

DARREN SEED speaking

*Vice President, Investor Relations and
Communications, Westport*

Thank you and good afternoon. Welcome to our Second Quarter Conference Call for Fiscal 2012. It is being held to coincide with the disclosure of our financial statement results earlier this afternoon. For those who haven't seen the release and financial statements yet, they can be found on Westport's website at www.westport.com.

Speaking on behalf of the Company will be Westport's Chief Executive Officer; David Demers, and Westport's Chief Financial Officer; Bill Larkin. Attendance at this call is open to the public and to the media, but for the sake of brevity, we are restricting questions to analysts.

You are reminded that certain statements made in this conference call and our responses to various questions may constitute forward-looking statements within the meaning of U.S. and applicable Canadian securities law, and such forward-looking statements are made based on our current expectations and involve certain risks and uncertainties.

Actual results may differ materially from those projected in the forward-looking statements. Information contained in this conference call, is subject to and qualified in its entirety, by information contained in the Company's public filings.

And, except as required by applicable securities laws, we do not have any intention, or obligation to update forward-looking information after this conference call. You are cautioned not to place undue reliance on any forward-looking statements. Now, I will turn the call over to David Demers.

DAVID DEMERS speaking

Chief Executive Officer, Westport

Thanks, Darren, and good afternoon, everyone. This has been another record-setting quarter with a number of major milestones achieved in our business plan. As usual, I'll relinquish the floor in a few minutes to let Bill take you through the financial statements in more detail, but let me point out some of my highlights for the quarter.

Consolidated revenue is up 136% over last year, and year-to-date we're up about the same amount. Each line of business has seen strong growth in all markets. In fact, if it's one key point you can take away today, it's that our business is growing globally and that we don't see many signs of any degradation for that growth prospect.

There's two specific examples of how we see the market progressing. In China, we recently doubled the plant capacity in the Weichai Westport facility to be able to produce up to 40,000 engines annually. Seeing a similar growth profile and demand for our Westport Light Duty products in North America, we've recently announced the completion of an assembly center in Kentucky with an annual production capacity of up to 20,000 Westport WiNG systems.

CWI continues to demonstrate strong financial leverage of the joint-venture business model, and with continued top-line growth and strong operating profits, without the need for new capital, we expect CWI to continue to grow in its existing business. Of course, next year we're going to enter a new market with the launch of its new 12-liter ISXG product.

Westport LD achieved positive adjusted EBITDA, which is a quarter earlier than we promised. The gross margin is in the 28% range. Excluding the contribution from acquisitions that we completed in 2012 and excluding foreign exchange effects, the Light Duty business grew organically by 40%. With the new Ford products with expansion plans with Volvo Cars and our strong global position, we expect Light Duty growth to accelerate.

We launched our new facility with Light Duty in June and shipped our first Ford F-250 trucks. Since we're relying on the Ford production and distribution channels, and Ford already produces over 300,000 heavy-duty pickup trucks and chassis cabs per year, the only question now is, how well the product meets the need of customers and how many we can capture with this bi-fuel natural gas gasoline truck.

Note also; that our joint venture in China with Weichai shipped 5300 engines for the quarter, and just to put that in perspective, CWI in the entire last year shipped 5500 engines. This isn't to suggest that CWI isn't keeping up, they're also growing spectacularly. But it does demonstrate the continued pace of investment in natural gas infrastructure in China and our leading position in this growth market. We think this is a strong signal for continued growth of natural gas as a primary energy source for transportation in Asia.

In Heavy Duty, we saw several new and significant commitments to LNG infrastructure development, which, of course, is the prerequisite for any customer interested in purchasing LNG trucks. To put some perspective on this number, according to the DOE, there were 54 LNG stations in the U.S. today, the majority located in California. And, in fact, the majority are private. Only 21 are publicly accessible, including the three new public stations that were commissioned for LNG refueling in the first half of this year.

Based on our analysis, though, we expect over 60 new stations to be commissioned by the end of the year, and in addition, Shell has committed to help build out the LNG fueling infrastructure in North America over the next two years.

So, between Clean Energy Fuels, Shell, and other partners, we expect a significant growth in LNG stations, and therefore, that enables the strong demand we're seeing for LNG truck shipments over the next 18 months.

Customer interest continues to be very strong in LNG for trucks, and I think we'll see strong growth in line with the availability of fuel in North America, despite what appears to be tough, macroeconomic conditions.

We closed some significant new orders in Texas this quarter, which has three stations open, and I'm pleased that our first Shell bundled deal will be delivered with the first stations in Alberta later this year.

The LNG production and distribution capacity is coming on stream really quickly, and so what we expect is a strong finish to the year and then growth into 2013 for our Heavy-Duty business. This, we hope, is a great signal for the launch of the Weichai HPDI engine expected in 2013 and, of course, our global products with Volvo in 2014. This new infrastructure build out is being mirrored in China, I'm talking LNG now, not just CNG, and we're now beginning to discuss capacity with our partners in Europe.

Overall, we're satisfied that these major investments will support the launch of new heavy-duty truck products in all three markets with new engines from Cummins Westport, Weichai Westport, and Volvo in the pipeline. So, by the end of 2014, we're confident that infrastructure will likely not be a material barrier to any fleet that wants to move to natural gas.

In June we announced a new arrangement with Caterpillar, which will see us, put HPDI technology on their locomotive and large mine trucks. We're very excited about these programs and the significant incremental business opportunity that this means. As you can see, the program is well launched, and we have the first milestone payment from Caterpillar.

Another way we have proven out the capability of our capital-light partnering model, and that we're seeing market acceptance of our products, where the management team is shifting our focus to more traditional issues. We want to fill out the product offering portfolio. We want to improve customer value propositions. We want to reduce costs, improve reliability, and so on. We believe we've developed a very broad platform for growth for years to come and that our partnering model will allow us to see strong earnings contribution and capital-efficient growth.

On that market opportunity question, I highly recommend reading the National Petroleum Council study that was just published yesterday and, in particular, the chapter on natural gas. This was produced by the U.S. Department of Energy, and I believe there's a link on our website you can find it. But if not, find it on National Petroleum Council. This is a very broad expert team that worked for two years, and the conclusions, I think, are very encouraging for us. They don't see any significant barriers for high market penetration for natural gas as a primary fuel for large commercial vehicles, and there were surprisingly low barriers identified for passenger cars, primarily availability of infrastructure.

We completely agree with this assessment, of course, and although the NPC study looked only at the U.S. market, frankly, we see no significant structural barriers or differences to our business plans in other markets, including China, Europe, South America, India, Australia, and the Middle East. We see local resources in each market; including biomethane, coal bed methane and shale gas that can deliver the strong economic savings needed to encourage adoption of our products.

So, as I said at the start, great quarter, lots of potential; we're very busy and look forward to continued growth. Over to Bill, for some details.

BILL LARKIN speaking

Chief Financial Officer, Westport

Thanks, David, and good afternoon, everyone. I'll start off with Q2 highlights and then walk through the financial details for each business unit. For the second quarter of 2012 ended June 30th, we recorded consolidated revenue of \$106.1 million. This represents an increase of \$61.2 million or 136.3% compared with the prior year period.

Our consolidated gross margin for the quarter ended June 30, 2012 was \$40.5 million, or 38.2% of total revenue, compared with \$15.2 million, or 33.9% of total revenue in the prior year period. Our net loss attributed to Westport for the three months ended June 30, 2012, was \$6.1 million, or a \$0.11 loss per share, compared with a net loss of \$18.1 million, or a \$0.38 per share in the prior year period.

