

Fiscal 2012 Q4 Financial Results: March 07, 2013

DARREN SEED speaking

*Vice President, Investor Relations and
Communications, Westport*

Thank you and good afternoon everyone.

Welcome to our Fourth Quarter and Year End Conference Call for fiscal 2012. It is being held to coincide with the disclosure of our financial 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 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.

We've got a lot to talk about today and since we want to leave more time for questions, Bill and I are going to be covering a lot of ground quickly.

I wanted to kick off the discussion though with a brief review of the year just concluded, and the strategic position we find ourselves in, and talk about how we've organized and reorganized for the next phase of our company's development. There's been some big changes and this is also changing our financial presentation, which we hope you will agree is going to make it easier to identify trends, and see our growth and path to profitability.

But just looking back, we talked about this in our last conference call, in October, but 2012 was really a remarkable year for Westport. We really believed that we passed through a tipping point and we're now in a new era in the market for natural gas as a transportation fuel.

In every market segment, and in every geographic area, we saw strong evidence that all of the necessary conditions for strong market penetration and growth are now in place, or they soon will be. Now, we at Westport have made great efforts over the past decade to promote and deliver demonstration projects that prove that natural gas could be viable as a transportation fuel. And in the process we've recruited many partners and we've developed a broad consensus that our approach, which coordinates the investment in infrastructure, vehicle development and the market development, could realistically deliver exciting returns to all the stakeholders, including our customers.

Fiscal 2012 Q4 Financial Results: March 07, 2013

So, as I said in our last call, we now see broad consensus that natural gas is going to take pretty meaningful market share in the transportation markets we participate in. A pretty widely quoted number that a lot of people are using is that forecasters are looking for between 7% and 15% of the heavy duty truck market in North America to be natural gas by 2017. Now, we don't really care which end of this project is on, and in fact, as you've heard us say we don't think 15% is going to be that hard. But the challenge is going to be getting from zero to that level. We're seeing similar numbers in China and we're rapidly seeing great interest in new markets like mining and rail. Our more mature market segments such as transit and refuse we continue to increase market share and well past that 50% mark. So our conclusion is that 2012 marked the end of the concept phase. We've concluded that customers do want a completed systems solution. They want to see the economic advantages. They don't want any hidden penalties and they don't want to give up anything as they move to natural gas.

Now, these markets don't necessarily exist today but the path to this industry is in front of us and we're confident that it's now achievable. We intend to be one of the leaders in this emerging opportunity and we believe that we have the technology, the partnerships and the market position to actually deliver this.

So, for the past decade the goal has been to attract new customers and show them that natural gas works and so naturally our business metric has been revenue growth. I have to say, I don't think there's anything really wrong with customers and revenue as metrics, but it's now obvious to us and to our partners there's going to be a lot of people who want natural gas transportation applications. So our job now is to finish product development to get a broad array of the right products to market, we need to help our partners sell and support them, we need to hugely expand our product offerings into new markets and geographies. We need to reduce costs and pass this through to our customers as reduced price. But as I said, this is all underway. 2013 will see the beginning of this new phase of our industry, with

natural gas products becoming mainstream and we'll grow from there.

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

As we look at the opportunity ahead we concluded that we need to pivot away from this proof-of-concept project -oriented organization and increase the focus on our commercial products and our partnerships. So we've therefore made a significant shift in our organization and we have changed our financial reporting accordingly. We think this will more transparently explain our business and you can track our progress going forward.

First, we've reformed our former Light Duty and Heavy Duty business units into three, new, global units; Westport Applied Technologies, the first one. Their job is to solve the technical challenges of using gaseous fuels on vehicles and then engineer and manufacture specific, unique vehicle components such as fuel injectors, fuel pumps, fuel tanks, pressure regulators, electronic controls and so on, that are required to build best-in-class natural gas vehicles. We build some things; we have other things built to our design, as appropriate. This group sells globally to both OEM and aftermarket customers, as well as to our internal customers. Now, if you look at the financial statements you can see that this group is the bulk of our current product revenue, at \$92 million last year.

The second group; On Road Vehicle Systems is our traditional HPDI/OEM partnerships, and the new vehicle partnerships with people like Ford and GM and Clark. The job here is to design complete vehicles and have them designed to be produced in parallel or on the production line with the major OEMs. Now, we've developed unique

Fiscal 2012 Q4 Financial Results: March 07, 2013

partnerships with the majority of these OEMs and at this point we do believe every transportation OEM must organize their natural gas product line within a very short time. I'm pleased to announce that we've recently launched two, new, OEM programs with our first natural gas product collaboration.

Third, the Emerging Opportunities and New Markets group which includes our trainee's initiative and the Caterpillar relationships in off road are focused on major new market opportunities that don't really fit into either of those first two categories.

We also have two major joint ventures; Cummins Westport and Weichai Westport where we receive a share of the profits from these companies. What we want to increasingly focus on is the revenue from sale of Westport products to customers that use these JV engines, and we want the JV's to be reported in a parallel fashion. Bill is going to explain the accounting reasoning but our new presentation will show both joint ventures by equity profit share and our reported revenue will only include Westport product and services. Note that sales of products like the new universal LNG system to OEM's with CWI engines, or sales of products like HPDI systems to Weichai, are going to appear as Westport product revenue.

I know many of you are used to thinking about our numbers consolidated with Cummins Westport and pulling Cummins Westport out of our consolidated revenue number to get a Westport product number, so for consistency this year we're going to continue to report Westport plus CWI top line as a non-GAAP measure. But, looking at 2012 through this new lens, you can see a few things pretty clearly. First, Westport revenue, so this is Westport product revenue was up 54% to \$157 million, CWI revenue was up 21% to \$198 million, and Weichai Westport had a great year, up 148% to \$272 million. Using our previous guidance methodology, Westport plus CWI, total revenue was \$354 million, which exceeded the \$340 million to \$350 million guidance that we gave you for the year.

lines but we're also going to see the launch of some very important new products; the CWI ISX 12-litre engine, for example, which has been very well received; the Westport LNG system for vehicles that have those engines, which solves a major fuel and station issue for the industry, the first HPDI trucks in China, and major new Ford products as you've seen over the last couple of weeks.

That said, we can't put vehicles on the road unless people know how to refuel. This year is also a transition year, we believe, for a phase change in this obstacle. We aren't where we need to be today but the situation gets dramatically better in 2013 and in 2014 and in two years or so we think this will no longer be seen as a serious challenge anywhere in the world. We won't be finished with infrastructure of course, but anyone who wants fuel should be able to organize it.

