900,097 common shares, net of cancellations, upon exercises of share units and in connection with earn out payments [Note 15(b)], (year ended December 31, 2014 – 652,046 common shares; year ended December 31, 2013 – 721,186 common shares). The Company issues shares from treasury to satisfy stock option and share unit exercises.

At the Company's 2012 annual general meeting, the Company's shareholders ratified and approved the Westport Omnibus Plan and reserved 8,000,000 common shares under this plan. Under the Westport Omnibus Plan, stock options, Restricted Share Units ("**RSUs**") and Performance Share Units ("**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. During the year ended December 31, 2015 the Company's shareholders increased the number of common shares reserved for issuance under the Omnibus Plan by 1,900,000.

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, 2015, December 31, 2014 and December 31, 2013 and changes during the periods then ended are presented as follows:

STOCK OPTION PLAN SUMMARY

(stock option values expressed in Canadian dollars)	Dec 31, 2015		Dec 31, 2014		Dec 31, 2013	
	#	**WAEP**	**#**	**WAEP**	**#**	**WAEP**
Outstanding, beginning of period	32,223	$17.64	816,450	$30.20	996,047	$27.78
Granted	—	—	—	—	—	—
Exercised	—	—	(43,071)	6.17	(111,986)	6.80
Forfeited / Expired	(23,653)	18.63	(741,156)	33.82	(67,611)	33.72
Outstanding, end of period	**8,570**	**$14.90**	**32,223**	**$17.64**	**816,450**	**$30.20**
Options exercisable, end of period	**8,570**	**$14.90**	**32,223**	**$17.64**	**305,506**	**$24.15**

WAEP = weighted average exercise price (C$)

During the year ended December 31, 2015, the Company recognized $nil (year ended December 31, 2014 - $1,764;

year ended December 31, 2013 - $2,094) in stock-based compensation related to stock options.

No stock options were granted during the year ended December 31, 2015 or the year ended December 31, 2014.

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, 2015, the Company recognized $14,871 (year ended December 31, 2014 - $7,919; year ended December 31, 2013 - $12,189) 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, 2015, December 31, 2014 and December 31, 2013 are as follows:

SHARE UNIT PLAN SUMMARY

(share values expressed in Canadian dollars)	Dec 31, 2015		Dec 31, 2014		Dec 31, 2013	
	#	WAGF	#	WAGF	#	WAGF
Outstanding, beginning of year	5,337,873	$10.27	1,200,591	$23.68	1,095,094	$20.68
Granted	5,556,630	6.74	5,792,162	10.54	742,140	30.21
Exercised / Vested	(575,024)	11.49	(608,975)	19.52	(448,526)	24.44
Forfeited / Expired	(661,558)	10.34	(1,045,905)	21.75	(188,117)	29.80
Outstanding, end of year	**9,657,921**	**$ 7.62**	**5,337,873**	**$10.27**	**1,200,591**	**$23.68**
Units outstanding & exercisable, end of period	**1,150,294**	**$ 9.58**	**142,166**	**$11.67**	**224,638**	**$11.20**

WAGF = weighted average grant date fair value ($C)

During 2015, 5,556,630 (December 31, 2014 - 5,792,162) share units were granted to employees. This included 2,861,630 Restricted Share Units ("**RSUs**") (2014 - 4,820,763) and 2,695,000 Performance Share Units ("**PSUs**") (2014 - 971,399). Values of RSU awards are generally determined based on the fair market value of the underlying Common Share on the date of grant. RSUs typically vest over a three year period so the actual value received by the individual depends on the share price on the day such RSUs are settled for Common Shares, not the date of grant. PSU awards do not have a certain number of Common Shares that will issue over time - it depends on future performance and other conditions tied to the payout of the PSU. The vesting of the 2,695,000 PSU's granted in 2015 is conditional upon Shareholders of Westport approving an increase in the number of awards available for issuance pursuant to the Westport Omnibus Plan. As a result these PSU's are being treated as a liability until this condition is met.