During the quarter, we recognized a net foreign exchange gain of \$4.8 million, and this was just driven by the movement in the Canadian dollar relative to the U.S. dollar as we go through and translate our financial statements. Excluding this gain, the net loss attributable to Westport for the three months ended June 30, 2012 was \$10.9 million or loss of \$0.20 per share.

For the second quarter of 2012, our consolidated adjusted EBITDA was a loss of \$200,000 compared with a loss of \$10.6 million in the prior year period. This reduction in our adjusted EBITDA loss for the quarter was driven by a few factors, but the short-term management goal is to achieve operating income and positive cash flows in all segments. Please see a reconciliation of adjusted EBITDA in our earnings press release dated today.

We break out our businesses into four operating segments; Westport Light-Duty, CWI, Heavy-Duty, and Corporate. Our Corporate business segment includes all-new market investments, including our activities for high-horsepower applications.

I will walk through the financial details for each segment. Let's start off with Westport Light Duty. Westport LD generated \$30.7 million in revenues during the quarter compared with \$10.9 million in the prior year period, which represents a 181.7% year-over-year increase.

Our recent acquisitions contributed to this increase in revenues. Excluding the contributions from our recent acquisitions and the negative FX impact from the weakening of the Euro versus the U.S. dollar, Westport LD's organic growth was approximately 40% in an economic environment with significant headwinds.

During the quarter, Westport Light Duty recorded gross margin and gross margin percentage of \$8.7 million and 28.4% compared with \$2.2 million and 20.6% respectively in the prior year period. We expect to see gross margins continue in the 25% to 30% range for this business. Our operating expenses for Westport LD increased by \$5.4 million compared to the prior year period.

Consolidation of our acquisitions and an increase in operating costs to support this growing business added \$3.5 million SG&A expenses and R&D investments increased \$1.9 million, which represents investments in product enhancements that are being requested by our OEM customers and improvements in reliability.

As we have previously communicated, we expected Westport LD to generate positive adjusted EBITDA in the second half of the year. For this quarter, Westport LD recorded net operating income of approximately \$250,000 and adjusted EBITDA of \$700,000 compared with \$900,000 net operating loss and \$800,000 adjusted EBITDA loss for the same period last year. We expect this business to continue to grow and generate positive cash flows.

Supporting this growth, we see strong demand for the Westport WiNG-powered natural gas pickups. Our launch goal for 2012 was 500, and based on the strong demand we are seeing, we expect to sell more than 500 units this year.

Now moving on to CWI; during the quarter, CWI generated \$57 million on 1972 units, an increase of 78.7% from the same period last year of \$31.9 million on 1056 units. We are seeing strong demand in the refuse market. Over 40% of CWI's deliveries in the second quarter were in the refuse segments, and we see continued strength in this market segment.

Also, CWI is planning for the launch of the ISX 12G in 2013, which is a new market segment for CWI and is significantly larger than the medium-duty market. This new product will contribute incremental revenues to CWI's existing business. CWI's gross margin and gross margin percentage for the quarter ended June 30, 2012, were \$17.4 million and 30.6% compared with \$14 million and 43.9% in the prior year period.

Although the gross margin dollar increased, the gross margin percentage decreased due primarily to warranty and extended costs of coverage adjustments of \$4.8 million during the quarter. As to normal warranty protocol, we have to estimate the cost to address known problems, which resulted in this increase in warranty-related costs. Excluding these warranty adjustments, CWI's gross margin percentage would have been about 39% for the quarter.

CWI continues to generate strong cash flows. For the quarter ended June 30, 2012, CWI recorded \$11.5 million in net operating income, a 24% increase from \$9.38 million in the prior year period. Operating margin was approximately 20% for the quarter, and this is lower than usual as a result of the warranty adjustments. CWI's operating expenses for the quarter ended June 30, 2012, increased by \$1.2 million to \$5.9 million as CWI prepares to launch the ISX 12G in early 2013 and continues to invest in new products.

Now, moving on to Westport Heavy-Duty, for the three months ended June 30, 2012, Westport HD generated \$10.5 million in revenues with 75 HD systems shipped during the period compared with \$2.1 million in the same quarter last year with 17 HD systems shipped. The current year period included \$6.1 million of service revenue from Volvo.

We are seeing significant interest in our HPDI technology in North American markets. We see commitments to build out LNG infrastructure by Westport fueling partners such as Shell, Encana, Clean Energy Fuels and others. We expect Westport HD to finish strong in the year and into 2013.

Westport HD's gross margins, not including the service revenue and gross margin percentage for the three months ended June 30, 2012, were \$300,000 and 6.3% compared with negative \$1.1 million and negative 51.3% last year. Our gross margin percentage is still low due to campaigns to encourage early market adoption of LNG trucks. R&D activities for Heavy-Duty programs in North America, Europe and China have been ramping up for new product offerings with our HPDI technology. Westport HD R&D expenses increased by \$2.4 million to \$8.4 million during the quarter.

During this quarter, we incurred approximately \$4 million in R&D costs related to our Volvo development agreement in which \$3.8 million was reimbursed in the current quarter.

Westport HD SG&A increased by \$2.4 million to \$5.6 million, primarily due to increased headcount to support our customer relationships and market development activity around the world. During the quarter, Westport HD recorded \$7.6 million in net operating loss compared with \$10.3 million in the same period last year. Over the next several quarters, we expect our Westport HD margins to improve as North American sales volumes increase and we realize our cost reduction initiatives, including our warranty experience in this product.

Our Weichai Westport joint venture continues to see a strong increase in demand for their spark-ignited natural gas engines. The JV generated \$68.8 million on a little over 5300 engines during the quarter compared with \$22.5 million on almost 1,700 engines in the prior year period, representing a 206% year-over-year increase. Currently we only recognize a 35% interest in the net income of the JV.

For the quarter, we recorded income from our Weichai Westport joint venture of \$1.1 million compared with \$400,000 in the same period last year. With the expected launch of the JV's 12-liter HPDI engine in 2013, we will start recognizing revenue from the sale of non-engine components to the JV and sale of off-engine components to the truck OEMs.

Finally, under the Corporate segment, we included a one-time license revenue of \$8 million for the transfer of proprietary know-how related to the HPDI technology in connection with our recently-announced agreement with Caterpillar. Included in corporate costs is R&D for future products, SG&A, and other expenses that are not attributed to a particular business segment. Our corporate net operating loss was \$3.6 million for the quarter ended June 30, 2012, compared with an \$8 million operating loss for the same period last year. As of June 30, 2012, our cash, cash equivalents and short-term investments balance was \$307.2 million compared with \$333.3 million at March 31, 2012.

During the quarter, we invested \$4.9 million in capital expenditures to expand our R&D and testing facilities in Vancouver and assembly facility in Louisville, Kentucky.

We iterate our consolidated revenue to be between \$400 million and \$425 million, representing approximately 50% year-over-year growth driven by increasing demand for natural gas vehicles in all of our segments. For a further financial disclosure, please see our MBNA and financial statements as filed and posted on the Company's website for more details. I will now pass the call back to the operator to open the call for questions.

Operator

The first question comes from Graham Mattison, Lazard Capital Markets. Please proceed.

Graham Mattison - Lazard Capital Markets –

A question on the heavy-duty side; given your shipments to date of about 226, in the ramp that you are expecting in the back half of the year, are you still comfortable with the shipment range of 700 to 900 for the year?