To wrap up, Westport is now in transition from a market creation story to a more straightforward business execution story, in what we expect to become a very, very large industry. And now that we have proven out the capability of our 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; reducing cost, improving reliability, product evolution, sales and marketing efficiency, customer support and of course filling out the portfolio. But we believe we've developed a very broad platform for growth and profitable returns for our shareholders for many years to come. We are in a fortunate and very exciting position. The opportunity is here. The market is ready. And we have a great opportunity. So, over the next few years, we will begin to see the payoff for our long investment. We would like to thank you for your patience and I look forward to reporting our achievements ahead. So Bill, do you want to go ahead and take us through the numbers.

BILL LARKIN speaking
Chief Financial Officer, Westport

In 2013 we will see continued growth in our existing product

Fiscal 2012 Q4 Financial Results: March 07, 2013

Thanks, David. Good afternoon everyone. With the realignment of our internal teams as David reviewed, we have updated our segment reporting and disclosures, which will provide more transparency into understanding each of our business segments.

As you can see, we have changed the financial presentation of CWI; going forward, we will be using the equity method of accounting for CWI, which is consistent with how we account for our interest in our Weichai Westport JV; WWI. Disclosure of both CWIs and WWIs operations and financial position will be expanded and disclosed in the footnotes to our financial statements and are expected to provide more transparency and insight into their operating results and financial position. We expect great things from our joint ventures this year with new products launching throughout 2013.

With this change in presentation, we have defined six business segments, which David has discussed. Those are Applied Technologies, On-Road Systems, New Markets and Off-Road Systems, Corporate and Technology Investments, and of course our joint ventures CWI and WWI.

Under this new management structure, we have more visibility in our businesses moving to product-focused business segments, and can measure their transition to mature, profitable and cash generating businesses such as CWI and WWI. Now, I'll walk through the consolidated operating results for the quarter ended December 31, 2012.

For the quarter, and under the new financial presentation, we recorded consolidated revenue of \$39.9 million. This represents a decrease of \$3.0 million, or 7.0%, compared with the prior year period due to lower revenues of \$1.2 million from our On-Road business unit and \$2.0 million decrease in service revenue. Our full year consolidated revenues were \$155.6 million, up \$54.8 million, or 54% compared to the prior year period.

Our consolidated gross margin for the quarter ended December 31, 2012 was \$13.4 million compared with \$14.4 million in the prior year. Our gross margin percentage for both periods was 33.6% of total revenue.

Our full year gross margin percentage was 34.1% compared to 26.6% in the prior year.

We are developing new products and investing in proprietary technology programs that will help contribute to future revenue and earnings potential. On that note, research and development, R&D expenses, were \$24.4 million for the quarter ended December 31, 2012, an increase of \$9.1 million from \$15.3 million in the same period last year. Total R&D expense for the full year was \$73.2 million.

To support our new product development programs and pending commercialization, we are building Westport's foundations including the addition of our new facilities in Detroit and Louisville and acquired operations. As a result, general and administrative expenses were \$15.9 million for the three months ended December 31, 2012, an increase of \$6.0 million from \$9.9 million in the prior year period. G&A expense for the full year was \$44.8 million.

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 product offerings. As a result, sales and marketing expenses were \$9.0 million for the three months ended December 31, 2012, an increase of \$2.7 million from \$6.3 million in the same period last year. Sales and marketing expense for the full year was \$30.1 million.

Our net loss for the three months ended December 31, 2012 was \$37.6 million, or \$0.68 loss per share, compared with a net loss of \$14.5 million, or \$0.30 loss per share, in the prior year period. For the full year, net loss was \$98.8 million or \$1.83 per share. Our earnings for the quarter and year ended December 31, 2012 were affected by \$5.7 million and \$17.1 million, respectively, in warranty related adjustments. Without the warranty related adjustments, our reported net loss would have been \$35.2 million or \$0.64 loss per share for the quarter and \$92.6 million or \$1.71 per share for the year.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Now, I will walk through the financial highlights for each business unit starting with the Applied Systems Business Unit. During the quarter, Applied Systems generated \$19.8 million in revenues compared to \$19.5 million in the prior year. As discussed on our November earnings call, the economic conditions in key geographic markets, including the Eurozone, and weaker Euro-to-U.S. dollar exchange rate impacted our revenue growth. Recorded gross margin and gross margin percentage were \$5.3 million and 26.8%, compared with \$3.7 million and 19.0%, respectively, in the prior year period. The prior year period's gross margin was negatively impacted by the purchase accounting adjustments to inventory in connection with the acquisition of Emer. Full year revenue was \$91.7 million with gross margin percent of 27.6%

Operating expenses were flat with operating income for the fourth quarter of \$1.4 million compared to a loss of \$400,000 in the prior year period. For the full year Applied Systems' operating income was \$10.8 million.

Now, moving on to our On-Road Systems business unit, during the quarter, the On-Road Systems business unit generated \$12.4 million in revenues compared to \$13.6 million in the prior year period. This decrease in revenue is due a reduction in the number of Westport 15L systems sold during the quarter of 109 compared to 170 in the prior year period. This reduction was partially offset by contributions from deliveries of the Westport Wing System on Ford 250/350 vehicles, of which we delivered over 200, during the quarter.

During the quarter, Westport On-Road Systems recorded gross margin and gross margin percentage of \$400,000 and 3.2%, compared to \$800,000 and 5.9%, respectively, in the prior year period. This decrease is principally due to warranty related adjustments of \$750,000. Excluding this warranty provision, gross margin percentage would have been 9.3% for the quarter. We expect our margins to increase in the future as we continue to drive costs down on our Westport 15L system, and drive increases in the sales of our products. For the full year; the On-Road business unit generated \$40.7 million in revenues with gross margin percentage of 11.3%.

The On-Road System operating expenses during the quarter were \$14.9 million compared to \$12.6 million in the prior year period. This increase is primarily driven by the addition of our new facilities in Detroit and Louisville to support our automotive OEM relationships and production of the Ford-250/350 and soon to be launched F-450/550 products. For the full year, On-Road's operating expense was \$47.9 million.

Now, moving on to the Corporate and Technology Investments Unit, as presented in our segment disclosures, has not changed. We are developing new products and investing in proprietary technology programs that will help contribute future revenue and earnings potential, and when products are commercialized, those products will become a part of a business unit product portfolio. During 2012, we invested over \$70 million in new product development, which includes our investment in HPDI systems for Volvo and Weichai, and other applications such as rail and mine haul.