As at December 31, 2015, $25,496 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 2.0 years.

c. Aggregate Intrinsic Values

The aggregate intrinsic value of the Company's share units at December 31, 2015 and 2014 are as follows:

AGGREGATE INTRINSIC VALUES OF SHARE UNITS

(values in CDN$)	Dec 31, 2015	Dec 31, 2014
Outstanding	$ 26,849	$ 23,433
Exercisable	3,198	624
Exercised	1,599	7,238

d. Stock-based Compensation

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

STOCK-BASED COMPENSATION IN OPERATING EXPENSES

	Years ended Dec 31		
	2015	2014	2013
Research and development	$ 9,915	$ 1,749	$ 2,195
General and administrative	2,224	5,884	10,201
Sales and marketing	2,732	2,050	1,887
Total	**$ 14,871**	**$ 9,683**	**$ 14,283**

18. RESEARCH & DEVELOPMENT EXPENSES

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

RESEARCH & DEVELOPMENT EXPENSES

	Years ended Dec 31		
	2015	2014	2013
Research & development expenses	$ 52,992	$ 77,472	$ 91,772
Government assistance [note 16]	(215)	(892)	(640)
Research & development	**$ 52,777**	**$ 76,580**	**$ 91,132**

19. INCOME TAXES

a. Provision

The Company's income tax provision differs from that calculated by applying the combined enacted Canadian federal and provincial statutory income tax rate of 26% for the year ended December 31, 2015 (year ended December 31, 2014 - 26%; year months ended December 31, 2013 - 26%) as follows:

INCOME TAX PROVISION	Years ended Dec 31		
	2015	2014	2013
Loss before income taxes	$ (97,657)	$ (150,198)	$ (184,537)
Expected income tax recovery	(25,381)	(39,051)	(47,979)
Increase (reduction) in income taxes resulting from			
Non-deductible stock-based compensation	3,553	2,495	3,619
Other permanent differences	(76)	(446)	(2,562)
Withholding taxes	1,429	969	590
Foreign tax rate differences, foreign exchange and other adjustments	(138)	7,409	3,858
Non-taxable income from equity investment	(4,512)	(3,739)	(2,851)
Change in valuation allowance	21,036	25,784	37,391
Goodwill impairment	4,820	4,748	8,807
Change in uncertain tax position	—	1,252	—
Income tax expense (recovery)	**$ 731**	**$ (579)**	**$ 873**

b. Deferred Income Tax

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

DEFERRED INCOME TAX ASSETS & LIABILITIES	Dec 31, 2015	Dec 31, 2014
Deferred income tax assets		
Net loss carry forwards	$ 129,653	$ 129,258
Intangible assets	3,792	4,091
Property, plant and equipment	7,317	6,836
Financing and share issuance costs	712	1,533
Warranty liability	4,220	5,131
Deferred revenue	849	1,416
Inventory	2,206	2,336
Research and development	3,140	2,733
Other	6,270	7,262
Total gross deferred income tax assets	158,159	160,596
Valuation allowance	(153,099)	(152,207)
Total deferred income tax assets	5,060	8,389
Deferred income tax liabilities		
Intangible assets	(4,566)	(6,386)
Property, plant and equipment	(1,177)	(2,754)
Other	(349)	(774)
Total deferred income tax liabilities	(6,092)	(9,914)
Total net deferred income tax liabilities	**$ (1,032)**	**$ (1,525)**
Allocated as follows		
Deferred income tax assets	2,538	3,827
Deferred income tax liabilities	(3,570)	(5,352)
Total net deferred income tax liabilities	**$ (1,032)**	**$ (1,525)**

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 sufficient taxable income during the future periods in which those temporary differences are expected to reverse. If the evidence does not exist that the deferred income tax assets will be fully realized, a valuation allowance has been provided.

The deferred income tax assets have been reduced by the uncertain tax position presented in [note 19(f)].

