

DARREN SEED speaking

*Vice President, Investor Relations and
Communications, Westport*

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

In rather unique circumstances today, our Canadian law firm filed our financial statements and MD&A on the Canadian filing system, or SEDAR, in advance of our usual and very much standard process time of 4 PM Eastern or 1 PM Pacific. As soon as we identified the error, we took immediate action and halted the trading on our stock, and pulled up the release time of our press release, by about 30 minutes, so we do apologize for any convenience this may have caused, but are just pleased to move forward with our conference call as scheduled.

Speaking on behalf of the Company will be and Westport's Chief Executive Officer, David Demers, and Westport's Chief Financial Officer, Bill Larkin. Attendance of this call is open to the public and the media, but for the sake of brevity we're 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 law, 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. Good afternoon, everyone. As you have seen, 2012 has bumped into a sudden slowdown in deliveries, but we believe this is just a lumpiness phenomenon, compounded by some current economic uncertainty, of course. Order activity remains high, and we see momentum building for both current and new products for 2013. We now expect 2012 to end up at 30% revenue growth over 2011, which is lower than we had forecasted at the start of the year, but consistent with our long-term growth over the past eight years.

So despite the surprise brake lights in September, we're satisfied with the significant progress in our business plans this year. As usual, I'll relinquish the floor shortly to let Bill take you through the financial statements, but I wanted to elaborate a bit as we see our position as we head into 2013.

2012, I think in retrospect, we will see it as a major turning point in our business. I believe it starts a major new phase in our development after we spent the last decade doing market creation work and technology proof of concept work.

But I think it is clear we've now established that natural gas can work in a broad array of transport applications. That it can be delivered economically to customers all over the world. And that we've developed a business model that allows our industry to launch successfully new products in a capital efficient and risk reduced

approach that makes money for everyone in the value chain.

This year we also saw broad consensus for the first time that natural gas will take material market share in every global transportation market within the next five years. Obviously, I don't have time to go through these studies today, but consensus suggests that we will see for example 7% to 15% share of the North American trucking industry run on natural gas in 2017. Some markets will see penetration rates even beyond the high end of this range.

Whether the numbers emerge at the low end or the high end I think is a little irrelevant. It is an enormous change from our current position, and it is a spectacular business opportunity for our industry and for Westport. So I think we can look at the last few years as classic technology chasm-crossing activity. The early adopters are now behind us, and the main event is about to start.

I think Westport has established a unique market position. We're the only company in this space with market leading technologies, and products, in every, major geography and in every major segment. Now I know people sometimes find our story and our business plan complicated, and some complain that we're unique and impossible to position and compare, which I suppose I can accept as a compliment.

But really, we've to understand this is never going to be simple. This is an epochal change, shifting the world from one major energy source, oil, to a new and very different one, natural gas, requires coordination, and cooperation on a tremendous global scale. And we're doing it in place, as it were, without tearing everything up and starting over. In fact, we're doing it in a way where both systems will co-exist for decades.

But forget for now about how unlikely and how challenging this idea might have been. It is happening. So to try and clarify how we see it, I am going to divide the work ahead of us into five major links in the value chain.

First off, of course, we, and I'm speaking here in the industry sense, not just Westport, the industry needs to solve the technology challenges of using gaseous fuels on vehicles, and then we need to engineer and

manufacture specific unique vehicle components such as fuel injectors, fuel pumps, fuel tanks, all that stuff that's required for a natural gas vehicle to work.

Now, this work has been going on for decades, it's true. And there are lots of people that make components for this system. But now that the market is coming -- the major market is coming, I think winners will emerge who can deliver on those traditional product metrics like price and quality and performance and scalability and service. Naturally Westport is active in this space.

We build some things. We have other things that are built to our design by other people as appropriate. We have been selectively acquiring and integrating some component suppliers with key capabilities into our portfolio. At this point we believe we've the best portfolio of natural gas components and the best platform for delivery in the industry, and we're pushing hard to widen our lead.

Now, the second step, of course, is to design and test engines, the device that turns natural gas into something that we can do and use for work. And we also need to think about total vehicle systems, recognizing that moving to a new fuel, whether it's pressurized CNG or cryogenic LNG is a very, very, big deal.

Of course, these engines and systems rely on the components built for us by the first step in the value chain. But the skills and capabilities required to design and build mass produced vehicles are rare, and they are locked up in just a few dozen OEM companies around the world. Westport has developed unique partnership models with a surprising number of those global OEMs.

At this point we believe that every remaining OEM must organize their own natural gas product line and strategy within a very short time or face a real market share cliff. Product lead times are long, and even small movements in market share could be catastrophic in this world. If natural gas is going to be 10% of the market in five years, and if you haven't started work today, you're probably too late.

2012 saw us establish whole new markets such as locomotives and mining trucks with Caterpillar and heavy-duty pickup trucks with Ford. Obviously, there are

big synergies between our component business and our OEM systems business.

Third, I hope it's clear that no vehicles on a new fuel can operate without fuel stations, fuel delivery and a source of fuel, and whether that's natural gas from traditional oil and gas development, or unconventional gas such as coal bed methane or shale gas, or even bio gas, we've to get this organized and it has to be coordinated. Again, Westport is active here with a long list of partners around the world, and specific services such as Jumpstart to help the early markets get some momentum. I'm going to come back at this one in a minute, because we've seen spectacular growth on this issue this year.

Fourth, comes, the customer and the need to introduce this new energy concept, and then ensure the customer can fully exploit the economic potential of this shift to gas. From the customer view, our products, which are the vehicles that embody our technology, our components and our systems, look and feel a lot like conventional gasoline and diesel vehicles, but fleet owners, drivers and mechanics need to be trained in the differences in order to really understand the potential for dramatic operating improvements. This isn't just fuel cost savings; it's the potential for reduced price volatility, the ability to lock in long-term prices for fuel, first mover competitive advantages, environmental benefits and so on.

So yes, Westport has jumped into this stage, and we help our OEMs and fuel partners. And with our "teach the teachers" approach, we can reach a very broad audience with a small but critical investment. In return, we're getting invaluable feedback into new product opportunities and priorities that we can feed back up the chain. So this is a key value proposition for our OEM partners. And finally, we've the systemic benefits to whole industries. For example, the benefit of lowering, fundamentally, shipping costs or less cost volatility, and to society itself, whether that's energy policy, energy development, energy security, environmental impact. Now, we don't lobby per se, and we don't think that government subsidies to this industry would form a healthy long-term foundation, but the local economic development, energy security and environmental issues

are important, and we found it very helpful to step into this area too.

So although this plan sounds complicated and perhaps too ambitious, in fact we believe our work in each area makes the whole plan stronger than the sum of the parts. And as we move into this next phase, the key milestones we're working towards I think are quite straight forward, and you should be able to see our progress quite clearly.

First, we want to significantly improve our OEM product coverage in each market segment. We want customers to have as much choice of natural gas vehicles as they do with conventional diesel and gasoline. Second, we want to see broad infrastructure build out in every geographic market. We want this coordinated with local customer adoption, training and support so that we can encourage adoption on a significant scale.

And third, the third theme, I would say which runs throughout these businesses is we need continued relentless focus on higher product performance, lower cost, better reliability and more robust supply chains. We do this so we can maintain our competitive lead and force any followers to work hard to keep up.

Now, as you know and as I've said our strategy at Westport is to develop partnerships to work with a broad cross section of the automotive industry to create natural gas versions of their diesel and gasoline products. And so I can note that just in our mid-range and Heavy-Duty truck business in North America alone, we've gone just one product with one partner in 2008, to nine major truck models this year in 2012, and we're looking to have 16 launched in 2013 with our new engine from the joint venture. Momentum is building nicely for several new products over the next few years, and with more product offerings we will make it easier for customers to move our way.