David Demers - Westport Innovations, CEO

We've got lots of coverage. I think Bill said or maybe I said it; I am a bit foggy, lots of coverage, lots of demand. I think we know where all these trucks are going to go, and we've probably got lots of action that's going to take us a long way into 2013.

So, the question now is how we've got infrastructure lined up; is it going to be ready when the customer wants it? We organized the fuel supply, you know, all the stuff that we've been talking about for months.

So, I think we know where the trucks need to be. We've gotten to discussions with various providers. Clean Energy, of course, is being very active in announcing LNG stations; we're just going to make sure that this is coordinated. So, I don't see any big change.

I guess the only caveat I would say is we are sold out on our JumpStart, so we're trying to double capacity on jumpstart, which has been very successful. But I think everybody should understand that the primary obstacle to wide adoption of LNG is just the availability of LNG and LNG stations, and that's being built out, it takes time, but coming fast.

Yes, so we should have a very strong back end of the year, and going into next year, as I think the number that we've seen is 60 stations in the second half versus three first half, and then next year, it's in the hundreds, so lots of capacity, but today, people are just lining up to get everything organized. Is that clear?

Graham Mattison - Lazard Capital Markets -

Yes, so the demand is there for the trucks; it's just a timing matter with the stations.

David Demers- Westport Innovations, CEO

Yes. So it's a logistics issues.

Bill Larken - Westport Innovations, CFO

Should be.

David Demers- Westport Innovations, CEO

Yes, it's not a time to market issue.

Graham Mattison- Lazard Capital Markets

Got it. And given that Shell has made an announcement that it's going to be building on stations in the U.S. and the first ramp-up in Canada is going, and they are one of your marketing partners.

What type of visibility do you have there in terms of both in the U.S. for 2013 and then visibility into the Alberta where they are opening stations in the liquefaction plant, both for the second half of this year and into next year?

David Demers- Westport Innovations, CEO

Well, I think we're in a nice position now in that everybody wants to sell fuel. I'm trying to, again, count, looking at Bill, there's five, I think, new companies that have entered, saying they are going to start selling CNG and LNG for trucks in the United States. It's just such an obvious market opportunity. And naturally everybody ends up at our door because it's going to be our trucks. So everybody wants to know where they should put stations and where the demand is going to be. So, I think we have very good visibility. In fact, we've got a lot of collaboration and cooperation going with everybody on making sure that investments are lined up where the demand is first.

There is broad agreements we're going to see a lot of fuel sold in, let's say, 2015, 2016. These are very, very large opportunities. But people are dependent on getting cash flow so that they can build out the infrastructure properly. So, they want to match demand month by month with where the customers are, and that's a little more complicated.

It's complicated also by the fact that customers are smart enough to recognize there is a competitive market emerging, and so they are running around to see where they can get the best deal on long-term fuel. So, lots of action and we just need to make sure we get fuel to the customer in time. And I don't think we've got a problem with doing that now. It's just a case of getting the construction done.

Graham Mattison - Lazard Capital Markets

Okay. Great. I'll jump back in queue. Thank you very much.

Operator

The next question comes from Vance Edelson, Morgan Stanley. Please go ahead.

Vance Edelson, Morgan Stanley

With the better-than-expected growth in China with Weichai, could you just provide some color around what the government is doing to push nat gas adoption and how large a role the government is playing versus just sheer economics? Would you say so far it's been more just the compelling economics, and perhaps we're going to get more government mandates that could serve to push adoption even higher over the next 12, 18 months?

David Demers- Westport Innovations, CEO

As you know, in China, it's a bit of both. The government has officially green-lighted the use of natural gas resources for trucking and transportation generally, which is always an important step. But what's driving the crazy demand is just the economics of the fuel. In fact, a lot of what we said in China is coal bed methane, and as much landfill gas can be developed. But it's another source of methane.

Everybody talks about shale. There's going to be tons of shale coming into the market in China as well, but they've got some geology challenges. It's going to be a bit before they get going. But today we are seeing a lot of coal bed methane resources, and it's going into tanks and trucks.

So, phenomenal buildup of infrastructure, a lot of enthusiasm in the market, and that's being translated into the sale of trucks. But you should be able to draw the conclusion from that that the pace of investment in infrastructure is even faster in China than it is here because trucks use the same amount of fuel.

Vance Edelson - Morgan Stanley

Okay. That's great. And then shifting gears on the F-Series, anything you can tell us about how many have been sold so far? And when you say more than 500 will be sold this year as opposed to the previous target of just 500, any magnitude you can share with us there; do you think you'll just beat 500? Or based on what you're seeing, is it possible the number is going to be materially higher?

David Demers - Westport Innovations, CEO

I guess the materiality is all in the eye of the beholder. I think we're very happy. The plant is up and running. It's doing really well. I think lots of enthusiasm for the capabilities. Not just the fact that there's a facility, but the procedures have been working out as planned. All of our partners are happy and, of course, customers are taking them off the line.

Really good reviews; I think we're all very pleased with the product and the reception it's getting. I think the order we had from Pioneer this week is a great testament to that. Obviously, we think there's lots more potential demand, or we wouldn't have built the facility with a capacity of 20,000. I'm not predicting 20,000, but we're ramping up quickly. I think the sales volume you should conclude we're pretty confident in the 500 this year. How much beyond that, honestly, we're not all that fussed. Really, the question is, what can we do for a full year next year? And, of course, we want to follow up with more product in the North American market.

Vance Edelson - Morgan Stanley

OK. That's very helpful. And just one more question, if I may. The threshold with Cummins at which Westport starts to capture a larger percentage of the profit, is that built into your expectations for the second half of the year that you're going to get to that point?

David Demers - Westport Innovations, CEO

This goes back to, I think Bill said in New York at the Investor Day, that he's expecting to hit that threshold and wants to leave it at that. We'll see it play out over the balance of the year.

Vance Edelson - Morgan Stanley

Okay. That's great. Thanks.

Operator

The next question comes from Laurence Alexander, Jefferies. Please go ahead.

Laurence Alexander - Jefferies & Company

First, just a clarification on margins; what was the margin drag from the shift in the Cummins agreement, and should we expect margins in CWI to bounce back to 39% thereabouts, assuming no other warranty swings in Q3?

Bill Larkin - Westport Innovations, CFO

Yes, the biggest driver is this quarter, and we had a little bit last quarter as directly related to the warranty piece of it. And we know what the problems are, and we have got a plan to get them fixed, and hopefully we're not going to see these types of increases in our warranty. But there's a very specific process that we've got to go through and after going through that process, we ended up with that incremental warranty charge. So, that's the biggest driver.

And, as we've talked about, even under the new terms of the joint venture agreement, we expect to start guiding down to the 30%, 35% range, and that's a combination of lower margins on the launch of new products next year. We launched ISX12 G. Those margins are going to be lower, that's going to weigh down on our margins and then plus our share of the incremental overhead for the facilities.

Darren Seed - Westport Innovations – VP, Investor Relations & Communications

And I think it might -- let me add, too, -- we've been saying I think low to mid-30s, as Bill said basically, low to mid-30s is the way to think about CWI. I think we have got -- obviously, the warranty adjustment, but don't forget, we do carry it on the balance sheet. It doesn't mean it's all taken if we solve the issues as we can. We actually get to pull it back into margin, so we may see some of that back, too.

Laurence Alexander - Jefferies & Company

And can you give us some perspective on the Oklahoma RFP process. I guess there is what, 20-odd states involved now? So, what we should see in terms of news flow, and do you know whether the states are putting up capital or if it's just a hit to their regular budgets?