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

DEFERRED INCOME TAX ASSET VALUATION ALLOWANCE

	Year ended Dec 31	
	2015	**2014**
Beginning balance	$ 152,207	$ 126,424
Additions	892	25,783
Reductions	—	—
Ending valuation allowance	**$ 153,099**	**$ 152,207**

c. Income Tax Expense / Recovery

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

INCOME TAX EXPENSE (RECOVERY)

	Net income (loss) before income taxes	Current	Deferred	Total
Year ended Dec 31, 2015				
Canada	$ (43,973)	$ 793	$ 228	$ 1,021
United States	(22,227)	9	—	9
Italy	(20,695)	389	(566)	(177)
Other	(10,762)	54	(176)	(122)
	$ (97,657)	**$ 1,245**	**$ (514)**	**$ 731**
Year ended Dec 31, 2014				
Canada	$ (87,784)	$ 165	$ 301	$ 466
United States	(49,577)	8	—	8
Italy	(3,834)	521	(1,463)	(942)
Other	(9,003)	(88)	(23)	(111)
	$ (150,198)	**$ 606**	**$ (1,185)**	**$ (579)**
Year ended Dec 31, 2013				
Canada	$ (99,188)	$ 444	$ 89	$ 533
United States	(31,019)	56	(295)	(239)
Italy	(27,247)	836	(311)	525
Other	(27,083)	78	(24)	54
	$ (184,537)	**$ 1,414**	**$ (541)**	**$ 873**

d. Loss Carry-forwards

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

LOSS CARRY-FORWARDS

Expiring in:	2016	2017	2018	2019	2020	2021+	Total
Canada	$ —	$ —	$ —	$ —	$ —	$ 366,271	$ 366,271
Italy	—	—	—	—	—	5,625	5,625
United States	—	—	—	—	—	67,481	67,481
Sweden	—	—	—	—	—	17,643	17,643
Other	—	—	1,038	6,432	4,946	6,398	18,814
Total	**$ —**	**$ —**	**$ 1,038**	**$ 6,432**	**$ 4,946**	**$ 463,418**	**$ 475,834**

e. Deferred Income Tax Liability

The Company has not recognized a deferred income tax liability for the undistributed earnings of certain foreign subsidiaries which are essentially investments in those foreign subsidiaries and are permanent in duration.

f. Tax Reserves

The Company records uncertain tax positions in accordance with ASC No. 740, Income Taxes. As at December 31, 2015, the total amount of the Company's uncertain tax benefits was $1,230 (year ended December 31, 2014 - 1,230). If recognized in future periods, the uncertain tax benefits would affect our effective tax rate. 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 2009 to 2014 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.

A reconciliation of the change in the reserves for uncertain tax positions from January 1, 2015 to December 31, 2015 is as follows:

TAX RESERVES

Balance as of January 1, 2015	$ —
Tax positions related to the current year	
Additions	—
Reductions	—
	$ —
Tax positions related to prior years	
Opening	$ 1,230
Additions	—
Reductions	—
Settlements	—
Lapses in statutes of limitations	—
Balance as of December 31, 2015	**$ 1,230**

20. RELATED PARTY TRANSACTIONS

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

As at December 31, 2015, net amounts due from CWI total \$1,165 (2014 - \$3,621). 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. Cost reimbursements from CWI consisted of the following:

RELATED PARTY TRANSACTIONS

	Years ended Dec 31		
	2015	2014	2013
Research and development	$ 18	$ 3	$ 178
General and administrative	906	1,548	1,351
Sales and marketing	4,818	4,935	4,725
Total	**$ 5,742**	**$ 6,486**	**$ 6,254**

21. SERVICE AND OTHER REVENUE

Service and other revenue for the year ended December 31, 2015 consisted of other fee payments of \$nil (year ended December 31, 2014 - \$1,480; year ended December 31, 2013 - \$1,484), and service revenue of \$5,460 (year ended December 31, 2014 - \$11,074; year ended December 31, 2013 - \$14,547) under existing development agreements. All costs associated with the development agreements were recorded as research and development expenses in the period incurred.

22. COMMITMENTS & CONTINGENCIES

a. Contractual Commitments

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

CONTRACTUAL COMMITMENTS

2016	$ 3,334
2017	3,246
2018	4,775
2019	5,080
2020	4,333
Thereafter	35,767
Total	**$ 56,535**

For the year ended December 31, 2015, the Company incurred operating lease expense of \$3,763 (year ended December 31, 2014 - \$3,879; year ended December 31, 2013 - \$5,675).