Now, within that broad theme, we've also been working hard to reduce the price of the products, and to do that we need to focus on dramatic improvements in the critical supply chain components on both cost and reliability, while working with our OEM partners to improve production and sales efficiencies. Now, we're making a lot of progress on this front. I think Bill will cover this in a little more detail too, but if you can pull

out the numbers in the financial statements on our Heavy-Duty 15 business this year, you can see the effect. Our average sell pricing is down 22% over the past 12 months.

And that's simple. We're reducing the price for the system. But if you compare gross margin percents and do a little arithmetic, you can see that our cost must be down 37% year-over-year for us to achieve this, and that's true. So we're reducing costs and passing that on to the customer. Other data point on this issue would be the recent price reduction with our Ford F-250 and now F-350 products, which reflect some cost reductions just since the product launch in June.

Now we're determined to push this process continuously over the next few years until we reach an overwhelming attractive value proposition for natural gas in every market. Generally the industry projections that I referred to earlier look at likely penetration, in the 10% to 15% range, for example, in five years. Those numbers are assuming a two to three-year payback period. The fact is that we could see much higher penetration rates if the price is right, and of course we plan to take things there.

Now that said, as we talked about earlier we can't put vehicles on the road unless people know how and where to refuel. But 2012 has also been a transition year for that. It's a phase change really in this obstacle to performance. We still aren't where we need to be, but situation gets dramatically better next year, and by 2015 we think this will no longer be seen as a serious challenge anywhere in the world. Now, even then we won't be finished with infrastructure, but any customer that wants fuel should be able to organize it by then.

On the LNG infrastructure development front in particular, we continue to see positive momentum in North America from existing players, as well as interesting new entrants such as ENN out of China. ENN purchased some existing locations in Utah and are now building out stations and establishing a corridor in the Rockies under the BLU banner.

Here in B.C. the Fortis B.C. program, providing funding for fleets and stations using LNG, is progressing, although a little bit slower than their initial plans. We

expect to see trucks ship for that program starting early next year. As we heard in June, Shell and Travel Centers of America have signed an MOU to build out 100 stations in the U.S. We look forward to finalizing that agreement so they can move forward with actual construction.

And of course, our friends at Clean Energy continue to build out the American Natural Gas Highway. Last week Clean announced that they had completed construction on more LNG stations in the last three months than they had in the previous year. We're glad to see the acceleration of builds and pleased that Clean is taking an approach of building out the required stations to serve these long-haul corridors in advance of everyone else.

Now once the station has been built, you need about 20 trucks to make it viable to commission the station and fill the storage tank and open for business. So we're working alongside Clean to find those anchor customers that will allow a completed station to become an open one. A good example from this quarter has been in Phoenix. We worked together to bring Kenan Advantage Group as the anchor customer in Phoenix, with 25 Westport HD-powered LNG trucks to open up that station.

For those of you don't know them, Kenan is the largest tank truck transporter in North America, so you can imagine our plan is to see them buy more trucks in a variety of locations. And now that the station in Phoenix is open and anchored with Kenan, it will allow smaller fleets the opportunity to join in and start converting to LNG as well.

Before we leave infrastructure, I would like to say a few words about the Jumpstart program that we began this year, where we lease portable fuel stations to customers either in remote sites or in advance of a permanent station. Now the program has gone very well, and it's clearly going faster than we expected, so we've seen demand far outstrip our supply.

Our initial five stations have all been leased out. The next tranche of four units that are on order have already all been spoken for in advance of their arrival. So we're accelerating this program, and we've ordered additional

units which will expand our capacity to meet the demand for these -- this early start as people are building out infrastructure. We expect that in 2013 we will see some current Jumpstart customers get access to newly built permanent stations, and then we can redeploy those existing units.

So I hope you can see why we're calling this a phase change. This is a completely different world for us. Now that we've proven out the capability of this capital-light partnering model, and now that we're seeing market acceptance of our products and product plans in each segment, we can shift our focus to more traditional management issues; growth, customer support, and profits. We believe we've developed a very broad platform for global growth and profitable returns for our shareholders for years to come.

We are in a very fortunate and exciting position. The opportunity is here and now. We've got a unique position, and over the next few years we will begin to see the payoff for our long investment and, we believe, reward your patience. Thanks very much. Over to Bill.

BILL LARKIN speaking
Chief Financial Officer, Westport

Thanks, David, and good afternoon, everyone. I will start off with the Q3 highlights and then walk through the financial details for each of our business units.

For the third quarter ended September 30, 2012, we record a consolidated revenue of \$76.1 million. This represents a decrease of \$4.9 million or 6% compared with the prior year period. Our year-to-date consolidated revenues were \$270.8 million, up \$106.8 million or 65% compared to the prior year period.

Our consolidated gross margin for the quarter ended September 30, 2012, was \$21.2 million or 27.8% of total revenue. This compared with \$25.8 million or 31.8% of total revenue in the prior year period. Our year-to-date gross margin was 33.3%, and this was compared to 35.7% of the prior year period.

David kind of talked about this already, but as an example of how we're improving the products on the market and our related economics, our average selling price for the quarter for the HD 15 liter product was \$47,400. This is compared with \$62,700 in the same period last year. This is a 24.4% reduction in sales price. In addition, our margins are improved from being negative in the prior year period to a positive 5.3% in the quarter. Our HD 15 liter gross margin percent is still low to encourage early market adoption of LNG trucks, and we expect our margins to increase in the future as we continue to drive costs down.

We are developing new products and investing in proprietary technology programs that will help contribute to the future revenue and earnings potential. On that note, research and development, R&D expenses were \$20 million for the three months ended September 30, 2012, an increase of \$6.1 million from \$13.9 million in the same period last year.

CWI's R&D expenses were \$3.6 million, compared with \$2.3 million. Westport HD R&D expenses were \$7.3 million, compared with \$6 million. R&D activities for our Heavy-Duty programs in North America, Europe, and China have been ramping up for new product offerings with our HPDI technology. Of the \$7.3 million that we incurred during the quarter, \$3.6 million was related to our efforts under our OEM development programs, which will be recovered at the next milestones.

Westport LD R&D expenses were \$2.7 million, compared with \$4.2 million in the prior year period, and corporate R&D expenses were \$6.3 million, compared with \$1.4 million. This is primarily due to investments in new product development programs.

To support our new product development programs and pending commercialization, we're building Westport's foundation, including the addition of new facilities in Detroit and Louisville and acquired operations. As a result, general and administrative expenses were \$9 million for three months ended September 30, 2012, an increase of \$2.1 million from \$6.9 million in the prior year period.

We are training LNG truck dealerships, working with service staff to make sure our customers are getting the attention they need, and working with new OEMs to help

them proliferate their natural gas products offerings. As a result sales and marketing expenses were \$10 million for the three months ended September 30, 2012, an increase of \$2.3 million from \$7.7 million in the same period last year.

As of September 30, 2012, our cash, cash equivalents and short-term investments balance \$294.7 million, compared to \$307.3 million at June 30 2012. During the quarter our cash use in operations was only \$3.6 million, and this is compared with \$21.8 million in the prior year period. As discussed in my R&D comments, we will continue to prudently invest in new programs and technology, and that will provide a substantial return. As a reminder, our strategy incorporates an asset-light business model, which helps us grow our business without having to make significant capital investments.