Darren Seed - Westport Innovations – VP, Investor Relations & Communications

And Laurence, I'm familiar there is an RFP out for Oklahoma State for a lot of their natural gas for most of the fleets to change and switch to natural gas vehicles. Obviously, Westport expects to benefit from that at various levels between light, medium, and heavy duty. But at the moment, it's still pretty early days for us, so it's tough for us to comment at this stage.

Laurence Alexander - Jefferies & Company

Thank you.

Operator

The next question comes from Ann Duignan, JPMorgan. Please go ahead.

Ann Duignan - JPMorgan Chase & Co.

It's Ann Duignan. Maybe I should change my name; it's gotten butchered up a lot in the last few weeks.

Can we talk a little bit about, on the Light Duty side, I just want to understand when you ship products, are we in a stage right now where we're just filling out the channel and getting the product into warehouses and things and in Kentucky in preparation for customer sales, or are we actually seeing customer sales right now?

David Demers - Westport Innovations, CEO

Well, I think, I mean Pioneer is the obvious one. We're obviously not going to announce every sale of a pickup truck. This product, the F-250, F-350 isn't usually inventoried at dealers. I'm not sure what the channel policies are. I'm sure you can ask for it. But generally these products are built to order. So, there's strong demand across the distribution channel that we're seeing. We validated 50 to 60 dealers have been through the training. So we are individually validating dealers. And dealers so far, the feedback I'm getting, anyway, is that all the dealers that have been through the process are seeing demand in orders, which is encouraging, I think.

So no, I think everything that we've seen so far is being built for a specific customer, and it's going out on the transporter to the dealer for delivery.

Most orders we expect, just a caution, because we have been telling people, we really think this is a fleet product, not a consumer product. There have been some individual orders we've heard because it is a bi-fuel product.

So if you've got access to CNG in your neighborhood, there's no reason why not. But this is a big truck. And we expect it mostly to be a fleet vehicle, and so fleets will order in their normal cycle.

Ann Duignan - JPMorgan Chase & Co.

Yes, there does seem to be a heightened interest by fleets, that's for sure. And then on the Heavy Duty side, can you just explain the decline in the average selling price; if I just take the revenue divided by the units, I get something closer to a \$50,000 average selling price. And in that context, how does that play, and is that go-forward price; and how does that play in with your expectation of 500 units at \$60,000 gets you to breakeven?

Bill Larkin - Westport Innovations, CFO

Ann, as we mentioned before, the price of a single tank system is in the high \$40,000s. The price of a dual tank is right at the \$60,000 range and probably that average selling price is going to shift from quarter-to-quarter, all dependent on that mix. And, as we've talked about before, we are trying to drive our costs down and eventually get the price down to the market. But we're working through the distribution channel such that we can capture as much revenue and profit on the sale of those systems.

Darren Seed - Westport Innovations – VP, Investor Relations & Communications

Yes, I wouldn't read much into it, I guess, maybe, and that would be the take away. It just sounds like products mix.

David Demers - Westport Innovations, CEO

It depends on the specific customer. A big difference between a one-tank and two-tank is basically range. And we've been improving range with slightly bigger tanks, which allows us to save people a bunch of money.

So, I think you should expect to see more one-tank systems, but also I think we've been pretty consistent seeing that we think the price of the product will come down over the next two to three years. We see a lot more opportunity to reduce costs, particularly as we get more production in the production line; the supply chain gets more efficient, so we have more consistent ordering. We want to see that cost and price come down. And, of course, I'm looking at Bill now; we're going to see a better margin, too, at the same time, right.

So, I think the right expectation over the next couple of years is you will see ASPs come down, particularly as we start to blend in new products from Volvo and Weichai. But we would also hope that margin content is going to go up.

Ann Duignan - JPMorgan Chase & Co

And one final one; just as a follow-up on the Heavy Duty side, are you seeing any delays in orders or any requests for delays in deliveries of trucks just given the step-down in drilling for nat gas and/or the discussion of 15-liter coming out of Cummins? Is anybody taking a step back and saying, let's just take a deep breath here?

David Demers - Westport Innovations, CEO

Yes, I think there's been lots of talks about the slowdown in both China and North America, and I think even our friends at Volvo in Europe are talking about the slowdown. So far, we're such a tiny little niche in the market, I am quite happy to say that our 0.5 of 1% market penetration is not really budging.

To be a little more serious, I think what we're seeing is that people are looking at this product cycle and the stop-go economy and doing whatever they can to position for lower costs. And natural gas is such an obvious lower cost. We've got a lot of interest. Some of that is being manifested in, can we get used trucks? Well, there just are not many used natural gas trucks around. But can we rebuild trucks? We are getting lots of requests of, can we rebuild old trucks? And the short answer to that is not realistically.

So the demand is high. I think over the next couple of years we are going to need to see a more complete ecosystem with more used trucks and more new trucks and more cycling of the inventory to allow fleets to get into natural gas in a big way. But in the short term, the fleet demand we're seeing says we have to get to natural gas now, and the products that are available now are what we've got. And so I think we can meet our expectations with the demand that we see.

In terms of people waiting, I think most of the future products are still a long way off. I think most fleets want to wait and see what they look like and see what they can play with. So, I really don't see that as a short-term factor. Whether or not if the economy was better, we will see a big pickup, again, I'm not sure. I think there's a natural absorption rate over the next couple of years, just for the pace of, can we see construction of stations?

Can we see LNG supply allocated? And so I expect very high percentage growth rates, but it's only because it's such a tiny fraction of the total truck market that we can see that.

So, we're happy with where we are. I don't really think that the business is going to be affected much either way unless there's a complete economic slowdown. Does that make sense?

Ann Duignan - JPMorgan Chase & Co.

Yes, it sure does. I appreciate the color. I will get back in line. Thanks.

Operator

The next question comes from Eric Stine, Craig-Hallum. Please go ahead.

Eric Stine - Craig-Hallum

Nice quarter.

David Demers - Westport Innovations – CEO

Thanks, Eric.

Eric Stine - Craig-Hallum –

Just a couple of questions. First, I was wondering if you could talk about the Fortis incentive program. I believe that the application period ended and notifications go out at the end of August. Just wondering how that plays out as far as timing. I know that it's still dependent on infrastructure.

David Demers - Westport Innovations - CEO

I think -- it sounds like you are as well informed as we are on that one, Eric. So we will defer to your knowledge on the timing.

From what we know -- again, we're not in the middle of this -- from what we know, they were over-subscribed. There was a lot of interest in the program. It's actually a pretty amazing incentive. And the station construction is planned. So this is, I think, a good example of what I was talking about earlier. We're going to see an orderly rollout of trucks, fuel and infrastructure over the next couple of years in each geography that we've got partners.

The details of the program, I'm not sure what Fortis is saying. Probably stay tuned in the next eight weeks. Probably I would guess that that will be public.

Eric Stine - Craig-Hallum

Okay. And maybe this is getting a little ahead of things, but just given requirements, power requirements in BC there, any thoughts on what the mix might be, HPDI versus spark?

David Demers - Westport Innovations - CEO

This is really aimed at long haul, so it's going to be all HPDI, I think.

Eric Stine - Craig-Hallum -

Okay.

David Demers - Westport Innovations - CEO

But that is pretty a clear divide. Most of the trucks, the fleets that we're looking at are really keen on long haul, because that is where the high fuel consumption is. And so that's -- I think where the interest is in infrastructure and in field will be the big engines and high performance, so HPDI.