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.

b. Purchase Commitments

The Company purchases components from a variety of suppliers and contract manufacturers. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, the Company enters into agreements with suppliers and contract manufacturers. A portion of our reported estimated purchase commitments arising from these agreements are firm, noncancelable, and unconditional commitments. The Company may be subject to penalties, and may lose important suppliers, if it is unable to meet its purchase commitments. In 2014, the Company entered into several long-term fixed price contracts to purchase parts to produce certain products. These contracts represent firm purchase commitments which are evaluated for potential market value losses. The Company estimated a loss on these firm purchase commitments with reference to the estimated future sales price of these products and recognized a provision for inventory purchase commitments of $4,106 in 2014. The provision is recognized in other payables in accounts payable and accrued liabilities [note 12]. During 2015, no additional loss for provision for inventory purchase commitments was accrued and the provision has been drawn down to $2,050.

23. SEGMENT INFORMATION

During the first quarter of 2015, Westport realigned the structure of the company's internal organization. The realignment combines, our historical operating segments, Westport Applied Technologies, Westport On-Road Systems and Westport Off-Road Systems into a single operating segment, Westport Operations. This change reflects the manner in which operating decisions and assessing business performance is currently managed by the Chief Operating Decision Makers (the CEO and the COO "**CODMs**"). As Westport narrows its focus within certain business units, including its investments in joint ventures, and defers certain products and related programs, the CODMs manage the combined businesses as a whole. Therefore, the Westport Operations segment provides more meaningful information to users of Westport's financial statements. All comparable periods presented have been revised to reflect this change.

The financial information for the Company's business segments evaluated by the CODMs includes the results of CWI and WWI as if they were consolidated, which is consistent with the way Westport manages its business segments. As CWI and WWI are 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 four operating segments:

- Westport Operations designs manufactures and sells compressed natural gas, liquefied natural gas, and liquefied petroleum gas components and systems to over 20 global OEMs, and to aftermarket customers in over 60 countries.
- 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 with spark ignited natural gas engines. 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.

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, impairment charges, 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, 2015, December 31, 2014 and December 31, 2013.

SEGMENT INFORMATION

	Years ended Dec 31		
	2015	**2014**	**2013**
Revenue			
Westport Operations	$ 100,108	$ 126,988	$ 151,615
Corporate and Technology Investments	3,196	3,581	12,417
CWI	331,882	337,234	310,651
WWI	185,967	618,465	466,580
Total segment revenues	621,153	1,086,268	941,263
Less: equity investees' revenue	(517,849)	(955,699)	(777,231)
Total consolidated revenues	**$ 103,304**	**$ 130,569**	**$ 164,032**
Net consolidated operating income (loss) excluding depreciation and amortization, losses on impairments, write-downs and disposals, provision for inventory purchase commitments, foreign exchange loss (gain), bank charges and other			
Westport Operations	$ (15,230)	$ (22,379)	$ (67,426)
Corporate and Technology Investments	(70,254)	(87,363)	(83,546)
CWI	51,011	21,555	23,539
WWI	3,784	78,502	14,496
Total segment operating loss	(30,689)	(9,685)	(112,937)
Less: equity investees' operating income	(54,795)	(100,057)	(38,035)
Net consolidated operating loss excluding depreciation and amortization, losses on impairments, write-downs and disposals, provision for inventory purchase commitments, foreign exchange (gain) loss, bank charges and other	(85,484)	(109,742)	(150,972)
Depreciation and amortization			
Westport Operations	6,625	13,573	11,474
Corporate and Technology Investments	7,029	5,093	4,814
Provision for inventory purchase commitments (Westport Operations)	—	4,106	—
Losses on impairments, write-downs and disposals			
Corporate and Technology Investments	—	3,458	31,564
Westport Operations	22,722	26,146	9,959
	36,376	52,376	57,811
Net consolidated operating loss before foreign exchange (gain) loss, bank charges and other	(121,860)	(162,118)	(208,783)
Foreign exchange (gain) loss, bank charges and other	(11,223)	(2,730)	(14,573)
Loss from operations	(110,637)	(159,388)	(194,210)
Interest on long-term debt and other income (expenses), net	(5,337)	(5,032)	(3,771)
Income from investment accounted for by the equity method	18,317	14,222	13,444
Loss before income taxes	**$ (97,657)**	**$ (150,198)**	**$ (184,537)**
Total additions to long-lived assets excluding business combinations			
Westport Operations	$ 1,350	$ 2,278	$ 20,871
Corporate and Technology Investments	3,495	7,971	5,579
Total Additions	**$ 4,845**	**$ 10,249**	**$ 26,450**