For the third quarter of 2012 our consolidated adjusted EBITDA was a loss of \$18.5 million, compared with a loss of \$5.4 million in the prior year period. Please see a reconciliation of adjusted EBITDA in our earnings press release dated today.

As previously announced, on October 29th we lower our revenue outlook to \$340 million to \$350 million, or 30% year-over-year growth. While this is still a great accomplishment in itself, the reduction of revenue naturally has an impact on our bottom line. Our net loss attributed to Westport for the three months September 30, 2012, was \$32.5 million or a \$0.59 loss per share. This compared with a net loss of \$13.2 million or \$0.27 loss per share in the prior year period.

Additionally we recognized a \$7.4 million net foreign exchange loss, which was driven by the movement of the Canadian dollar relative to the U.S. dollar, which is unrealized. Excluding the foreign exchange impact, the Company's net loss and net loss per share was \$25.1 million and a loss of \$0.46, respectively.

We break out our businesses into operating segments, and I'll walk through the revenue and gross margin details for the Westport Light-Duty, CWI and Westport Heavy-Duty segments.

Starting off with our Light-Duty business, Westport LD generated \$25.6 million in revenues during the quarter, compared to \$25.7 million in the prior year period. This

slight decrease in revenues is primary attributed to the economic conditions in key geographic markets, including The Eurozone and weaker Euro to U.S. dollar exchange rates, which is lower by approximately 11% from the same period last year.

In the second quarter, we launched the WiNG Power Systems, and we're still on track to deliver more than 500 units by the end of the year. During the quarter, Westport Light-Duty recorded gross margin and gross margin percentage of \$6.1 million and 23.9%, compared with \$5.3 million and 20.6%, respectively, in the prior year period.

Now, moving on to CWI; during the quarter CWI generated \$45.5 million in revenue on 1,588 units, a decrease of 7.5% for the same period last year, \$49.2 million on 1,625 units, reflecting the general slowdown in truck shipments and reduced orders in the refuse segment. And this is after four quarters of record sales. With strong economic benefits of driving natural gas trucks with CWI engines, nine liter ISL G is being utilized in broader applications in duty cycles than was originally designed. This is great to see such a distribution, but we're experiencing warranty adjustments that in the short term have affected our warranty accruals.

As a result, our gross margin and gross margin percentage for the quarter ended September 30, 2012 were \$13.4 million and 29.7%, compared with \$20.7 million in 42.2%, respectively, in the prior year period. Excluding the warranty related adjustments, CWI gross margin percentage would have been 36.9% for the quarter. CWI has identified the issues, and they are working on the fixes to push through the development in sales channel as soon as possible.

Moving on to Westport Heavy-Duty; for the three months ended September 30, 2012, Westport HD generated \$3.7 million in revenues with 58 HD systems shipped during the period, compared with \$6.2 million in the same period last year with 85 HD systems shipped. Our gross margin, this is not including service revenue in gross margin percentage for the quarter were \$240,000 and 6.5%, compared with negative \$563,000 and negative 9.7% respectively in the same period last year.

Our Weichai Westport joint venture continues to see a strong demand for the spark ignited natural gas engines.

The JV generated \$58.7 million in revenues on almost 5,000 engines during the quarter, compared with \$29.9 million with about 2,300 engines in the prior year period, representing a 96% year-over-year increase. Year-to-date, the JV has delivered almost 13,000 engines.

Currently we only recognize our 35% interest in the net income of the JV. For the quarter we recorded income for our Weichai Westport joint venture of about \$700,000, compared with \$400,000 in the same quarter last year. For further financial disclosure, please see our MD&A and financial statements as filed and posted on the Company's website for more detail.

I will now pass the call back to the operator to open the call for questions. Operator?

Operator

Your first question from Laurence Alexander of Jefferies & Company. Please go ahead.

Lucy Watson - Jefferies & Company

Good afternoon, this is Lucy Watson on for Laurence today. Could you provide a little bit more color on you new expansion plans for Jumpstart and what's changed there?

David Demers - Westport Innovations, CEO

I'm looking at Bill. I guess I get this one. Do you want to --

Bill Larkin - Westport Innovations, CFO

No, go ahead.

David Demers - Westport Innovations, CEO

Bill doesn't want to jump. So if you remember, Jumpstart is offering these mobile refuelers. It is kind of like a tanker truck on wheels where you can refuel, built by Chart, a really nice little affordable unit. And we're using them really with fleets that had remote locations or who are waiting for station but wanted to get started.

They are quite economical if you have only got a small number of trucks, because you can kind of go take the fuel station to where you can get it refilled, and then take it back to where the trucks are operating. So we've seen a lot of demand for them, in particular the oil and gas market, where they really aren't going to be putting in a permanent station, because the trucks will move from site to site. But we're also seeing it just in fleets pretty much everywhere, where people see the flexibility.

So we're offering it primarily as a service to our customers. It's not really intended to be a big money maker. But it really removes a major obstacle to adoption, so we will be expanding it -- I'm looking at Bill, who is due to sign the capital requisition. It will probably be three times as much capacity for Jumpstart next year over the start of this year.

So it's gone really well, but I think it also represents a good kind of bellwether for what we're trying to do in the marketplace. We want to remove obstacles and help customers adopt gas, and that's going to drive our sales and profits by delivering product faster. Does that make sense, Lucy?

Lucy Watson - Jefferies & Company

Yes, thank you. And on Weichai quickly, looks like your volumes were down sequentially. What was behind that, and can you provide an update on the unit ramp expected there? Thank you.

Bill Larkin - Westport Innovations, CFO

On the margins?

David Demers - Westport Innovations, CEO

Unit count. Sequentially. I don't think so. I'm look around, where's our reconciliation chart.

Bill Larkin - Westport Innovations, CFO

I think we were just down a little bit sequentially.

David Demers - Westport Innovations, CEO

Oh, quarter-to-quarter, not year-over-year. I'm just looking at quarter, year-over-year. We are about 112% year-over-year. Sequential quarter -- again, some of this is the timing in China but --

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

We are over 5,000 -- around 5,000 units in Q2, Lucy. I know -- I probably wouldn't read much to it other than just general lumpiness. We are still expecting to grow easily over 80%. I mean, we're still year-over-year 100%. So obviously we can't forecast for Q4, but we're still seeing strong growth and demand and China, and for a lot of reasons, and I still don't see any erosion at the moment.

Lucy Watson - Jefferies & Company

Okay, thank you.

Operator

The next question is from Graham Mattison of Lazard Capital. Please go ahead.

Graham Mattison - Lazard Capital Markets

Hi, good afternoon, everyone.

Just first a question on R&D, and also G&A and sales and marketing expense I just assume you'll get some discounted legal services after today's episode, but the guidance that you gave earlier this year, still for both R&D and G&A and marketing still holds, given the -- in light of last week's press release?

Bill Larkin - Westport Innovations, CFO

Yes, I think we're still on track what we communicated before. We are looking at about \$80 million in research and development for the full year. And then consistent with this quarter, I think our -- both our G&A and sales and marketing were about \$10 million each.

David Demers - Westport Innovations, CEO

It's a big wild card. I'll jump in Graham. The wild card all year has been the work we've been doing. And I think we said last quarter that is going to continue. We are investing on our own, although the deal with Caterpillar suggests they are going to cover R&D for the things that they want us to develop for them. But for the things that we're doing on our own and for other partners in the high horsepower sector, there is some R&D that's not funded.

But that's going to continue at about the same rate that we've established this year. So that shouldn't really be a dramatic change in anyway.