Eric Stine- Craig-Hallum -

Okay. Maybe just turning to the orders, you made brief announcement of some in Texas, initial orders and the first Shell bundle order. Any chance to -- just details on size and maybe mix there if that is HPDI there as well?

David Demers- Westport Innovations - CEO

Yes, that is all HPDI. And honestly, let customers do their --

Eric Stine - Craig-Hallum -

Yes, so it's just testing. To start or --?

David Demers - Westport Innovations - CEO

Yes, I think -- we're very happy with what's happening. I think it's typical of what we've been advising that most of the big fleets are very serious about natural gas. They are looking at how to get into it. They are looking for how to introduce LNG into one of their operations, so they'll pick a site, and they'll put 10 trucks or 20 trucks or something like that into service. But the goal is to see if they can deploy it widely. And I think that pattern is getting played out pretty much everywhere we look.

So that is what's up. Shell's cycle, as you know, they have been very bold in saying they can solve fuel for anybody. The bulk of that is coming on next year and in 2014. So that's really the point of the bundle is we've been out marketing with Shell now for six months, their customer base. So far, the reaction has been very encouraging. As it gets rolled out, you will see it.

Eric Stine - Craig-Hallum -

Okay. Maybe just one last one for me and just turning to Light-Duty, just thoughts on timing of when maybe the Volvo, the two Volvo models get launched beyond Sweden. Thanks.

David Demers - Westport Innovations - CEO

Good question. Yes, working hard on that one. Actually, the first markets we've talked about are, of course, other countries in Europe, which would be pretty simple. The big China opportunity and we are exploring that in a lot of detail. The product would have to change slightly, but Volvo has got a very strong brand position in China and with the recent development of infrastructure, the demand for CNG, I think the product would do very well.

We'd love to get some here in Canada working. It is actually a lot more complicated than people suspect, getting a European car legal to sell in North America. So, no, working hard with Volvo on that. I think you'll see strong progress over the next little while.

Eric Stine - Craig-Hallum -

Okay. Thank you.

Operator

The next question comes from Colin Rusch, ThinkEquity. Please go ahead.

Noah Kaye - ThinkEquity LLC - Analyst

It's Noah Kaye in for Colin. Wanted to ask, can you give us an update on the timing of the launch for the CWI 11.9-liter? Obviously we're talking about 2013 here, but can you tell us a little bit about the timeframe now and how you see the volume ramping?

David Demers - Westport Innovations - CEO

I don't think there has been any change. We've been talking about early 2013 for a while. Trucks are in field trials. Early to me means early Q1. I don't think there's any known issues today in that or any changes. I know there's been a bunch of confusion with some of the OEMs on availability, but it's going to be widely available to everybody that wants it in Q1. So barring any last-minute changes or experience that we see out of the field trials or a slow-up in infrastructure or something like that, I think that's still the plan.

So we should see pretty close to a full year in the first year. Obviously, as Darren said, we take a very conservative warranty in the first while until we see it play out, but it's a very large market. Below seeing lots of interest and lots of demand, so, I expect CWI to have another great year next year.

Darren Seed - Westport Innovations - VP, Investor Relations & Communications

It is tough for us, Noah, just to quantify perhaps how much or to quantify unit growth or something like that at the moment.

Noah Kaye - ThinkEquity LLC - Analyst

Okay. And a follow-up, service and licensing revenue, obviously you characterize Caterpillar as one-time. Volvo, there is the development agreement that you also have with GM. What is the right level on a sustainable basis of revenue that we should be thinking about going forward?

David Demers - Westport Innovations - CEO

On the services side?

Noah Kaye - ThinkEquity LLC -

I mean -- I would sort of lump them together in a way because they are technology development and product development as opposed to product sales. How should we think about this as a sustainable component of the business?

David Demers - Westport Innovations - CEO

A really good question, scratching our head a bit on this, too. The trend we're seeing, frankly, this was really kicked off with Volvo where we are doing work and getting reimbursed for it as part of the business model. But the model that's going to be applied to some of our other OEMs, particularly the mine truck project and the locomotive project, we've been asked to do R&D on behalf of Caterpillar, and we'll get reimbursed for that.

So it is becoming an interesting business, and a lot of our OEM partners are coming to us and asking us about our capability to do that, because they see us as having unique expertise on a broad range.

We know the components. We know the combustion recipes. We know the engines. We can develop vehicles and integrate them. So we're -- it's not really just a consulting business. It's a service business as we roll out the technology and the product.

I think you should expect it to increase. It will probably increase substantially, and more and more of our engineering talent is going to be dedicated to specific projects on behalf of specific customers. So certainly over the next few years, we're expecting that demand is going to be quite high. The difficulty for us, of course, is just finding enough resource and making sure that we're focused on the highest value add. It doesn't make a lot of sense for us to do basic durability testing in expensive test cells, things like that.

But generally, our experience over the past year or so has spent most of our OEMs are expecting us to help them develop a product, and in return for that, we will get paid.

Typically this is engine development and engine testing, not necessarily new component design. But that's a rare skill and hard to find, and it sounds like we're in pretty hot demand.

Noah Kaye - ThinkEquity LLC -

Right. Thanks so much.

David Demers - Westport Innovations - CEO

Did that answer that?

Noah Kaye - ThinkEquity LLC - Analyst

Absolutely. Appreciate it.

Operator

The next question comes from Shawn Severson, JMP Securities. Please go ahead.

Shawn Severson - JMP Securities

I was wondering if we go back to the HD sector again and talking about the conversations you might be having or Clean might be having in that case with the fleets in these areas. I know you said it's not a question of demand; it's a question of availability and on-road refueling. And what I'm trying to understand is to get a scope of the customers you may be talking too directly, are they regional truckers, national truckers? So, in other words, they'd be able to follow the infrastructure nationwide as it builds out. I'm just trying to get a little more color on those conversations.

David Demers - Westport Innovations - CEO

Good mix, I think. And you're probably going to get different answers depending on which fuel provider you're talking to.

I mean I know Clean are building out the national highways with truck stops, and the typical fleet being served there are going to be people who are on national distribution routes with hopefully a bunch of help from local fleets who want to use that refueling station. So I think it's pretty clear there's going to be a lot of fuel sold through those stations.

In more specific things, so, for example, we've seen a lot of service fleets in the oil and gas space, particularly in the shale plays. There is a lot of truck movement. There's a lot of interest in using natural gas. We kicked that off in Louisiana in the Haynesville. Unfortunately, the Haynesville has been pretty quiet the last few months. So that station is busy, but it's not growing, and all of the action has moved up to Marcellus in Pennsylvania, and there's no stations there.

Now, if you look at the map and you look at the plans, we're going to see, I think, four or five stations -- I am looking around, does anybody know -- built there in the next few months, and that will really open up a whole bunch of fleets who were involved in the business. So I realize it's a bit of a yes, it's everything answered. It doesn't give you a specific.

I think we're going to see lots of regional specialization in things like oil and gas. Stations are getting built for that. Big distributors like UPS, Robert Transport in Quebec, they're expanding and pretty sure you'll see more trucks. You'll see stations being built to support them.

And then as the broad network starts to get filled in, you're going to see all kinds of fleets pop up to use that. I don't think we should expect that anyone is going to build a station completely on spec. The way -- the place that gets selected for the next LNG station to be built is going to be predicated on having a local customer ready and waiting to take some fuel. So broad plans.

I think certainly from what we've seen, every station that has been identified as a candidate does have a customer name attached to it, and we will see this played out over the next 12 months.