Now we're going to move on to our joint venture highlights, starting off with CWI. During the quarter, CWI generated \$42.9 million on 1,301 units, a decrease in revenues of 26% from the same period last year of \$57.7 million on 2,011 units. CWI engine shipments in the fourth quarter of 2012 declined by 35% due to record fourth quarter sales in 2011 driven by increased engine sales in North America prior to the reduction of accelerated capital cost allowance rates in the U.S. and large international transit bus engine orders in the same period. However, North American sales in the conventional truck segment, which represents CWI's largest growth opportunity, increased by 52% over the fourth quarter of 2011. For the full year, CWI earned \$198.0 million in revenues.

Gross margin and gross margin percentage for the quarter ended December 31, 2012, were \$11.0 million and 26%, compared with \$25.2 million and 44%, respectively, in the prior year period. Excluding the warranty related adjustments, CWI gross margin percentage would have been 37% for the quarter. CWI continues to work on the fixes to push through the development and sales channel as soon as possible. As

Fiscal 2012 Q4 Financial Results: March 07, 2013

previously stated, we are only recognizing our interest in the net income of CWI going forward. For the quarter, we recorded income from CWI of \$1.2 million compared to \$5.3 million in the prior year period. As a reminder, we have established a baseline revenue target for each year, and Westport earns 75% of the profits on revenue in excess of the baseline revenue. For 2012, CWI's revenue exceeded the baseline revenue hurdle and Westport participated in the bonus profit.

Moving on to our Weichai Westport joint venture continues to see a strong demand for their spark-ignited natural gas engines. WWI generated \$107.4 million of revenues on the sale of over 9,100 engines during the quarter compared with \$32.5 million on 2,754 engines in the prior year period representing a 226% year-over-year increase in revenues. For the full year, WWI delivered over 22,000 engines and earned \$272.1 million in revenues. Based on our 35% interest in the joint venture, we recorded income of \$500,000 compared with \$600,000 in the same quarter last year. As discussed on previous quarterly updates, the lower net income is based on aggressive market penetration strategy in China to capture market share. WWI continues to grow at an impressive rate with its year-over-year revenue growth in excess of 160%, which in the fourth quarter and the full year of 2012 earned more revenues than CWI.

As of December 31, 2012, our cash, cash equivalents and short-term investments balance was \$215.9 million compared with \$67.6 million at December 31, 2011.

For the fourth quarter of 2012, our consolidated adjusted EBITDA was a loss of \$31.0 million compared with a loss of \$9.3 million in the prior year period and \$66.7 million for the full year. Please see a reconciliation of adjusted EBITDA in our earnings press release dated today. For further financial disclosure, please see our MD&A and financial statements as filed and posted on the Company's website for more details.

To wrap up here, before we turn it over to questions; you know, how do we plan to use our cash; we have almost \$216 million? We're in a position to capture our share of this emerging opportunity. We will leverage our technology, our partnerships and market penetration to

continue to prudently invest in new products and technology that make sense and provide significant returns. As we see our path forward today, we expect our Westport business units, this is' Applied Technologies, On-Road Systems and New Markets & Off-Road Systems to be cash flow positive in 2014, and we expect these business units to generate sufficient cash flow to cover our Corporate & Technology Investments in 2015. However, we do have a few paths that can accelerate this timeline by either managing the level of our investments in new products and technology or increasing our revenues and contribution margin if we see acceleration in the adoption of natural gas as a transportation fuel.

With that, I will now pass the call back to the operator to open the call for questions.

Operator

The first question today comes from Lawrence Alexander of Jeffries. Please go ahead.

Laurence Alexander- Jeffries & Company

Good afternoon. A couple of questions, first, could you speak a little bit about the levers that might affect your cash burn in 2013? And how you think about, sort of, the far ends of the barbell, so to speak?

Bill Larkin - Westport Innovations, CFO

Sure, as we mentioned, we have invested over \$70 million in R&D, and these are for programs that will generate, result in future products and generate revenues, and we think for 2013 we will probably invest \$80 million, however, we have the opportunity to manage what that level of investment is by choosing which programs we want to invest in going forward. So, with that said, right now we're probably looking around \$80 million for investments for 2013.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Laurence Alexander- Jeffries & Company

Okay. And then, in terms of your net cash burn across the business, that's your net number, or is that just your R&D number?

Bill Larkin - Westport Innovations, CFO

That's just the R&D number. If you look at where our adjusted EBITDA burn rate was for the last year, it was about \$66 million, as we mentioned we have over \$200 million in the bank, and so that would say that we have got almost three years of cash just to cover our operations. However, we expect our business to continue to grow. Those businesses are going to generate cash flows, and that's going to continue to add to that pot of cash that we have. So we have sufficient cash, and we can continue to manage that going forward by, as I mentioned, for adjusting, what we choose to invest in going forward.

Laurence Alexander- Jeffries & Company

And then, two quick ones; I guess, first of all, in terms of the change of the accounting, was that tied to the renegotiated agreement with Cummins?

And secondly, on Applied Technologies, the fairly weak growth that you have seen there, can you talk a little bit about the regional mix and what you're seeing by region?

Bill Larkin - Westport Innovations, CFO

Yes, I'll tackle the first one, because that's more of an accounting matter. The accounting rules, this has to do with the VIE accounting, it's very, very complex and very, very judgmental. I think the actual accounting literature is 35 pages. But interpretations that the firms have

issued range from 450 to 500 pages. So, in accordance with the guidance and all these interpretations, we have to go through and analyze each and every one of our investments, and that's for CWI, that's for Weichai, and if we have any future investments or trade point ventures, we have to look at those.

So we spend a lot of time looking at it internally. We've talked to our accountants. We've had discussions with regulators. And based on those discussions, and recent or updated interpretations of the guidance, we thought accounting for CWI in the equity method going forward is more appropriate. And also, I think I like the expanded presentation now, because I think it gives more clarity and transparency in terms of how each of these businesses are doing and how they're going to progress going forward.

Darren Seed- Westport Innovations, VP IR & Communications

And then the regional?

Bill Larkin - Westport Innovations, CFO

Yes. For the pipe (ph) system -- as we mentioned in there, yes, they were flat year-over-year. As you mentioned, with the weakness over in the Eurozone, plus that business, the majority of the revenues are denominated in euros, and then when we sit there and consolidate our financial statements, we have to go through and translate them. And the weakness in the euro, I think that impact year-over-year was roughly about 11%. That kind of masks somewhat what that growth is. So if you did it on a constant dollar basis, the growth of business was much better. And that's also heavily concentrated in Europe, however, that business is looking to continue to diversify by trying to expand itself, network, and penetrate markets in South America and Asia.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Laurence Alexander- Jeffries & Company

Thank you.