Graham Mattison - Lazard Capital Markets

Great. And then on the product launches you mentioned in last week's press release, on the automotive and also the off-road side, in today's press release you mentioned the Volvo V70 wagon in Europe. Is this the automotive launch you were referring to? And then is there any update on the off-road launch from the prior press release?

David Demers - Westport Innovations, CEO

I'm looking at Darren, trying to remember. I don't think we can say much about things that aren't announced. Yes, of course the new addition of the Volvo product in Sweden is the new product, but no, obviously there's going to be a whole series of new products coming out of each space.

Darren Seed - Westport Innovations - VP IR & Communications

We still expect -- sorry.

David Demers - Westport Innovations, CEO

Yes, carry on.

Darren Seed - Westport Innovations - VP IR & Communications

Graham, we still expect more product announcements in automotive and high horsepower, but as you can appreciate, that's all we can say at the moment.

David Demers - Westport Innovations, CEO

Yes, on the off-road space we did see a lot of data released from our partners at Caterpillar at public conference last month, so I think you can get a bunch of information there on the specific mine truck and specific locomotive products. And we're going to see an array of products and product services in that space to allow the rail industry and the mining industry to adopt natural gas. So I think a lot of progress, and 2013 we should see a whole bunch of new stuff.

Graham Mattison - Lazard Capital Markets

Okay, great. And then last on the HD HPDI engine. There's definitely meaningful drop in ASPs. Could you give us some specifics in terms of what drove that drop in the ASPs, and then how we should think about margins and ASPs going into 2013?

David Demers - Westport Innovations, CEO

Well, it's a bunch of things, and frankly there's a lot more room to go, as we get ready to launch the Volvo version of that product, of course. That's going to have even more capabilities of setting a new plateau for component price. And as we migrate those components that we've developed with Volvo system and the Volvo supply chain back into the North American product, that gives us another room to move. So, no, I think a lot of it is basic stuff.

We have been taking cost out. We have been improving reliability significantly, so a big part of this reduction year over year has been our experience with warranty. If we can take the warranty out, which lets us reduce the cost, but it's working to reduce the cost of building the truck. I think there is a lot of room left to go.

I think that's -- it's going to be -- have to be coordinated with our partners at Peterbilt and Kenworth, but we've learned a lot in the last 18 months about how to build

trucks and how to build them reliably, and I think we can do a much better job at getting the price out. Now, what's even nicer, of course, is that our cost is dropping even faster, so that's allowing us to get margins that are a little more reasonable than they were at launch.

And we expected that, and so we've been setting prices with customers that are presuming that we will achieve some of these cost reductions. And so the early shipments might be a low margin, but for the overall contract we make a pretty reasonable return. So I think that the game is just started. We do want to continue to push prices down to the point where there is this very compelling value proposition.

Graham Mattison - Lazard Capital Markets

All right, great. That's very helpful. Thank you.

Operator

Next question is from Ann Duignan of JPMorgan. Please go ahead.

Ann Duignan - JPMorgan Chase & Co.

Hi, guys, this is Ann Duignan.

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

Hi, Ann. We'll get your name pronunciation right --

Ann Duignan - JPMorgan Chase & Co.

That's okay, I am used to it. I would like to talk a little bit about launch of the CWI 12 liter, the timing of that. Is that going to be formally launched at Mid-America next year, or is it a January 1st start?

David Demers - Westport Innovations, CEO

I think we've always said early 2013, so I will stick with early 2013. Mid-America, as you know, is a very convenient place to show products.

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

It is in March, Ann.

Ann Duignan - JPMorgan Chase & Co.

Yes, I am well aware.

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

There's -- there are 12 liters selling today in beta units and early test units, but I think in terms of production, I'm sure it is going to be a ramp, and we'll just have to stick with our public answer that it is early 2013. And what month that means is I don't know.

David Demers - Westport Innovations, CEO

Well, like any engine product launch and any vehicle product launch, people want to exercise the systems a bit, so there will be a slow rolling start, and then volumes will pick up once everybody's systems are comfortable. And so full volume probably won't be hitting until

second half of the year, but I can tell you the volume demand and the plans are pretty coherent, and I don't think there's much more we can say on that one.

Ann Duignan - JPMorgan Chase & Co.

Okay, and then just based on your warranty experience on the ISLG, will you be accruing at a higher level, higher percent of sales for warranty for the 12 liter?

Bill Larkin - Westport Innovations, CFO

Sure. If you look at when we launched ISL G back in 2007, it was heavily burdened with the warranty and the margins were very low 20s. And that's very consistent with the launch of any new engines. So I don't have high expectations for the margins. I can't give a specific range, but they aren't going to be anywhere near what we're seeing today across all of our mature product platforms and then if you look in history, it will take about seven quarters, maybe a little bit more, to kind of work through all those bugs, and we will start seeing a steady improvement in the warranty history.

Ann Duignan - JPMorgan Chase & Co.

Okay, that's helpful from a modeling standpoint, I appreciate it. And then just finally, on the Heavy-Duty, the 15 liter, I know you are lower, the ASPs to try to make it more economical, give customers the opportunity to have a two-year payback. But from a philosophical standpoint, how do you address the fact that at the end of the day you've no control over the price of natural gas?

David Demers - Westport Innovations, CEO

Let's step back a bit. I didn't want to go into this. Darren said I was too long already. But if you look at the energy cost, natural gas is less than 10% these days of diesel fuel. So there's a lot of room for lots of services between that cost of the commodity, cost of the molecule and when it gets delivered to your tank.

So there's a lot of work going on, on what is the right pricing model, but I think our fleets are smart enough to recognize that's the real opportunity. So there's been lots and lots of back and forth on should we price to diesel, should we price to commodity, should we get a fixed price. All of those options are in the market now, and there's a lot of arm wrestling. So I think that the price of natural gas is going to be determined by fact that we've got a lot of players who are offering pretty attractive prices and still making pretty nice margins.

So I think that the price of natural gas we're seeing settle down a bit. It is settling down into that \$1.50, \$2 a gap -- a gallon gap with diesel fuel. It's actually even higher in Europe and in Asia these days. So I think that just competition is going to encourage pretty attractive fuel differentials.

Ann Duignan - JPMorgan Chase & Co.

Okay, and just finally, again, from a modeling perspective, I presume that the cost of these Jumpstart mobile units resides in SG&A, not necessarily on the heavy duty P&L?

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

These are fixed assets, so they don't hit the P&L.

Ann Duignan - JPMorgan Chase & Co.

Okay. Okay, that's helpful. I just wanted to figure that out from a modeling perspective. Thank you, I will get back in line.

Bill Larkin - Westport Innovations, CFO

Thanks, Ann.

Operator

The next question is from Vance Edelson of Morgan Stanley, please go ahead.

Mili - Morgan Stanley

Hi, this is Mili, sitting in for Vance.

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

Hi, Mili.

Mili - Morgan Stanley

Could you provide an update on any government incentives in China or anything that might encouraging the adoption of nat gas trucks in China?

David Demers - Westport Innovations, CEO

Bill, you want to -- I mean, what has really happened in China is that the government has declared natural gas for trucking as a priority, and particularly LNG for

trucking. And if you haven't seen it, I'm pretty sure there was some discussion on our website. I'm looking around.

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

There's also a new governmental document about their five year plan, Mili, and I can make it available to anyone who asks, the new documentation on it. So there is a new government direction, it's -- frankly it's a big -- as David said, it's a big government push right now for natural gas.

Mili - Morgan Stanley

Great, thanks.

Operator

The next question is from Jerry Revich of Goldman Sachs. Please go ahead.