Shawn Severson - JMP Securities

Great. Thank you. And just wanted to clarify, on the 12-liter and the importance of on-road refueling versus your typical kind of return home type fleet, fleet refueling, just trying to understand if that plays into a lot of the on-road, as well with the 12-liter category?

David Demers - Westport Innovations - CEO

Yes, I think so. It depends on your geography. You are not going to be hauling double trailers of iron ore through the Rockies with that engine. But certainly in California and Texas, there is going to be a big demand, I think, maybe up the East Coast. So it depends on your duty cycle. And --

Darren Seed - Westport Innovations - VP, Investor Relations & Communications

Urban fleet applications.

David Demers - Westport Innovations - CEO

Yes, lots of urban fleet. I think we're going to see that engine going in to refuse, frankly. Some of the transfer trucks would be a good candidate, even coaches. So I think two distinct segments, but there will be some overlap in customers. I wouldn't be surprised to have customers. We hope to have customers that have pickup trucks, 9-liter gas engines, maybe some 12-liter LNG and some 15-liter LNG. It depends on who you are.

So we're trying to fill in the product line from top to bottom with something for everybody, and a long way to go, frankly, before we've got even 50% of the applications covered.

Shawn Severson - JMP Securities -

Great. Thank you.

Operator

The next question comes from Rob Brown, Lake Street. Please go ahead.

Rob Brown - Lake Street

Wondering if you can give us a little more color on your thoughts of what the China market could be for the HPDI product? You have very good volume there now. Could the HPDI product get to the same level you're seeing in the spark?

David Demers - Westport Innovations - CEO

Yes, really surprising, Rob, and look forward to your feedback on this, too. I know you're doing some work.

China is always a surprise, and it moves so quickly that it's really hard to predict. We were thinking it was going to be a great year with 12,000 to 15,000 engines, mostly because we're anticipating slower rollout of the fuel infrastructure for the big engines. Most of the sales at the joint venture are trucks, not buses, which has surprised people, and a lot of it is LNG, which is also a surprise.

So infrastructure is coming fast. Truck sales are growing fast, which I would guess is really going to set us up nicely for the high-performance, HPDI engine.

In China it's all going to be about price, of course. We need to be demonstrating a real value. We might get a little bit of premium for technology and brand, but not much. So we really need to be able to launch at a competitive price. And clearly I've got the right price for the current 12-liter spark-ignited engine that the joint venture is selling. So we've got a pretty good lead on how that should play out.

I don't think you can do anything but conclude that it's very, very encouraging, and China is going to be a fabulous opportunity for natural gas over the next few years.

So now it's back to the basics of price and quality and distribution. I think Weichai is the right partner. They're very engaged. We've got trucks on the road getting tested. So it's just a case of getting all those usual things sorted out before we launch it.

Rob Brown - Lake Street -

Okay. Great. Thank you.

Operator

The next question comes from Alex Potter, Piper Jaffray. Please go ahead.

Alex Potter - Piper Jaffray & Co.

I had just a follow-up question here on China, if I may. Obviously, the volume was through the roof in the quarter, which was great. If I'm reading this correctly, it looks like the profitability of the joint venture might have ticked down a bit. Just wondering if you could give a little color on that or correct me if I'm wrong?

Bill Larkin - Westport Innovations - CFO

Sure. As you see, there is a lot of interest in natural gas, and the race is on, and it was a conscious decision. You are correct, the margins have come down. It is a conscious decision by our joint venture partner to try to capture market share, and that's the biggest driver.

Alex Potter - Piper Jaffray & Co. -

Okay, okay. That makes sense. And then if we could switch over to the Light Duty business, obviously nice to see that it's profitable so early. I guess in theory, as volumes ramp, we should be expecting, I guess, a continued ramp in profitability and margin for that business. Is that accurate? And if so, can you give, I guess, maybe not explicit guidance, but something directional?

Bill Larkin - Westport Innovations - CFO

In terms of profitability, we're very happy with the margins. We are a little over 28% this quarter, and as we've talked about this quarter in previous quarters, we expect that business' margin to be between 25% and 28% for the foreseeable future.

David Demers - Westport Innovations - CEO

Yes, I wish it was that easy.

Bill Larkin - Westport Innovations - CFO

Yes, I know.

David Demers - Westport Innovations - CEO

We're through it, and now it's all sunshine. I think our experience with CWI would give you some suggestions that quarters might be bumpy up and down for a bit until we really start to see some scale advantage and move things up. Bill mentioned headwinds on Light-Duty. It is pretty iffy in Europe right now, lots of economic uncertainty, which is still a core market for the Light Duty business.

That said, we're finding customers, and we're finding customers around the world. But in that climate, I think we'd be -- it's a little bit silly to predict, but it's just a way to the races.

We have expectations that the team will continue to be EBITDA positive for the rest of the year. We wanted to get through this hurdle and be pretty solid. I think we're confident that is a reasonable outlook.

The question, of course, is how fast the business can scale its profitability next year and the year after, and that's more challenging until we get a little more visibility in the economy.

Alex Potter - Piper Jaffray & Co.

Sure. Okay. And then the very last question here on Light-Duty, you had mentioned some R&D spending in response to some specific customer requests to improve the Light Duty products. Would you care to elaborate at all on what those are R&D dollars are going toward?

Bill Larkin - Westport Innovations - CFO

It should be no big secret. We're developing new models with Volvo. That's an obvious example, I think, of what Bill was referring to. There is model year changes. there's new engines, so a lot of what, I guess is expected to be the obvious stuff that needs to be done.

New engines are coming all through the automotive industry. As you know, mostly with a push toward direct injection gasoline, we've done a bunch of corporate research at that level, as well as some of the work done directly in light duty.

So, as we move forward, I think there's going to be some really exciting opportunities to improve natural gas vehicle performance, redesign where we put the tanks, all this stuff.

And that's really what we would leave in the business units. Those are routine changes to the product that's in the market, whereas our corporate investments are more focused on what we want to launch in the market two to three years out.

Darren Seed - Westport Innovations – VP, Investor Relations & Communications

But there are some undisclosed --

David Demers - Westport Innovations - CEO

Within the business, yes, of course, and you'll see new product announcements over time, yes.

Alex Potter - Piper Jaffray & Co.

Okay. Thanks a lot, guys.

Operator

The next question is from John Quealy, Canaccord Genuity.

John Quealy - Canaccord Genuity

Just two questions. First, on the HD shipments, so we've talked about 700 to 900. Does that just get shifted a quarter or so based on your comments about building out the 60-someodd stations in the back half of the year? Is there a normal three-month lag or six-month lag between when these things are up and ready to service vehicles?

David Demers - Westport Innovations - CEO

If we step back, we're going back and looking at what is being said, I don't think there's any change really in our view of the year. It's always been back-end weighted, always been paced with infrastructure. So no, I don't think there's any big changes. I am not seeing any change, really, in demand. So it's just a case of, can we get things organized?

I don't think we have any bottlenecks that would prevent us from shipping that volume. We've always talked about 300 a quarter as a breakeven point. So we've designed the system to be able to do better than that. Obviously, we want to get some volume up and get some consistency because that just makes the supply chain a lot more efficient.

But right now we're bumping along while we're waiting for fuel. The fuel is coming. I think we're ready to start to ship, so I don't see any big problem in hitting the numbers for the rest of the year. The challenge is going to be how fast can we ship in 2013, 2014, and how does the market change as we launch these new products?

So short-term, we don't see any major obstacles. The challenge is seeing how the market plays out two years from now.