Operator

The next question comes from Rob Brown of Lake Street Capital Markets. Please go ahead.

Rob Brown – Lake Street Capital Markets

Good afternoon. Thank you for the clarity on the rest of the business outside of CWI. I just wanted to get a sense on your new market's business right now. It does not generate revenue. When do you see that turning on revenue? And I assume it's the HPDI product into Weichai, but what else -- is that what drives the revenue? And when does it turn on?

David Demers - Westport Innovations, CEO

Well, Rob, that would be giving away all the good stuff. You'll have to wait and see. The short answer, I think Bill gave it away, is we said we expect business units to be positive cash flow next year. We're not going to do that from a standing start. You'll see revenue in that business unit this year. They've got products in the portfolio, some of which, you probably have not heard about yet. But that business has got lots of opportunity, and we're quite excited about it.

Of course, the heart of that unit is the relationships with Weichai and Caterpillar you can draw your own conclusions from there. And of course we expect to see some HPDI component revenue as we sell through into that market. It's very clear that the opportunity for LNG trucks in China is just spectacular. We have just announced an alliance with ENN, for example, in North America. Well, ENN is, I think, looking at build number

four in China? Everybody is building LNG infrastructure at a terrific pace, and you can see the numbers. I think we were 9,000 LNG trucks in the quarter, alone in China. This is mostly a trucking story, and it's mostly an LNG story. And so, this market is, I think, perfectly timed for the launch of the high-performance HPDI trucks that we're talking about.

The challenge there is going to be price. So we're working hard to get a supply chain geared up, but fortunately the market volumes are such that we are getting a lot of interest, and I think we can see pretty bright prospects for that business in China, with Weichai. But there are a whole range of other products, and we will see revenue from the Off-Road business in 2013, it's not something that's way off in the future.

I don't know. I hope that gave you something to work with, Rob.

Rob Brown – Lake Street Capital Markets

That helps, thank you, and I will ask another one here that I hope you can answer. Can you give us a little more color on these new OEM global relationships? Are they in trucking? Are they in these new markets? What is the financial model that these relationships would be similar to? Volvo, where there is some upfront R&D or how can we look at that working?

David Demers - Westport Innovations, CEO

Hate to be mysterious, well actually we don't hate to be mysterious, we love to be mysterious, Rob. But you know how these things go. These are relationships that have been underway for some time. We are at the point now, where we are in a commitment of resources for product development. The partners that we are working with, will, in their own time, reveal their product plans, and we're not going to tread on that. We can't say much other than that they're both HPDI oriented, so you should presume that's not small CNG vehicles. These are going

Fiscal 2012 Q4 Financial Results: March 07, 2013

to be large fuel consumption vehicles that would fit the HPDI profile. But beyond that, we cannot really say. They're global products, with, we think, very bright prospects.

Business model; it's, I think, pretty settled, that what we've done with Volvo and Caterpillar is quite attractive to people. They want, everybody is seeing more than just technology licensing opportunity here. We will see some continued product collaboration where a considerable amount of engineering work and product development work is going to be outsourced to Westport, for which we will be compensated we will have those expenses covered. That said we will be investing with them in market creation and other activities on the side. I think, you'll see a lot more information on these relationships in 2013, as they talk to their customers in their own time.

Rob Brown – Lake Street Capital Markets

Okay, but duration of when this becomes a product in revenue for you, is that --

David Demers - Westport Innovations, CEO

We will see revenue from services, as you can imagine, much like we are with Volvo, and the timetable for product launch, we will have to leave to our partners to tell you.

Rob Brown – Lake Street Capital Markets

Okay, thank you.

Operator

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

Ann Duignan – JPMorgan Chase & Co.

Yes, hello, a couple of quick questions. On the on-highway business, you know the warranty costs, I think they were quite sizable. Could you just talk about what those warranty issues are? Is it HPDI? Is it the fuel system that's causing the warranty issues, or is it something else? Should we be concerned as that business gets expanded geographically?

Bill Larkin - Westport Innovations, CFO

Are you talking -- oh, the On-Road units?

Ann Duignan – JPMorgan Chase & Co.

Yes.

Bill Larkin - Westport Innovations, CFO

No, like anything with new products, we are going to have some bugs, and we've identified what those bugs are. Now, we've just got to go through and implement the fix. And since we've identified the fix, quantified it, we had to make that accrual during this period. So fixes are going to be rolled out over the next quarter or so.

Darren Seed- Westport Innovations, VP IR & Communications

We should be able to see an improvement, and on our warranty adjustment of these fixes -- it just takes a quarter or so, just to work the fixes into the system.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Ann Duignan – JPMorgan Chase & Co.

Yes, but I guess my question was, what particularly was the warranty issue?

Darren Seed- Westport Innovations, VP IR & Communications

We have not disclosed it in the past, and I think we would have to consult with -- we can follow up with you after, Ann, on this. We would need to consult with Cummins, if they're comfortable with us disclosing it. That's all.

Ann Duignan – JPMorgan Chase & Co.

I'm not talking about the CWI warranties. I'm talking about the HPDI warranties.

Bill Larkin - Westport Innovations, CFO

Oh. Yes, we approved that; \$750K for the quarter.

Ann Duignan – JPMorgan Chase & Co.

Right. But my question again was; what were those warranty issues?

David Demers - Westport Innovations, CEO

Sorry. \$ 750,000 for the quarter, it's all the usual stuff that we are seeing on trucks; tanks, fuel pumps, fuel injectors, controls. A lot of our early customers, as you know Anne, are in awkward applications. So we're

getting a lot of stuff shaken to bits, which is always entertaining. I don't see it as anything -- there is nothing specific, there is nothing unusual. Its changes to the product which we are undertaking, I think, for obvious customer support reasons. As we do those things and we correct those errors, those results in a warranty adjustment.

Bill Larkin - Westport Innovations, CFO

A lot of it, I think you touched on it, it's just where those trucks are being used that we are seeing, these types of issues are extremely hard conditions.

David Demers - Westport Innovations, CEO

Yes, and there's always some surprises. We are seeing all kinds of variations and things in field use, much as we have seen with CWI. People are doing all kinds of interesting things with these vehicles that the engineers did not expect. And that inevitably is breaking stuff. Early days for natural gas, and we want to have customers believe that they're going to get good product and customer support, so we provide pretty good levels of warranty and beyond that, we, I think, give fairly liberal policy adjustments on things in the field, even if it's outside, technically outside the warranty.