Ravi Gill - Goldman Sachs

Hi, this is Ravi Gill on for Jerry. Good afternoon and good evening. David, for the light-duty business, how much of the softness in Europe is inventory destock versus lower build rates? And can you talk about how order rates in North America stacked up relative to shipments in the quarter?

David Demers - Westport Innovations, CEO

Order rates and shipments. Are you talking about the Ford pickup truck for North America?

Ravi Gill - Goldman Sachs

I guess first on the Europe side, so --

David Demers - Westport Innovations, CEO

Okay. If we just look at the usual -- the European situation has been pretty grumpy all year. I don't think that's a surprise to anybody. So, yes, we've seen inventory rates getting eaten into. That's a standard industry response. We have seen this happen now in North America where people just aren't holding inventory. They don't want to end the year with any inventory.

So that's we expect is going to rebound in both markets, but until we see some of the economic uncertainty in Europe get resolved, it is going to be a really very hard to predict. Now, we're doing pretty well in Europe, and our business we think is strong, but it certainly would be stronger if we got rid of some of this economic chaos.

North America, actually has been just because it just got launched and because there's been pretty substantial demand, that's doing well. And as Bill said, we'll exceed the 500 units that we set as a target for the second half of the year. And those levels we can manage. We are pretty much building to order on that front too. There's not a lot of inventory going out to the dealers, so I think that process is also well in hand, despite the fact that there's so much nervousness right now across the market about any sort of inventory and what is going to happen with the fiscal cliff.

So generally I would say we've got good solid demand from early adopters, and we would expect that we could broaden that market substantially next year.

Ravi Gill - Goldman Sachs

Thanks --

David Demers - Westport Innovations, CEO

Does that answer the question, or are you after something --

Ravi Gill - Goldman Sachs

Yes, thank you. And I was hoping you could talk more about the near to medium term penetration opportunity for Light-Duty in North America; particularly on the fleet side? And then perhaps you can frame it similar to the way you do in the heavy-duty business in terms of size of the addressable market and then your penetration goal?

David Demers - Westport Innovations, CEO

That's a great question. Part of this is -- of course is predicated on the idea that we are going to be able to broaden product offerings. I know there's a lot of people that think of the F-250 as a commuter car, but most people think it is a little too big. So we do need to have far broader coverage, which we're working hard on, in the North American and Canadian market.

But that product alone I think is a great start. We have designed the Louisville facility to have much higher capacity, and it's not really a lot of capital required to take that up to -- I'm looking at Bill -- probably 20,000 units. Ford has been very pleased with the result. I think it is fair to say that they think this is a great model going forward. We would like to broaden out the product line with them. We'd like to introduce other products with other manufacturers. So the challenge is going to be where is the demand, and where are we going to see that?

The F-250, F-350 is a heavy-duty product. It is really targeted at fleets, seeing a lot of interest in fleet operators, particularly city and state governments. There was a 22 state RFP. I think it was ask early indicator that people are keen on moving to natural gas vehicles. So

this will play out over the next 12 to 18 months. We aren't going to launch products without apparent demand, but the business model does allow us to launch products with relatively modest volume expectations. So I think what we're looking for are lead customers, people who say can you build this, can you do that. And we will apply the same sort of techniques to get that product out the door.

Ravi Gill - Goldman Sachs

Thanks, and just lastly on the LNG infrastructure build out. You noted in the announcement last week that -- about a slower than anticipated build out, but Clean Energy's results indicated their plans were on track. So can you just expand more on where you are seeing the near term hiccups?

David Demers - Westport Innovations, CEO

It's not -- Clean Energy isn't the only player. I think that's what we were trying to make clear in my statement. There are a lot of people that are now in the LNG business around the world, and it's not really a case that anything is not happening, it's just sometimes takes longer than expected. I think it is fair to say we expected Shell to have infrastructure built at a faster rate than they have this year. We've got our first truck fleets with Shell in Alberta, but that's going to come on strong over the next 18 months we think.

The new entrants -- ENN in Utah is another good example, where they have some good build plans, but they are not in place yet. And Clean has done a great job of building out the highway, but the bulk of those stations are coming at the end of the year. And so the fleet customers -- they are not going to take delivery and wait around for the station.

We would expect that we're going to see truck deliveries in the corridor after those stations get finished and commissioned. So I think that's really all we were trying

to say. With the combination of economic uncertainty, with some of these shifting plans, with the general economic challenges on trucking fleets, that's really what is resulted in this brake light phenomenon.

Ravi Gill - Goldman Sachs

All right, thanks a lot, David.

Operator

The next question is from Shawn Severson of JMP Securities. Please go ahead.

Shawn Severson - JMP Securities

Thanks, good afternoon. Wanted to go back to the kind of pricing and payback question, and dig into that a little bit? I guess, one, what do you think the real sweet spot is for the payback? I mean, obviously the less the better, but were it really gets over that tipping point, both for like a 13 liter launch and then also the 12 liter?

And then secondly, as you have been reducing prices, what's been the willingness, or do you think going forward is the willingness of the truck OEMs to drop their prices to ensure that at the retail or buyer level that the prices are dropping? Or is that going to be a function of just more competition and they will fight amongst themselves and drop prices for nat gas trucks?

David Demers - Westport Innovations, CEO

To be very blunt, we haven't dropped our price unless the OEMs are dropping their price. So, yes, it is a coordinated strategy, and we've got agreement. Again, part of our -- because we're working in the field, as I said, in that fourth bucket. We are working in a customer by customer, bid-by-bid basis. So we know

what the prices are and we know what the commitments are.

Most of the fleets that we're working with now, of course, are very big fleets who are used to buying large quantities and getting fixed prices for a year's supply of vehicles. So these are processes that are well understood, and everybody knows the game. So we can get good feedback on what the price point is for a particular fleet.

Now, in this case it is a little more complicated, because every fleet has a different duty cycle, and they have different fuel consumption patterns. And it is that fuel consumption pattern that determines the payback. But it is really hard for us to say, well, that you have the price to that gives you a two year payback, and then someone else is going to pay a price that is higher because they burn more fuel. So it's -- the industry doesn't work that way.

What we're trying to do is say there is a core market that is getting under a two year payback today. Those are the guys that consume a lot of fuel. The current fuel differentials, you can do the math. That's say a \$45,000, \$50,000 differential. If they are getting \$2 as gallon, they've got to be doing 25,000 gallons of fuel to get a one year payback. And there are fleets out there who are seeing that, and it is very compelling.

Then we've to get organized on the specific vehicle and configuration they want, which we don't have everything available today. Get the fuel infrastructure. So it can be very compelling, but still takes a while to get it organized. What we want to do is push the price down where an average fleet operator, who might be doing 15,000 gallons a year, 12,000 gallons a year, is getting that sweet spot, 18, 24 month payback. And that's some way away, but we think over the next couple of years it's quite credible that we will see trucks at that price point.

So that's the goal. We want to organize all of our OEM partners to understand that's where the competition will be. And that we need to have a plan that reduces the cost of production so that they can preserve their margins and their competitive position.

So long answer, but I think the sweet spot is to get down into that 80% of the new truck buyer market, look at

their price point, make sure that they are getting a great economic story, and everybody who is above that is even more compelling.

Darren Seed - Westport Innovations - VP IR & Communications

We saw some of that, Shawn, in the refuse market. You are probably aware too that the prices there, on the back of competition and competitive OEMs, those prices came down significantly, where there used to be a \$50,000, \$60,000 spread on refuse trucks, where the spread now is probably \$30,000, \$35,000.

Shawn Severson - JMP Securities

Right. Great, thank you.