John Quealy - Canaccord Genuity

Okay, yes. Thanks for the clarification. And then my last question, the political realm, the US Senate gave us tax extenders yesterday, and they included the de minimis home fueling and station option. There's been other vehicles talked about on Capitol Hill to talk about accelerated depreciation. I know you don't usually comment on it, but can you comment on the potential or what sort of form you think any legislative or subsidy release in the States could bring sort of post-election?

David Demers - Westport Innovations - CEO

To be very clear, we've always said we like a level playing field. If there are incentives for alternative fuel vehicles, then natural gas shouldn't be penalized. In fact, we are being penalized right now with a disproportionate tax on LNG, and you think that would be an easy one to fix. Why are we paying a higher tax on a BTU basis for LNG than oil fuel is?

But honestly, I'm not holding my breath about any of this. So we have to move in the market and find opportunities where it is somewhat irrelevant, where we have no incentives or penalties or headwinds. We just have to work through it.

I think in the near term, we are going to see continued investment in people like the utilities or the fuel companies, Clean Energy, Shell. In a way, these are subsidies because we're offering these long-term fuel contracts in return for bulk purchases, and that allows people to get certainty on their cost per mile. And that's really the economic case that fleets are looking for is, how certain are we on this cost, and can we spread costs out over the life of the truck?

And so that confidence is what I think is getting people to make the decision to push ahead because it is clearly going to work economically.

If we see local incentives as we are with the Fortis project here in BC or state of Oklahoma, Texas has got some incentives that can be applied, of course, so we'll have our customers use those. But I don't think it's going to have a big difference either way in the market in the near term.

John Quealy - Canaccord Genuity -

Thank you.

Operator

The next question comes from Matthew Blair, Macquarie. Please go ahead.

Matthew Blair - Macquarie -

On your Light Duty business, we saw the US Department of Energy recently award about [\$30] million in grants for NGVs, and a lot of this went to CNG tank technology. Could you talk about the supply of CNG tanks, and do you have any concerns going forward in this area?

And then also, what is your outlook for the costs of these CNG tanks? Are you expecting any declines in costs going forward? Thanks.

David Demers - Westport Innovations - CEO

Yes, we sure hope so. The short answer is it's great news that the ARPA program is moving to CNG vehicles. This is another big aspect of the report we saw yesterday from National Petroleum Council is that we really should be looking at CNG. It's a great story.

And that's why I think you're seeing more of these long-term research programs being shifted to NGVs because the Department of Energy is realizing it's actually the smart thing to do.

Home refuelers, another one that's looking really interesting. So I think there's lots of ideas and lots of technology. As we talk to partners around the world, there's going to be some fabulous changes in tank technology and fuel storage technology that let us put more fuel in a smaller space at much lower costs, and we'll see that over the next few years.

Yes, so lots of change coming, and we don't think it's anything but good for natural gas vehicle customers.

Matthew Blair - Macquarie -

Sounds good. And then on CWI, regarding the 12-liter engine next year, David, you've mentioned that this is really going to be a top-up engine for the refuse and transit markets, but we're also hearing that there is a lot of interest among the regional haulers for this engine. And I was wondering if you'd be willing to wager a guess that the percentage of engines that will go into regional haulers that you'll sell for the 12-liter?

David Demers - Westport Innovations - CEO

I never make wagers with Darren in the room. But I think typically what we're seeing in the 9-liter space is we are seeing 9-liter in regional trucking. So, yes, of course. The primary market for the 12-liter will be regional trucking, but I wouldn't assume we don't see it in vocational vehicles like big refuse trucks, too, and big dump trucks, exactly.

So, no, a pretty broad market, actually. I think we're going to see demand across the scale. That is really why it's being launched, and I think every manufacturer of trucks has announced availability of that engine, pretty much, at availability next year.

So lots of demand, I think, very broad push. Again, 12-liter is not a 15-liter HPDI. So for the long-haul, heavy-haul applications, we expect that to be concentrated on HPDI, but this opens up a great new market for natural gas, and we think CWI is going to do very well.

Matthew Blair - Macquarie -

Yes, definitely. Just one last question. Bill, for the Caterpillar payments, it looks like this was a -- this is a one-time payment related to the sale of some HPDI technology to Caterpillar. Can you confirm if that's correct, or was it really more of a reimbursement for R&D that you've already done? Thanks.

David Demers - Westport Innovations - CEO

It's a bit of both. I will defer to Bill on the accounting. It is -- obviously, because it's in revenue, it's for work that's being done and services we don't need to provide any further services. But yes, you will see more recurring payments like that or more reimbursement payments like that. We just haven't disclosed the scope of the program or the scope of the payments. So I am afraid all we can do is say, wait and see how that plays out.

But for the most part, as we laid out in June, for development that we're asked to do, we will be reimbursed. Caterpillar will pay its own costs.

For work that we have undertaken, we will cover our costs, and the scope of that work is about the run rate that we've been showing for high horsepower in the corporate sector for a while. So you shouldn't see any big change in the run rate. You will see more Caterpillar revenue. It's not going to be everything waiting until we launch the products. So we'll see some service revenue.

Darren Seed - Westport Innovations - VP, Investor Relations & Communications

You should get some clarification over the next two quarters, Matthew.

David Demers - Westport Innovations - CEO

Yes. Much like Volvo, it's going to be milestone-driven and reimbursement-driven. So don't expect it to be necessarily a quarterly reimbursement.

Matthew Blair - Macquarie -

Okay. Thanks, guys.

Operator

The next question comes from David Galison, CIBC World Markets.

David Galison - CIBC World Markets -

So with your HD gross margins, they are running a bit lower than what you'd like, how long do you think they'll be running at the lower levels? And then looking out to when we reached the 1500 threshold, what could margins look like in that segment?

David Demers - Westport Innovations - CEO

The design point for the business is much like CWI. We want to see Heavy Duty margins in the 30%, 35% range, but we have got to get through launch. Some of the margin is an artifact of early customers. We have attractive, long-term warranties and things like that. So we're taking big warranty accruals, which impact margins.

David Demers - Westport Innovations - CEO

Sales prices are actually pretty good, and we've thrown in some incentives. So, as we work through the early customers and the volume discounts, you should see margins getting up to -- I'm looking at Bill -- is 20% a reasonable next milestone? I think that's reasonable, 20%, 25% is a near-term target.

David Galison - CIBC World Markets -

Okay, great. And then next question was the recent Pioneer order, is that included in your 500-unit outlook for 2012, or is that in addition to that?

Darren Seed - Westport Innovations - VP, Investor Relations & Communications

That would be inclusive. Obviously, we can't sit here with a straight face and say 500 is a realistic target. We just had one order for almost half of that.

So I think is why we said at our last conference call, too, David, that obviously, we do -- we expect more than 500 this year. What we're not disclosing at the moment and probably have a lot more color on in November conference call for Q3 is, how many more -- what kind of units we would expect in the year -- how many more than 500?

David Galison - CIBC World Markets -

Do you identify how many were shipped in Q2?

David Demers - Westport Innovations - CEO

Let's see, I don't think we did.

Bill Larkin - Westport Innovations - CFO

It probably isn't material. We just get started middle of June, so a pretty small number. So I'm not sure it's -- I'm looking at Bill -- we didn't disclose numbers.

Bill Larkin - Westport Innovations - CFO

We didn't, no.

David Galison - CIBC World Markets -

Okay. All right. Thank you very much.

Operator

The next question comes from Carter Driscoll, CapStone Investments. Please go ahead.