But the net result of all this is that we are taking very prudent warranty accruals, and as we fix the bugs, of course that warranty accrual will get back into the P&L if we don't need it. I think that in the near-term we are going to see all kinds of challenges in the field. So don't give anybody an illusion that this is being fixed. As we proliferate into new customers and new markets, we are seeing different behaviour in cold weather than in warm weather, and we're seeing different behaviour in altitude than at sea level. We're going to see all kinds of field testing that results in corrections to the product, and that's why we take a good warranty accrual.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Ann Duignan – JPMorgan Chase & Co.

Yes, and I totally appreciate that. I just wanted to make sure there was nothing fundamental out there that was going to be a problem later on. And just a real quick follow up, the kind of business I always think about, you know once you give away pricing you can never get it back? Can you talk about the opportunities for pricing in China, or are we saddled now with the businesses growing very quickly, but the margins are structurally hurt going forward?

David Demers - Westport Innovations, CEO

I will kick off, and then let Bill do the hard stuff. I think the first point we want to make is that these joint ventures, Cummins Westport, and Weichai Westport, neither one of them today, are really Westport content. As we have talked about before, these are ending joint ventures that we entered into over several years ago with key partners. And as much as anything, they're creating market for us, but we aren't really engine manufacturers. That is not Westport's business model.

The joint venture is a way for Cummins and for Weichai to get into the business at lower risk, because we were in there helping them with it. But the engine business is a pretty interesting place these days, as you know Anne, so Weichai is running the show on how to sell natural gas engines, much as they're in diesel engines. And in China it's becoming incredibly competitive. The natural gas business is doing really well, and what the scale now, with these numbers, this has actually become a big business, and I think Weichai is very pleased with the opportunity.

What we want to do now is follow-up by shipping Westport technology to those customers, and we'll be selling tanks and pumps and fuel injectors to the joint venture. We are going to be selling the fuel systems. We will introduce low-pressure fuel systems and things like that. We are going to be selling other components to the joint venture, and that business is going to be under our

control, and we will set our pricing. So over the next year or two you'll start to see that business evolve, and we're pretty confident that we can get decent margins and attractive pricing on the Westport business.

How the joint ventures sell the total engines is going to be determined by that very competitive industry, and of course by the overall pricing and portfolio strategies that Weichai and Cummins have. Not seeing that that's a business that we are going to repeat with our other partners, those were one-time things that we are able to do in the market conditions over the past decade as we have got things going. But it is not necessary with our new partners to demonstrate that there's a market for natural gas engines or to mitigate their risk on launching these products.

They're going to be doing that, and you can go and quiz those guys on their own natural gas engines business, and margins, how they do it. We just want to make sure that our product plans and our business is successful. And we think we are in good shape to do that.

Ann Duignan – JPMorgan Chase & Co.

Okay, that's perfect.

Bill Larkin - Westport Innovations, CFO

I think we have talked about this before in our previous earnings call, Anne, as you know, it is extremely competitive over in China, and that has an impact on margins. Weichai is the largest producer of natural gas in the trucking market however, they're not the market leader for bus engines, or for the bus market. And six or nine months ago, the joint venture or Weichai, made the conscious decision that they want to go after that market, because they wanted to be the market leader. And essentially they dropped their price on those engine sizes, typically the 7 to 9 litre engines, to go after that market.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Ravi Gill- Goldman Sachs

So it's only with respect to a couple of engine platforms. They have multiple engine platforms, and from my understanding, they have not made any significant changes on the larger engine platforms. And those margins are still -- they're decent, but they're not Cummins CWI like, but they're still pretty good. We are in discussions with our joint venture partners, and discussing, what is the strategy, because this is a rapidly growing market.

Good afternoon and good evening, this is Ravi Gill on for Jerry. On the business segment realignment, can you speak about the commonalities you hope to achieve between the HPDI business and the WiNG business? Perhaps can you quantify any R&D or distribution expense reduction opportunities now, from bringing them together?

We want to capture as much of that potential market as possible, and participate in that upside. We are going to continue to work closely with our joint venture partner, and make sure that we understand and support their strategy. And another thing too, is if you look at the operating expenses in the Weichai joint venture, and they have been growing very rapidly year-over-year, they delivered over 22,000 engines in this year, which is over 160% year-over-year growth, and they're projecting very steep growth as well, in 2013.

David Demers - Westport Innovations, CEO

And to support that growth they have to make a lot of investments in those support activities, to support that level of growth going forward. That is why you are starting to see a steep ramp in operating expenses, because they're trying to stay one step ahead so they don't miss an opportunity in that market.

Yes. I think that the primary thing we want to achieve with this is the geographic concentration on the market development activities, and the relationships with fuel providers and on the sales force. There are obviously big differences in what you are selling in terms of a Ford F-250 compared to a big truck with an HPDI engine. But, we are launching a range of new products into those markets over the next two years as you know, so we're trying to set ourselves up so that we have got what amounts to an On-Road OEM support team on the market creation side, interacting with the infrastructure guys on a coordinated basis, because again, load is load, for fuel partners like ENN or Clean Energy or Shell. That is really what we are trying to do with these units, is create some geographic and industry focus, as well as really focus on specific OEM partners and their product lines, so that they can be successful.

Ann Duignan – JPMorgan Chase & Co.

Great. Yes. The size of the revenues versus the profits that just magnified the issue again. I appreciate it. I will follow-up off-line with my other detailed question. Thanks.

The On-Road business unit is really the heart of the HPDI trucking business, but they're also responsible for our Volvo car initiative. Why? Because Volvo Car is literally across the parking lot from Volvo on the truck side, and we've got people in that location. Why don't we operate both relationships from that one location? So, I think it makes sense.

Operator

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

There is no easy way to align business units in a global business. There isn't a perfect answer. I think this one is going to serve us well, over the next few years at least, as the market grows from where it is today, to what we

Fiscal 2012 Q4 Financial Results: March 07, 2013

expect it to be in three to five years. And we're getting each group a specific mission that they can focus on. I hope it works it out. If that doesn't work out, we will adjust it.

Ravi Gill- Goldman Sachs

And on China, you had great bus engine sales in the quarter, but obviously the truck market is the more important long-term market for Westport. Your competitor, Yuchai, spoke about a slower expected ramp on the LNG infrastructure build out between cities. Can you talk about how that impacts your near-term view, particularly as you introduce the 12-liter HPDI product in that market?