Operator

The next question is from Alex Potter of Piper Jaffray, please go ahead.

Alex Potter - Piper Jaffray & Co.

Hi, guys. I had a couple questions here. First of all, if you could comment a bit on the trajectory -- downward trajectory of margins from the Weichai joint venture, I was wondering if you can comment. Over the last couple of quarters we've had a little bit lower profitability runway. Just wondering whether or not this might be, I guess, a new normal.

Bill Larkin - Westport Innovations, CFO

No, it's just -- I think we've talked about this last quarter. It has been trending down. And it is a competitive landscape, and it's a function of they want to capture market share. So they are being very aggressive in trying to capture and maintain their market share. I can't say this is going to be temporary, but I would like to see -- I would expect this to be temporary, and [expect] to see margins start going up in the future.

Alex Potter - Piper Jaffray & Co.

Okay. I was wondering if you could give a little bit of commentary for visibility on HPDI orders. I know that just from talking to people in the marketplace, there's obviously a lot of enthusiasm, a lot of anticipation for the 12 liter, which is going to be coming out here, and that will coincide, as you said early, with the roll out of infrastructure. By that same reasoning, are you also seeing I guess an uptick in enthusiasm or orders or interest on the 15 liter side once that infrastructure comes available?

David Demers - Westport Innovations, CEO

Yes, sure. I'm looking at Darren. Do you want to comment?

Darren Seed - Westport Innovations - VP IR & Communications

Yes, absolutely. Yes, I think we're seeing some interesting orders. I think clearly everyone is at the moment looking at economic and external factors before they make any commitments and decisions, but definitely the build out of infrastructures, as it -- obviously it is happening, whether coinciding for the 12 or 15 unit -- 15 liter orders. But yes, there is definitely some interest, and we've some repeat customers.

As we announced today in our press release, UPS has bought another 21 LNG tractors. So we expect to see more truck sales in heavy-duty into 2013. Additionally the FortisBC program, which we did highlight today in the press release, FortisBC has got a program that right now is looking at funding over 100 LNG tractors. So there's a lot of what I would describe is near term opportunities, and hopefully we can just convert them into orders as soon as possible.

Alex Potter - Piper Jaffray & Co.

Okay, great, and my last question, if you can give an update on the 13 with Volvo, is everything on track there? Any -- I guess the progress update. What you are updating timing expectations are if you have any? And then also how broadly that product will be distributed? Obviously Volvo is all over the place. Are we going to see that in North America? Are we going to see it Europe, South America?

David Demers - Westport Innovations, CEO

Yes, you will see it globally. I think we've announced that. I'm looking at Darren.

Darren Seed - Westport Innovations - VP IR & Communications

Yes, North America and Europe.

David Demers - Westport Innovations, CEO

Yes, so there will be an EPA rated version and a European Euro 6 version.

Darren Seed - Westport Innovations - VP IR & Communications

For 2014, and it's -- it is still -- to answer question two, it's still on track, Alex.

Alex Potter - Piper Jaffray & Co.

Okay, so no change in the timing expectation.

Darren Seed - Westport Innovations - VP IR & Communications

No.

Alex Potter - Piper Jaffray & Co.

Okay, thank you.

Operator

The next question is from Chip Moore of Canaccord. Please go ahead.

Chip Moore - Canaccord Genuity

Thanks. Just following up on that last question a bit; based on what you can see now, can you talk a little bit about how you see that HD shipment number progressing first half versus back half next year?

David Demers - Westport Innovations, CEO

I thought we've -- I've gotten a little bit allergic to trying to forecast anything in this economy, but I think the line that Darren just talked about with repeat orders from early customers, honestly, really reassuring. Our first customers are kind of into it about a year now. Most of them were -- they were buying lots of trucks, but a lot of it was proof of concept. Have we really got a scale to get a real meaningful assessment? So a repeat order from someone like UPS we think gives us some comfort that, yes, we're -- we've a ways to go yet, on pricing and delivery and product available and all this stuff, but we've got a value proposition that makes economic sense.

But we're pushing on that. I think you will our other early customers come to the same conclusion and deploy more trucks. Some early turmoil we talked about early in the year with one of the big early markets we saw for this heavy-duty truck with the oil and gas exploration and water haulers like Heckmann. And of course there has been a lot of turmoil in that industry this year, and a lot of those early trucks have been redeployed into other geographies just because the price of gas is down so much.

So a lot of turmoil in the obvious markets we targeted, but I think it's coming into the mainstream market now. We are seeing a lot of just general fleet interest and a lot of major fleet that is saying it is time put natural gas on the road. So I think next year is going to be strong for the heavy duty 15. Backlog and enthusiasm around the 12 liter is also really strong. But we're seeing a lot of customers look at the nine liter. They have had the nine liter trucking operations, and as Bill said, they are beating it to death, but they are very happy, because it is a small light engine that gets pretty good fuel economy. So -- and those trucks are priced really attractively.

So I think the trucking industry is getting their head around over how to adopt natural gas and really capture some great operational savings. And with that knowledge, it is going to become very, mainstream next year. So, lots of new products on the road. As I said, we've got many new truck products hitting, particularly with the 12 liter, and that will take some time to get out that into the market successfully. But for the next couple of years I think anyone should be able to buy any truck

they like in a natural gas version, and there should be pretty good economic proposition.

Chip Moore - Canaccord Genuity

Thanks. And just one follow-up; can you give us a sense of what some of your customers are locking in for fuel costs?

David Demers - Westport Innovations, CEO

I think I'd say it is \$1.50, \$2. That's pretty typical. A lot depends on how close you are to an LNG liquefier or which country you are in. Price gaps in Canada are pretty high right now because of course we pay higher taxes on diesel fuel. You get the same tax on natural gas, but that just means the differential is higher. The differential in Europe is quite high, believe it or not.

So we've been telling people to look at \$1.50 as something you can expect. That's pretty common to see, and we're seeing some contracts that are even higher.

Chip Moore - Canaccord Genuity

Thanks.

David Demers - Westport Innovations, CEO

That's the gap.

Operator

The next question is from Eric Stine of Craig-Hallum. Please go ahead.

Aaron - Craig-Hallum

Hi, guys this is Aaron in for Eric. Good afternoon.

Darren Seed - Westport Innovations - VP IR & Communications

Hey, Aaron.

Aaron - Craig-Hallum

Can you touch -- you kind of touched on the Fortis program a little bit, and I know you put the units in there. Is that kind of illustrative of the mix you see there? Is that still going to be 1,000 units over time? And can you kind of talk about --

Darren Seed - Westport Innovations - VP IR & Communications

I know we previously announced the funding mechanism, and how much -- if you just did the math, how many trucks it works out to be. In terms of the max -- excuse me, the mix between Cummins Westport related vehicles or HD15 related vehicles, it's always -- pardon me -- tough to figure out how forecast the mix going forward, because this is just the first tranche. We expect another tranche in 2013.

And so I think this is going to be a great program that we just expect to see orders for both Cummins Westport and the HD15 every time the re-launch and RFP happens. But it is just tough to forecast the exact mix.

Aaron - Craig-Hallum

Right. Okay, and then can you touch on the build out of fueling stations up there? I saw an announcement yesterday with Vedder and Fortis. Any more color there?

David Demers - Westport Innovations, CEO

I think that generally speaking, as I tried to say earlier, there is a lot of LNG activity. A lot of it is quite public now, so there is lots of people who are announcing LNG capacity, liquefier capacity, and making it available to off-load LNG and haul it to a fuel station somewhere. So that's probably ten times higher today than it was a year ago. And the number of people who are actually in the station business or the fuel hauling business is up.