Carter Driscoll - Capstone Investments -

Good afternoon. I wanted to kind of follow up on one of the earlier questions about more of your work on the R&D side, and maybe you using that have relationship with one of the big OEMs out there that really hasn't made a push into this market yet. Obviously, your second agreement with General Motors, maybe you can qualify whether they are tending to track towards more of the Ford model, looking at the Light-Duty truck segment or really the passenger vehicle development and maybe longer-term, and then maybe extrapolate that to some of the other auto OEMs, and maybe contrast some of their efforts into the alternative space from the electric perspective versus natural gas and where you see those two markets coexisting and maybe the timeframe of adoption on the passenger vehicle side?

David Demers - Westport Innovations - CEO

I am happy to take the first part of it, Carter, because I think the way you are seeing most of our agreements if you take, as you point out, some of our heavy-duty or high-horsepower OEMs, deals like Caterpillar and Volvo are evolving along the lines of bolt-in structure, along with the joint share R&D funding reimbursed.

In terms of timeline, I think what we've said is a train we would expect to have running in the next year or so, an engine running same wrap for a rough timeframe for high-horsepower mining trucks as well.

So I don't -- I would expect that what we've previously disclosed around the timing of those first prototype engine systems come to pass, I think that's very much short-term. I think what we've said publicly was over the next four, five years is where we'd expect to commercialize some of those high horsepower products.

In terms of Light-Duty, yes, right now Ford has committed to its QVM or qualified vehicle modifier program for natural gas vehicles, period. And so I think where we expect to excel obviously is with our exceptional performance, our production capacity, the reliability, testing, everything that you can actually see on the YouTube videos. I think that is a big strength for Westport and its technology.

In terms of our work with other light-duty vehicle OEMs, of course, we're in discussion with General Motors on -- and actually doing R&D with General Motors on natural gas technology and combustion technology. But we haven't disclosed the specific nature of the combustion technology.

But to be very specific, that type of agreement is more of an OEM agreement, OEM relationship where it wouldn't be like the Ford systems we do today, but more of a General Motors-launched product with some form of relationship hopefully, of course, with Westport as part of its key technology.

But that would be a General Motors-launched product. That is realistically if General Motors decides to move ahead. That's realistically three, three-plus years -- anywhere from two to four years, I guess, to be fair out by the time the product launches.

Carter Driscoll - Capstone Investments -

And I realize it's not necessarily a near-turn phenomenon. I am just trying to get a sense of those OEMs that might either be late to the ball game or have bet on a different renewable technology in that segment and whether they think they potentially need to cover their bases in case natural gas takes off ahead of electric. Obviously, we've seen a lot of vehicle push-outs on that side, just trying to get a sense. I realize that's not necessarily --

David Demers - Westport Innovations - CEO

Oh no, it's actually a really interesting discussion. And if you're interested, there is a lot of detail in the NPC study on that exact issue, on light duty. You have to dive into the chapters, sort of beyond the executive summary. You need to get into the detail. But this program does include representation from all the major OEMs in North America.

I think it's unfair to say the OEMs are focused on electric and not natural gas. Most of these companies are global, and there's a lot of demand for natural gas in some markets. And there's zero demand for natural gas in other markets, like North America.

So, as people like GM or Volkswagen do a global strategy, there has been natural gas in the plan for some time. And I think we've been pretty clear in saying we've been working with seven of the top 10 automotive OEMs in our Light Duty division, too. So there's lots of interest in expansion.

I think what is interesting is what people are realizing in the light-duty space is it's not just fleet vehicles. There are interesting consumer markets where there are significant opportunities for natural gas to be very competitive with electric on every front -- environmental as well as economic. And that says we're going to see market penetration for natural gas in those consumer markets.

So the OEMs are responding to that, yes. I would think you should expect that in the product cycle there's going to be a mix of a lot of different things over the next couple of decades, and that's exciting for engineers and marketers because it means there's going to be lots of innovation happening.

Operator

The next question is from Rupert Merer, National Bank Financial. Please go ahead.

Rupert Merer - National Bank Financial -

Looking at the business model for Weichai Westport, you mentioned the market in China is price-sensitive, and you price to capture market share in the quarter. But looking forward, what gross margins are achievable here as the new plant ramps up with your current product mix? And how do you think the HPDI component sales could change your business model when the product is introduced?

David Demers - Westport Innovations - CEO

It's a good question. And if you've got any input on that, Rupert, let us know.

I think if you look generally at the automotive industry in China, it is going through a lot of transition. There's a lot of shifts coming, let's say, on longer-life products, higher performance products, better emission performance. That's going to raise prices generally, and that's going to result in more sophisticated fleets. We're looking at more of a life cycle cost business model.

Traditionally the market has been all about first costs and people throw things away and get a new one. So there is a market transition that people are trying to work through.

But, at the other side, it's such a fiercely competitive business and scale is so important, we're seeing big pressure on prices. At the same time, I think the joint venture is doing remarkably well, maintaining strong margins with such crazy growth. Hard to imagine that just a couple of years ago we were doing a few hundred engines a quarter.

So I think if you compare the traditional truck and car market in China, its gross margins are lower but volumes are higher, so companies are still quite profitable. I really don't think you're going to see a different picture with natural gas. We're going to see lower margins in China for natural gas products, we expect, higher than traditional fuel product, because there's more technology in value-add and less competition. But it's probably not going to match margins in Europe or North America.

Darren Seed - Westport Innovations – VP, Investor Relations & Communications

I think the other thing, Rupert, is we actually -- we used some very aggressive pricing in some very specific markets. So it was not across all of the products within Weichai Westport. It really was a very targeted campaign to effectively steal and take all of the market share in particular --

David Demers - Westport Innovations - CEO

Or to grab, obviously, there's some big customers taking lots of engines in the quarter, and they got some pretty attractive pricing.

Rupert Merer - National Bank Financial -

Okay. And that is market share of natural gas engines rather than all engines, I suppose, too. Just a quick one on the Cat license fee. Just to clarify, in the event that Cat goes ahead and launches products in a few years time, would you anticipate additional license fees on top of what you received in the quarter?

David Demers - Westport Innovations - CEO

Yes.

Darren Seed - Westport Innovations – VP, Investor Relations & Communications

Additional payments you mean, in terms of license -- fees?

Rupert Merer - National Bank Financial -

License fees on products sold for use of HPDI --?

Darren Seed - Westport Innovations – VP, Investor Relations & Communications

We would have an ASP, an average selling price, Rupert that we'd expect to incur around, just as the press release stated, that we expect to supply key components of technology to Caterpillar for the sale of the product. And for that, just like other businesses like Heavy Duty has an average selling price, high horsepower we would expect to have an average selling price and a portion of relative margin as well. Does that answer question?

Rupert Merer - National Bank Financial -

Yes.

David Demers - Westport Innovations - CEO

The specific question was, will there be more of these milestone payments for either license fees or technology payment or service fees? And the answer is yes, we will see a stream of cash flow that is around the product development cycle. And then as Darren says, will transition into a product sales cycle where we participate in the sale.

But for obvious competitive reasons, we're not really mapping that out in great detail.

Rupert Merer - National Bank Financial -

Understood. Thank you very much.

David Demers - Westport Innovations - CEO

Thanks, Rupert.

Operator

That is all the time we have allotted for questions on today's call. I will now turn the call back over to Darren Seed for concluding comments.

Darren Seed - Westport Innovations - VP, IR and Communications

Well, thank you very much, everyone, for joining the call, and we look forward to seeing you in November for our Q3 conference call.

Operator

Ladies and gentlemen, the conference is now concluded, and you may disconnect your telephone. Thank you for joining, and have a pleasant day. Goodbye.