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 and presented as a percentage of the Company's product and service revenues are as follows:

REVENUE BY REGION

	% of total product revenue and service and other revenue, years ended Dec 31		
	2015	**2014**	**2013**
Americas (including United States)	28%	40%	42%
Asia (including China)	16%	12%	11%
Other (including Italy)	56%	48%	47%

The Company's revenue earned from Canadian customers is not significant and has been included in revenue from sales in the Americas.

As at December 31, 2015, total goodwill of $3,008 (December 31, 2014 - $23,352) was allocated to the Westport Operations segment.

As at December 31, 2015, total long-term investments of $30,565 (December 31, 2014 - $32,898) was allocated to the Corporate segment and $546 (December 31, 2014 - $426) was allocated to Westport Operations.

Total assets are allocated as follows:

TOTAL ASSETS

	Dec 31, 2015	**Dec 31, 2014**
Westport Operations	$ 157,452	$ 219,261
Corporate and Technology Investments and unallocated assets	52,200	116,588
CWI	171,189	172,941
WWI	125,724	182,215
	506,565	691,005
Less: equity investees' total assets	296,913	355,156
Total consolidated assets	**$ 209,652**	**$ 335,849**

The Company's long-lived assets consist of property, plant and equipment, intangible assets and goodwill (included in intangible assets below).

Long-lived assets information by geographic area:

LONG-LIVED ASSETS BY REGION	Fixed Assets	Intangible Assets	Total
December 31, 2015			
Italy	$ 6,212	$ 19,531	$ 25,743
Netherlands	2,952	5,135	8,087
Canada	18,875	494	19,369
United States	14,210	—	14,210
Sweden	124	—	124
China	7,059	—	7,059
Australia	708	155	863
	50,140	25,315	75,455
Less: equity investees' long lived assets	7,613	—	7,613
Total consolidated long-lived assets	**$ 42,527**	**$ 25,315**	**$ 67,842**
December 31, 2014			
Italy	$ 9,084	$ 44,139	$ 53,223
Netherlands	3,729	6,245	9,974
Canada	24,410	673	25,083
United States	20,386	—	20,386
Sweden	208	—	208
China	6,329	—	6,329
Australia	1,018	215	1,233
	65,164	51,272	116,436
Less: equity investees' long lived assets	7,030	—	7,030
Total consolidated long-lived assets	**$ 58,134**	**$ 51,272**	**$ 109,406**

24. 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, 2015, the Company has $27,839 of cash, cash equivalents and short-term investments.

The following are the contractual maturities of financial obligations as at December 31, 2015:

CONTRACTUAL OBLIGATIONS & COMMITMENTS	Carrying amount	Contractual cash flows	Years < 1	1–3	4–5	5+
Accounts payable & accrued liabilities	$ 57,454	$ 57,454	$ 57,454	$ —	$ —	$ —
Unsecured subordinated debentures (1)	38,359	45,999	3,577	42,422	—	—
Senior financing (2)	9,123	9,428	6,303	1,804	669	652
Senior revolving financing (3)	10,859	11,423	282	11,141	—	—
Other bank financing (4)	3,312	3,612	1,968	238	91	1,315
Capital lease obligations	794	830	369,000	441	20	—
Operating lease commitments	—	56,535	3,334	8,021	9,413	35,767
Royalty payments (5)	—	14,393	1,360	1,950	1,950	9,133
	$119,901	**$ 199,674**	**$74,647**	**$66,017**	**$12,143**	**$46,867**