So we shouldn't be surprised to see Fortis and Vedder saying we're expanding LNG infrastructure, because I think it has just become mainstream now. We are going to see more in Canada. I am very pleased to say that we're finally catching up to our success in other parts of the world like China, so we're seeing actually lots of interest in natural gas vehicles in Canada, from the pickup trucks up to heavy hauling.

Aaron – Craig-Hallum

Right. Okay, thanks. One more question on the UPS side of things. How many units are they at now? Do you have any color on their future plans and maybe mixing in the 12 liter there?

Darren Seed - Westport Innovations - VP IR & Communications

Well, we know the long haul shipments for the UPS -- I think they are actually one of the LNG largest tractor fleets I know in North America right now. We can get -- I can get you the specific numbers in the UPS fleet.

But the 12 liter -- again when you look another the applications we're selling them to, these are transfer --

freight transfer trucks, going up and down the highways from anywhere from Utah or Texas, as we announced today. There's a lot of interstate vehicles carrying a lot of heavy weight, so typically those are the 15 liter applications, just because of what the customers looking for. It is tough to say what effect -- or what -- how many 12 liters they may demand?

Aaron – Craig-Hallum

Okay, thanks, guys. I will hop get back into queue.

Operator

The next question is from David Galison of CIBC. Please go ahead.

David Galison - CIBC World Markets

Hi, guys. First question, just on the HD side, so you have shipped around 280 so far this year, are you still expecting maybe more of a muted bump in Q4, or how should we look that?

David Demers - Westport Innovations, CEO

Q4 is going to be pretty quiet.

Darren Seed - Westport Innovations - VP IR & Communications

Yes. With our revenue today -- pardon me, the revenue we've announced today, you can see it is -- we're probably expecting more than anything just a flat standard Q4, because right now all of our growth -- the product launch, is the next set of automotive, trucking

and off-road applications. They're all launching into 2013, so from a -- if you just take this back date from a build slot commitment standpoint to manufacturing, there's very little we can do to change where we're today, in the next six weeks, eight weeks.

So right now most of the product launches we've are really slated for 2013, and that includes heavy-duty in addition to, as we pointed out on the call today, a couple of LNG infrastructure stations that are expected to build out, as Clean even says, in Q1, Q2. That will build out nicely, so I think that's where you see better correlation to heavy-duty shipments.

David Galison - CIBC World Markets

Okay. And then just on the Tata agreement. So your typical development schedules have been running roughly 12 to 18 months. And you had mentioned that this one was a, I guess, an accelerated development schedule, I was just wondering if you can provide some color around that?

Darren Seed - Westport Innovations - VP IR & Communications

Well, we typically have a 12, 18 month for just a proof of concept. I think this is probably in general why we've used the term accelerated, is when the product may be available. Probably more accelerated than a traditional full -- if you look at Volvo by comparison, we first announced Volvo in July of 2008, and we're launching in 2014. So Tata is definitely looking a far more aggressive schedule than that to launch a product.

David Galison - CIBC World Markets

Do you have any idea of what the penetration rate for natural gas could be for this product?

David Demers - Westport Innovations, CEO

Well, it's -- I think we said this before, we've been working with Tata for some years, particularly in their automotive side, but this is a new concept for -- kind of their sweet spot, which is light- and medium-duty trucks and buses. Now the Indian market, those are smaller vehicles than you see here. So when we talk about truck and bus, those are typically much smaller engines and much smaller duty cycles. So we're looking for something that is very economical and -- but very high performance.

So, no we're really excited. I think it's going to be a fun project. We've done enough work on it with Tata to this stage, this really is meant to be a development and commercialization program to get into the market on an accelerated basis. So it's, as Darren said, typically 12 to 18 months, so we would hope to see product out there in 2014.

David Galison - CIBC World Markets

Great, thanks. Thank you very much.

Operator

The next question is from Matthew Blair of Macquarie Capital. Please go ahead.

Matthew Blair - Macquarie Research

Hi, good morning, everybody.

Darren Seed - Westport Innovations - VP IR & Communications

Good afternoon, Matthew.

David Demers - Westport Innovations, CEO

Or good morning. Where are you?

Matthew Blair - Macquarie Research

Been a long day here; just thinking about your market share in light of this global slowdown in truck sales. It looks like Weichai Westport share was up this quarter, despite the sequential drop in sales. CWI is a little bit harder to tell. Can you help us out here? Is the ISL G still gaining share over these past couple of quarters in the North American class eight market, or do you feel like you're losing share?

David Demers - Westport Innovations, CEO

Compared to diesel? Yes, I mean obviously we're all that there is on the natural gas side. But compared to diesel, yes, I think that the slowdown has been much more abrupt, and yes, we've muted by we're still growing, so I think probably share would grow. Now this is still single digit share in most markets. Refuse has been really a natural gas story all year. So I think Darren is saying we're 30% penetration.

So we think that will continue to rise. I think the -- in any economic uncertainty, people with a cost saving story are going to do better than people that are just business as usual. The problem on natural gas trucks is just that it's such a high capital cost that it's pretty easy for people to say let's wait and see. So we need to find a way to spread that capital cost out or reduce the obstacle.

But generally I think natural gas is going to continue to grab share away, and that means that the OEMs that are

strong in natural gas will benefit at the expense of OEMs that are not as strong in natural gas.

Matthew Blair - Macquarie Research

Sure. Than then, Bill, sorry if I missed this here, but the service income this quarter, was that for Volvo? And also going forward, the Caterpillar service income, can you give us any guidance on how we should think about modeling that out over the next year or so?

Bill Larkin - Westport Innovations, CFO

As you know, we've multiple development agreements and that -- the \$1.4 million was one is under one of those agreements. I can't give you a lot of color going forward, other than during the quarter we were recorded \$3.6 million in R&D expense that will be recovered at one of the next milestones. So we've been burning \$3.5 million, \$4 million a quarter in R&D that we would expect to be reimbursable in the future.

Matthew Blair - Macquarie Research

Okay, thanks.

Operator

Next question is from Carter Driscoll of Capstone Investments. Please go ahead.

Carter Driscoll - Capstone Investments

Good afternoon. Thanks for taking the question. A bit of a -- trying to use a 12 liter as a gauge; obviously FedEx had their announcement prototype trial of a couple of

year engines, and trying to get a sense of when they actually start that trial? How that progresses in terms of timeframe? Any feedback they may or may not give you? And when that becomes maybe an initial order, maybe using them as an example of where the larger fleets versus say one of the smaller regional players, and how that -- compare and contrast that. Trying to get a sense of what ramp might look like in 2013 based on expectations of adoption? If you could just kind of frame that out for us, that'd be helpful.

David Demers - Westport Innovations, CEO

I can frame it, but you will have to paint the picture I'm afraid. It's one of those numbers everyone would love to have. I think -- I mean, the short answer is we do have quite a few beta trucks out there. Each of the OEMs have a number of trucks that are in the field with customers. I haven't looked a recent count, do you know? It's a couple dozen I think are out there.

And they've been out there now for, just counting the miles, almost a year we've had trucks on the road. So, yes, the FedEx trucks are new. They -- that's adding to their existing fleet. They've got some 15 liters, they've got some nine liters, so I think that everybody is quite excited at the product. Early feedback has been really good. But obviously we want to put a bunch of miles on this engine. If we've learned one thing, it is that trucks are exercised to the maximum everyday of their life, so we need that reliability and service data, and we need lots and lots of miles built up.