David Demers - Westport Innovations, CEO

I think that they're saying it's slower because it's such a torrid pace. Everyone in China is now complaining that they're way over built. It is really quite funny that people are interpreting that as a slowdown. It's a -- we agree that they're probably ahead of themselves in the market. China tends to do five times as much as anybody thinks is possible, and then they wait and see how it shakes out. So right now they're more stations built, and more people jostling, which is driving prices down, then we see North America.

I think that we are going to see a slowdown in LNG infrastructure investment in China, and that's why we're seeing people like ENN come to North America, where tell us, oh wow, this is such a nice open easy field. We might make some money. So I think there's lots of LNG infrastructure, there's lots of LNG capacity, and more coming. And, I don't see any issue with that in Asia.

We are seeing expanded interest now in other parts of the world. I think people are looking at the leadership in China and North America. The LNG is becoming a pretty hot topic in lots of industries. There has been lots of chat recently about rail and mining, but it's just as lively in

marine applications, and other big, equipment like, construction, and of course, trucking. I think we are going to see a pretty broad consensus around LNG as a fuel for high fuel consumption, and that's creating new life in the CNG business. We are very business on the infrastructure side everywhere. China, as they say, tends to be pretty volatile. It is either all-on or all-off, but there's lots of capacity today, now we want to go fill that up with product.

Ravi Gill- Goldman Sachs

Okay thank you.

Operator

The next question comes from Vishal Shah of Deutsche Bank. Please go ahead.

Vishal Shah – Deutsche Bank

Yes, hello, thanks for taking my question. Can you just talk about your expectations in your guidance for the year, for the new products in 12-liter and ramp that you expect for the year, for the new products?

David Demers - Westport Innovations, CEO

I'll start. I'm looking at Bill. We have never done, I shouldn't say we've never, rarely do we do specific product guidance or give back-up numbers for what I think are obvious reasons. There has been some talk recently about the 12 being late, but we're not sure where this is coming from. It is on schedule. We are seeing, as expected, CWI is in production. I think April is the first early -- I'm looking around which is exactly what we have been saying for a while. Full commercial production in early summer, I think July, August we will

Fiscal 2012 Q4 Financial Results: March 07, 2013

see commercial volumes, and we're going to have a great year with that product.

We have not given specific numbers. There are, I know, people speculating about the numbers. I think it is a very hotly anticipated product with every truck manufacturer keen to get their hands on engines. So I think we're going to have a great year. That said, we want to be disciplined about it. This is a new plant, and Cummins, Jamestown is producing this engine. They have not produced natural gas engines before, so we have got a disciplined rollout procedure as you can imagine.

These are new engines, going into heavy duty cycle applications, so we want to be disciplined about training the fleets, and training the dealers with these new applications, which is why there is a ramp roll-out. But lots of customer enthusiasm, lots of demand. I think it is going to do real well. And of course, next year it could be another story. I think that the brakes are off for next year, and if we do well in 2013, that could be a great product for the industry next year.

The only other comment I would say is that it is clear that people are waiting for this product. There has been lots of enthusiasm. The, early, field trial trucks that have been out there; are being well received. I think a lot of people are paused, waiting to write a check for a truck with this new product. We're looking at second half of the year being much busier than first half of the year, because of that.

Darren Seed- Westport Innovations, VP IR & Communications

We have a number of Westport WiNG product launches that we're pretty proud about. Obviously the F-250/F-350 is launching for its full-year production. We have got the F-450 and F-550 that has been unveiled with Westport WiNG at the NTTA show earlier this week. We also have a couple of technology and product displays

coming up March 19, at our Louisville, Kentucky event. I would encourage anyone to come. But there is also the Weichai 12-liter product with Westport HPDI, that we expect to get into some customer hands later this year, and as David mentioned, on a prudent rollout and development schedule, just like, Cummins Westport did with their 12-liter, we don't expect to do ours any differently. And get through testing. I don't know, does that answer your question?

Vishal Shah – Deutsche Bank

Yes, that's very helpful, thank you. And just wanted to follow up; I appreciate the color on the warranty expense. But, should we assume, that given some of these new product launches and a busy schedule for the next couple of years, we should expect similar levels of warranty charges for the next couple of quarters? Thank you.

Bill Larkin - Westport Innovations, CFO

There are not going to be warranty charges. The margins, whenever we launch new products, are very similar to the 9-liter, back in 2007. They're going to be heavily burdened with warranty. It is going to be a part of the cost of sales and that's going to drive down the margins. And over several quarters, it is going to be shooting bugs, as issues or problems arise. And we will continue to fix those. And then as we fix them, we start seeing improvements in reliability and those bugs falling off. But, we will start reducing that warranty piece of the cost of goods sold, and that's going to drive an increase in margins.

However, whenever there is an adjustment to whatever that rate is going to be, it is very process oriented. And in terms of the data used and how they calculate their warranty, it is a very detailed, complex calculation. So when there are any changes in that, that's where you get these kinds of warranty charges on, I would say, more mature type products.

Fiscal 2012 Q4 Financial Results: March 07, 2013

David Demers - Westport Innovations, CEO

Yes, I would chime in and second those comments on warranty. It is something that's very technical and it is prescribed, and it really is not very forgiving of changes in use for the product. For example when CWI launched its 8.9-liter engine, it was being targeted at buses, with a little bit of refuse truck. That establishes warranty profile in over a few quarters that we stick with. We always are quite prudent when we launch the product, but we established a baseline in those early applications.

And then what happened with the 8.9-liter, is we started to see sales in completely different applications like trucking, which of course screws up the warranty profile until you establish a base. It is difficult to change your warranty accrual rates on-the-fly until you get a good baseline. And particularly when we are shooting bugs as we go, the baseline chart is up is down, and that's why you get adjustments. So it is more with market success in new applications that you are breaking that traditional, take a good warranty accrual and then watch your warranty accruals rates drop with maturity.

The same thing on the 12-liter; I don't expect we're going to see lots of warranty adjustments when we launch the 12-liter, but we are going to launch with a big warranty accrual, which will result in low margins. Similarly on the HPDI products, what we are seeing the adjustments for, is unanticipated applications like off-road hauling to frac sites and things like that. That is not the profile we established at the ports in LA, where we have some pretty civilized trucks running around in Southern California. Warranty is a fairly technical issue. It is not really very easy to figure out exactly what is going on just by looking at the warranty rates. Hope that all makes sense.

Vishal Shah – Deutsche Bank

Yes it does.