1. *Includes interest at 9%.*
2. *Includes interest at rates disclosed in note 13(b) of the annual financial statements in effect at at December 31, 2015.*
3. *Includes interest at rates disclosed in note 13(c) of the annual financial statements in effect at December 31, 2015.*
4. *Includes interest at rates disclosed in note 13(d) in effect at December 31, 2015.*
5. *The Company is obligated to pay annual royalties equal to the greater of CDN $1.4 million or 0.33% of the Company's gross annual revenue from all sources, including CWI, provided that gross revenue exceeds CDN $13.5 million in any aforementioned fiscal year, until a total of CDN $28.2 million has been paid. The Company has assumed the minimum required payments.*

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, 2015, 85% (December 31, 2014 - 86%) of accounts receivable relates to customer receivables, and 15% (December 31, 2014 - 14%) relates to amounts due from joint venture and indirect, income tax and value added taxes receivables. 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 on 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 as at December 31, 2015 of $66,163 (December 31, 2014 - $140,854) 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 amount of financial instruments subject to exposure to foreign currency risk in the consolidated balance sheet at December 31, 2015 is as follows:

FOREIGN CURRENCY RISK IN BALANCE SHEET

	U.S. dollars
Cash and cash equivalents	$ 15,289
Short-term investments	—
Accounts receivable	6,710
Accounts payable	4,604

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 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, 2015 had increased or decreased by 50 basis points, with all other variables held constant, net loss for the year ended December 31, 2015 would have increased or decreased by $69.

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)] is greater than its fair value based on a recent financing the Company performed with the Cartesian Group [note 25]. The approximate fair value of the unsecured subordinated debenture notes at December 31, 2015 is approximately $32,500 (CDN $44,900). 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 senior financing agreements [note 13(b and c)] approximates their fair values as at December 31, 2015, as the interest rates on the debt is floating and therefore approximates the market rates of interest. The Company's credit spread in these subsidiaries also has not substantially changed from the premiums 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, 2015, cash and cash equivalents and short-term investments are measured at fair value on a recurring basis and are included in Level 1.

25. SUBSEQUENT EVENTS

a. Cartesian Financing

On January 11, 2016, Westport announced that it had entered into a financing agreement with Cartesian Capital Group ("**Cartesian**") to support global growth initiatives. The financing agreement immediately provided $17,500 in non-dilutive capital (the "**Tranche 1 Financing**"). In consideration for the funds provided to Westport, Cartesian is entitled to payments in respect of the Tranche 1 Financing based on the greater of

i. a percentage of amounts received by Westport on select HPDI and joint venture products in excess of agreed thresholds through 2025 and
ii. stated fixed amounts per annum.

The carrying value is being accreted to the expected redemption value using the effective interest method.

The payments owing to Cartesian in respect of the Tranche 1 Financing are accounted for using the effective interest method with a notional interest rate being calculated based on the minimum fixed payments owing to Cartesian. The minimum fixed payments result in an effective interest rate of approximately 23% using this method. The effective interest rate actually required to be utilized could be higher if future joint venture earnings and, or future product sales are higher than the minimum fixed payments stipulated in the agreement.

b. Merger with Fuel Systems Solutions, Inc.

On September 1, 2015, the Company announced a proposed business combination (the "**Merger**") with Fuel Systems Solutions, Inc. ("**Fuel Systems**"). Under the terms of the Merger, the Company will acquire all of the outstanding shares of Fuel Systems common stock in a stock-for-stock transaction under which Fuel Systems shareholders will receive 2.129 Company shares for each share of Fuel Systems common stock they own at closing.