There is going to be another early release, a limited release to qualified fleets early in the year. And then as production starts to begin, we'll start rationing them out to people. As I said earlier, demand has been great. I think people really feel like the nine liter is a little small and the 15 liter is a little bit, and this could be just right for a lot of fleets.

And with the advantage of not having a complex after treatment, because it's monofuel, doesn't have diesel pilot, the systems are simpler, may not have exactly the great performance characteristics of the 15 liter, but the 15 liter has got a clear home in long haul, heavy haul

applications, but the 12 liter do just fine when you are moving Coca-Cola around the city, something like that. So, lots of demand, lots of interest. Time will tell how many we actually release.

And obviously we've still got work to do with our supply chain, with engineering, and with the testing before we're ready to launch. But so far, I think the market is ready for this product. It's going to have very broad availability across many different trucking platforms, and we think that's just inevitably is going to mean rapid adoption.

Carter Driscoll - Capstone Investments

And if I may, just a quick follow up, the RFP -- the 22 state RFP and them pushing the big three to develop a broader line of vehicles powered by nat gas, any discussion you could give about your take on how that may or may not spur the market? Whether this is -- first year might be in pretty small quantities, but how important it is to the adoption of natural gas from the municipal and state level because of this RFP?

David Demers - Westport Innovations, CEO

Darren is going to go.

Darren Seed - Westport Innovations - VP IR & Communications

Yes, I think -- I did a lot of digging into this. I think -- look, it is a great message, there's no doubt. I'll take maybe the statistical approach, and David can give also the strategic and color approach.

There was a number of RFPs that were awarded on sheer price, and some were -- and performance. Some were actually -- in some specific states, frankly, they actually looked and were only interested in the Ford F-250 program with the WiNG Power System. That's great. I

think this overall is just going to message -- I think, Carter to your comment, it is saying to the big three to develop natural gas solutions.

In terms of any kind of statistical order approach to how to look at that RFP, that is still quite light. I think we've had very modest expectations. Have had them since the get go. I think the -- just because someone had won an RFP doesn't mean there was an order, and that's where we're trying to caution people on expectations. This is a great message --

David Demers - Westport Innovations, CEO

Yes, the RFP was a request for proposal. That's what it means. It didn't mean anybody actually intended to do much. The other lesson I'd take from it -- I'll just add a little different dimension to what Darren said, was that the 22 states -- we congratulate them for getting organized, and obviously we've been working with all of them. But the process was designed -- the original goal here was to get a bunch of purchasing agents in a room and say let's aggregate our orders so we get enough volume to go back to the OEMs and say, yes, see, here is a big number, build what we want.

And unfortunately, if you read the tender documents, what happened was we got 22 states in a room, and they all said, well, I want it this way, and I want it that way, and I want this brand and that brand. So it ended up not aggregating anything, and of course the OEMs were able to say, quite legitimately, you have always said that we need to get some volume, and we're still not seeing significant volume with any particular model.

I think we can all say that, but the message has been heard, and certainly we're seeing a lot more enthusiasm for the OEM development of vehicles, and the model that will we developed with Ford is -- we've had a lot of people into that plant to kick tires and look at how it works. I think that quasi-OEM process where we help -- with a fully tested, fully integrated, fully manufactured vehicle that looks like it came out of the factory, in close collaboration with the OEM, is a great way to get relatively low volume product out but still make a reasonable return.

So we're going to see a lot more product options made available through the OEMs. I'm convinced of that. They are engaged. They see it coming. What they are really looking at now is how to do it and not lose their shirt.

Carter Driscoll - Capstone Investments

Appreciate that. Thanks, gentlemen.

Operator

Next question is from Jeff Osborne of Stifel Nicolaus. Please go ahead.

Jeff Osborne - Stifel Nicolaus & Company

Great, good evening. Most of my questions have been answered, but just on the China front, can you touch on, Bill or David, the HPDI launch there and give an update on that? Are you beta testing units and still expect that in the first half of next year?

David Demers - Westport Innovations, CEO

Yes, we're -- I'm not sure we ever said first half. I'm looking at Darren. Have we -- we've been testing. I think there was a note in the press release on the high altitude testing, which is really good. We had a lot of reaction to that, because I don't think natural gas engines ever operated at that altitude successfully. So with the resource haulers and the heavy haul work in the far west in China, this high altitude performance test got a lot of attention.

So, that was at 16,000 feet or so, almost 5,000 meters, which believe it or not, apparently there are lots of highways in China run at that altitude. So, yes, we're still testing. We're still building the supply chain capability

with Weichai. The product launch I think we've always said was 2013. I don't think we picked a date.

But clearly the demand is there. What we need to do is make sure the supply chain is ready and the product is ready to release into the market. China, as you know, never does anything small, so they are building LNG infrastructure at a terrific clip. And on the price of fuel is pretty attractive. So again, we want to get the product ready to launch. I don't see any significant delays. Right now it's just a question of following the procedure. And then presumably we will see some orders.

Jeff Osborne - Stifel Nicolaus & Company

Understand. And then on the 15 liter front, just is the bulk of the demand there today in Canada, or what's the rough split of U.S. verses Canada?

David Demers - Westport Innovations, CEO

It's been almost all U.S. We're just really starting to see some orders in Canada. Vedder is probably the most visible recent fleet. Obviously Robert in Quebec had been an early fleet. So the demand -- the interesting demand is coming in Alberta in the oil patch. Shell has significant plans for LNG, and the fleet that we did this quarter was Bison.

So, I think we're going to see a lot of enthusiasm throughout the natural gas supply chain, the bumps in the road this year about moving out of the Haynesville and moving trucks to Texas and moving to Marcellus. I think putting all of that aside, everyone has seen the writing on the wall, that they if want to reduce their fuel costs, they have to start to use natural gas. We have seen a lot of people in the gas community talk about using their own commodity and building demand and how much demand could we build for our own product if use our own product. So that I think that is inevitably going to lead to demand for the HD15 truck.

Jeff Osborne - Stifel Nicolaus & Company

Got you. And just one last one for Bill, on the CWI warranty charge this quarter, was that predominately associated with the 8.9 liter or a different product?

Bill Larkin - Westport Innovations, CFO

It's predominately 8.9, what I touched upon in my prepared remarks, and predominately in the trucking applications.

Jeff Osborne - Stifel Nicolaus & Company

Got you. And so how do you think about the experience that you had with that relative to the launch of the 12 liter and your response to a prior question about the six to seven quarter kind of roll off of the egregious warranty charges -- or reserves that you have to start? My sense that the 8.9 liter has been out longer than that period, and now some of these --

Bill Larkin - Westport Innovations, CFO

Yes, but it's more recently in the trucking applications. Historically, it's been principally for refuse and buses, and then more recently they have been getting installed into regional trucking applications.

Jeff Osborne - Stifel Nicolaus & Company

Got you. Okay, so do you expect that kind of warranty reserve to continue, or is this something you -- over the next three to six months the problems would be solved.

Bill Larkin - Westport Innovations, CFO

We -- for the existing product, as I mentioned, we've identified the issues, we're working on the fixes, and we going to try to get those rolled out as quickly as possible. And it takes two or three quarters after implementing those fixes to see that come back through the warranty provision. And so right now it is just an accrual hanging up on our balance sheets.

Jeff Osborne - Stifel Nicolaus & Company

Great, thanks much for the detail.

Operator

This concludes the time allotted for questions on today's call. I will now turn the call back over to Mr. Seed for concluding comments.

Darren Seed - Westport Innovations - VP IR & Communications

Thank you very much, everybody, for your patience, and we looking forward to seeing you in February on the year end conference call.

Operator

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