David Demers - Westport Innovations, CEO

Now, the other point we want to make on warranty, is that of course this is cash that just sits on the balance sheet. It doesn't necessarily mean it is being used. It means that we have got cash put away for what the current expense run-rate looks like if we have to apply it to the entire vehicle population. But of course the engineer's job is to make sure that we don't burn that cash, and bring it back into the balance sheet. So it is a constantly fluctuating game, where we have got a pile of cash sitting out there waiting for customer claim activity.

Vishal Shah – Deutsche Bank

I appreciate that, thank you.

Operator

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

Alex Potter – Piper Jaffray

Yes, hello guys. I was wondering, first of all, if you could chat a little bit, I was listening to the Clean Energy call here, I guess, a couple of weeks ago, and they make the claim effectively, that a lack of infrastructure in North America can no longer be used as an excuse for a lack of heavy-duty truck sales in the natural gas context. So I was wondering if, given that statement, whether A, you agree, and B, if you do agree, at what point you think the 15-liter HPDI engine starts ramping?

David Demers - Westport Innovations, CEO

Two different questions; I don't think it is easy enough just to say, infrastructure is done. Much as we appreciate

Fiscal 2012 Q4 Financial Results: March 07, 2013

Clean Energy's bravery in getting out and building these stations, there really are, still, just a few dozen LNG stations, covering the entire interstate network. So yes it is great. It's much better than it was, but it is not by any means going to satisfy every customer. And a lot of the customers on the 15-liter, just to get specific, a lot of 15-liter customers aren't stopping at public truck stops, they're looking for stations that are-- their control in their yard.

There is a little more nuanced situation, let's say, on infrastructure and product mapping. I think that the Clean Energy network is going to be very appropriate for trucks with the new CWI 12-liter, the fleet profile and the activity profile we are expecting should feed straight into that network. But at the same time, to get a full infrastructure network in North America, we're going to need tens of thousands of fuel stations, not a couple of dozen. So this will get built out over time.

There are all kinds of economic argument to build a station if you have got even 20 or 30 trucks servicing that station and building the load, so we are going to see the infrastructure built. Today, lots more infrastructure than there was, and it is not fully utilized, so we're going to do our best to fill those stations up with truckload for sure.

Darren Seed- Westport Innovations, VP IR & Communications

I think, in addition, is going to help is new product launches, such as the 12- litre and a number of OEMs this year, in addition to our expected Volvo or the expected Volvo product launch, next year with the 13-liter engine.

David Demers - Westport Innovations, CEO

I tried to allude to it in my speech, but now you have given me an open door to go and rant a bit more. The infrastructure barrier, when customers say we can't by the truck because we don't have the truck stop yet, well as you know in any sales situation, that's just the first objection. So now we can go in and say okay, we built stations by the trucks. And they go, well, we can't get the truck we want. We want a different model of truck. And so it is our job to make sure they can go get the preferred brand.

And as we launch new products and new platforms over the next two years, that excuse becomes a lot easier to solve too. And I shouldn't say it is an excuse, it is a legitimate problem for fleets that have built their operation on a specific configuration of vehicle, and we simply can't match every possible configuration, of every possible brand of vehicle, with every engine combination, that the diesel industry can offer today.

We are trying to prioritize that, there is going to a whole bunch of new product this year with the 12-liter, with a bunch of new variants, and as we launch other products with people like Volvo over the next two years that will get filled out. And then we get into the real issue which is the economics; what is the price of the fuel; what is the price of the truck; how does this fit in with my competitive strategy for my fleet?

So, lots of issues to be resolved. I think what we are hoping you can take away from what we have been saying over the last few quarters, is that these issues are now getting solved for very large part of the transportation market, and we are going to see a pretty significant market penetration. We are convinced, because we have solved those conditions for good subset of the market, and when we get more and more of it solved, you know it is certainly our ambition to eat away until we've got 100% market penetration, which will take some time. But it is not an unrealistic ambition, we don't think.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Alex Potter – Piper Jaffray

Okay great. And then last question here. Of the 12-liter CWI's spark-ignited engines that are out there now for trial purposes, out on the road, what percentage of those, roughly, are CNG and what percent is LNG?

David Demers - Westport Innovations, CEO

Oh. Good question, actually. I'm not sure that I've got the answer. I would be guessing 50/50, but we will have to get back to you on that. There is actually quite a bit of interest in CNG, as you can imagine. There has been some good experience. It really depends on your duty cycle and how far you are going. For the regional haulers, particularly the ones that have got 8.9-liter engines in CNG vehicles, they're quite happy to up-size, and continue to use some CNG packaging.

I think over time, as we see more long-distance, people will migrate to LNG. And of course the LNG business, the infrastructure as we talked about, is getting built out, which is going to make that option a lot more attractive to people which is why we have developed this new LNG system, the tank-pump combination that we announced last fall. I think that's going to make things a lot easier for people adopting LNG with the spark-ignited engines and give people a lot more efficiency on the fuel station configurations, so that they can continue to use cold fuel.

So all of those factors, I think, are going to see LNG percentages in that fuel application rise as people get more comfortable with it. But typically, the early customers for this engine have been people who were CNG customers with 8.9-liter, and so they got the infrastructure built up that way. I'm not sure we can give you any real conclusions on what that percentage share was in the field trial, because they may not be representative of the future market. But ask us in a couple of years, and maybe we will give you some good data.

Alex Potter – Piper Jaffray

Okay great. Thanks very much.

Operator

The next question comes from David Galison of CIBC world markets. Please go ahead

David Galison - CIBC World Markets

Good afternoon everyone. So just a quick question on the two GM Development programs, and just how are things progressing there?

David Demers - Westport Innovations, CEO

Good.

David Galison - CIBC World Markets

Is there any updates that you can give on them, or –

David Demers - Westport Innovations, CEO

Afraid not, but you can call GM and see what they tell you.

David Galison - CIBC World Markets

Then I guess --

Fiscal 2012 Q4 Financial Results: March 07, 2013

Darren Seed- Westport Innovations, VP IR & Communications

We do expect to bring some of those -- they've been in - - I'm sorry David. They have been in development now for, one of them just over 1.5 years and one for just about seven or eight months, and the programs are going well. I think the next step is working with GM to decide on when and if there's a commercialization move there. And that's something we would have to work on with GM and be able to disclose at that time.

David Galison - CIBC World Markets

Okay. And then, looking at your -- you gave some guidance for R&D for 2013. Can you give a little bit of guidance on how we should think of sales and marketing and G&A over the year as well?