On March 7, 2016, the Company signed an Amendment to the Agreement and Plan of Merger (the "**Amendment**") in relation to the Merger between the Company and Fuel Systems. The exchange ratio of the Agreement has been amended to include a collar mechanism. In the event that the NASDAQ volume weighted average price ("**VWAP**") of the Company common shares during a specified measuring period is equal to or greater than $2.37, then Fuel Systems stockholders will receive 2.129 Company common shares per Fuel Systems share on closing of the Merger and through the exchange process. In the event that the Company's VWAP is equal to or less than $1.64, then Fuel Systems stockholders will receive approximately 3.08 Company common shares per Fuel Systems share on closing of the Merger and through the exchange process. In the event that the Company's VWAP is greater than $1.64 and less than $2.37, then Fuel Systems stockholders would receive a number of Company common shares per Fuel Systems share equal to dividing $5.05 by the Company's VWAP, rounded to four decimal places. The measuring period will be the ten consecutive trading days ending on and including the trading day five business days prior to the anticipated closing date.

On March 18, 2016, the Company announced that its shareholders approved the issuance of such number of Company common shares as required to complete the Merger.

The Merger requires certain regulatory approvals and approval by a majority of the shareholders of Fuel Systems. All substantive regulatory approvals have been received. The Merger is currently anticipated to close in April 2016.

INFORMATION FOR SHAREHOLDERS

DIRECTORS & EXECUTIVE OFFICERS

Name / position	Residence	Start date	Committees AU	Committees HR	Committees NC
Ashoka Achuthan CFO	Chicago, Illinois	Nov 2013			
Jim Arthurs *Executive Vice President*	North Vancouver, British Columbia	Jan 2014			
Warren J. Baker *Chairman & Director*	Avila Beach, California	Sep 2002		●	●
Joseph P. Caron *Director*	West Vancouver, British Columbia	Aug 2014		●	
David R. Demers *CEO & Director*	Vancouver, British Columbia	Mar 1995			
Brenda J. Eprile *Director*	North York, Ontario	Oct 2013	●	●	●
Nancy S. Gougarty *President & COO*	Vancouver, British Columbia	Feb 2013			
Philip B. Hodge *Director*	Calgary, Alberta	Jun 2012			●
Dezsö J. Horváth *Director*	Toronto, Ontario	Sep 2001	●	●	●
Gottfried (Guff) Muench *Director*	West Vancouver, British Columbia	Jul 2010		●	
Rodney T. Nunn *Director*	Chatham, Ontario	Mar 2016			
Thomas G. Rippon *Executive Vice President*	White Rock, British Columbia	Sep 2013			
Peter M. Yu *Director*	New York City, New York	Jan 2016	●		

Committees are as follows: AU = Audit; HR = Human Resources & Compensation; NC = Nominating & Corporate Governance

CORPORATE INFORMATION

STOCK LISTINGS

NASDAQ	WPRT
Toronto Stock Exchange	WPT

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 Trust Company of Canada
510 Burrard Street, 2nd Floor
Vancouver, British Columbia, Canada V6C 3B9
T 604-661-9400 » **F** 604-661-9401

Legal Counsel

Bennett Jones LLP, Calgary, Alberta, Canada

Auditors

KPMG LLP, Independent Registered Public Accounting Firm, Vancouver, British Columbia, Canada

ANNUAL MEETING OF SHAREHOLDERS

WHEN: Tuesday, June 28, 2015 at 10:00 AM (Pacific)
WHERE: 1750 West 75th Avenue, Suite 101, Vancouver, BC

WESTPORT ON THE INTERNET

Topics featured can be found on our websites:

WESTPORT	westport.com
FUEL FOR THOUGHT (BLOG)	blog.westport.com
YOUTUBE	youtube.com/westportdotcom
FACEBOOK	facebook.com/westportdotcom
TWITTER	twitter.com/westportdotcom
CUMMINS WESTPORT	cumminswestport.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 sedar.com, or at the SEC at sec.gov. Shareholders and other interested parties can also sign up to receive news updates in a variety of formats including email, Twitter, and RSS feeds: westport.com/contact/subscriptions

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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. Such forward looking statements include, but are not limited to, statements concerning returns to shareholders, competitive pressures on our industry and future consolidation and alliances in that industry, changes in adjusted EBTIDA results, our focus for the year ahead, and impacts of climate change. 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.

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