Bill Larkin - Westport Innovations, CFO

Yes, actually I think it is going to be fairly consistent with what we had for last year. Probably, on a combined basis, you are probably looking about \$20 million a quarter for both G&A and sales and marketing combined. That can move back and forth between the two buckets, but in total, the two of them is about \$20 million a quarter.

David Galison - CIBC World Markets

And then, just looking at the F-450 and F-550 WiNG, would they be similar ASPs to the F-250/F-350? Would you be expecting similar demand from them? Or how should we think about that?

Bill Larkin - Westport Innovations, CFO

Well, I believe the selling price is going to be without the cylinder.

Depending on the packaging because each and every configuration is going to look different on these they're not going to be very standard. There is going to be different packaging, tank sizes. So depending on that configuration, whether it's a deleted body or with a different body, that ASP is going to go up or down.

Darren Seed- Westport Innovations, VP IR & Communications

But in terms of volume, what we're finding is the commercial, and those were at the NTTA show with the F-450s and F-550s earlier this week David; there's quite a bit more demand, just simply because of the commercial application, whether it is coaches running around airports, or fire trucks, or hydro commercial vehicles. There's a great deal more applications for the F-450/F-550 than just the standard F-250/F-350 work vehicle. So we do expect to -- well, I would say internally, we have great expectations on the WiNG sales for the F-450 and F-550.

David Galison - CIBC World Markets

Okay. And just a final question; just looking back at the Weichai, we talked about the operating expenses ramping up as they're trying to further penetrate the market there. Should we look at a continuation of increased operating expenses as revenues continue to ramp up; or are they at a level that they think they need, to continue to build out?

David Demers - Westport Innovations, CEO

I will kick it off and then Bill will elaborate again. I think we have to just pause a bit, and say, this was a hugely unanticipated growth rate. We have been very bullish in China, but we've been marveling as you know, you have

Fiscal 2012 Q4 Financial Results: March 07, 2013

followed us for a bit. We said, wow, 100% a year, that's pretty tough. And even in China, that means the management teams are scrambling, and moving facilities, and adding people, and doing stuff.

You can see expenses are not rising as fast as revenue, so we are getting some good leverage, but we do need to keep upping our expectations, and this year was much better than planned. There is no other word for it. And we are seeing a lot of it in fourth quarter. I would not say that it is as efficient as it needs to be, or will be, once things settle down and we get to a reasonable growth rate, of maybe only 40% or 50% a year, or whatever that might be.

So yes, they're scrambling. We are moving facilities, we're changing suppliers. There's a lot of stuff happening in any business that's growing like that. We are quite comfortable that the product plan looks good. That there will be product refreshes all kinds of changes and developments. Competitive position is strong. The opportunity for improved margins is there. I think that the joint venture has bright prospects, and we will continue to support it. But any time you see someone in the automotive business growing like this, and this is pretty big scale now, it is not just 100% growth in a few million dollars. We are at a \$250 million dollar revenue run rate in US dollars, which is a pretty sizable engine company now.

David Galison - CIBC World Markets

Okay thank you very much.

Operator

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

Matthew Blair – Macquarie Research Equities

Good afternoon. It looks like there's been some significant interest in natural gas from the railroad community. Could you provide an update on your activities in this area; and, is this partnership with Caterpillar or should we expect new products still about five years down the road; or are you ramping up your activities here and maybe could bring a product a little bit sooner?

And then also, I guess the competing technology in the space is dual fuel. Could you talk about how your HPDI technology stacks up against dual fuel? Thanks.

David Demers - Westport Innovations, CEO

Wow. Well, I could go on for bit on that one. The first answer is no, we are going to have a test locomotive. This is no secret, a test locomotive running HPDI with CN Rail coming up. It's not years out, we are getting ready now. That is under the SDTC program that has been announced for quite a bit. That is in partnership with Progress Rail under Caterpillar. That is going to be a real mainline test, not a trial. And the rail business is gearing up very rapidly. Yes, it is quite true. We have been very encouraged by the response in the rail business over the last 18, 24 months as we have been working up these demos.

I think people are moving very quickly to say, we want to see commercial product. We want a complete system. We want the answers solved, and we want to roll this out as quickly as possible, once we see that it is viable. So this is not proof of concept or demonstration. It really is working out the bugs in the overall strategic plan, which is to move to this lower cost of fuel as quickly as possible.

So, lots of work on fuel infrastructure and distribution models. I think the industry is pretty much settled now

Fiscal 2012 Q4 Financial Results: March 07, 2013

on tender car fueling concept, and the advantage of a tender car rather than on-locomotive fueling, is we can really enhance range. So we get much longer range on LNG than you have with diesel locomotives. We can fuel multiple locomotives from a tender car. Tender car can be much easier to solve the fuel distribution challenge too, because we can deliver full LNG rail cars to where the locomotives need the fuel, rather than have to build fuel infrastructure wherever the locomotives are.

I think the industries thinking it through very thoroughly, lots of excitement. The money to be made is spectacular, and of course the industry is facing an emissions plateau anyway. If we are going to do an emissions change over onto locomotives, maybe we should just go straight to LNG. I think that's as a matter of fact, driving the sense of urgency. I think we are going to see a lot of interest in how these trials go and where the technology is.

In terms of comparing to dual fuel, I think dual fuel is a great solution for [locomotive]. People have been doing this for decades actually. But, you are not going to get the fuel substitution rates you want. There are some performance concerns. It has got to be well-managed. So I think dual fuel is going to let people get going to get experience with the infrastructure, to get experience with LNG.

But, for full commercial product, we are going to want to have a fully engineered product, which is what we are doing with Caterpillar. I think the opportunity for rapid adoption in rail is really exciting. I think the economics are just so compelling, and because there are relatively few customers, and everybody is looking at it. I think we can see a pretty broad and successful program with the rail business, assuming that we can solve all of these problems to their satisfaction.

That is the job we are doing over the next year or two, is getting all of those moving pieces organized and demonstrating that it is done, and then, as you know, we said 2017, is the target for full commercial availability. Obviously we have to be satisfied and the industry has to be satisfied, long before 2017, that everything is going

to work. So we will see that rollout over the next 24 months, we think.

Matthew Blair – Macquarie Research Equities

Okay, sounds good. Thanks for that. And then, also, on the revenue guidance, Bill, it looks like you provide 2013 revenue guidance, both with CWI and without CWI. And, if you take the difference there, it implies an incremental 2,000 to 2,400 engine sales for CWI in 2013. And, I'm just wondering, if this seems a little conservative, considering that in 2012, CWI sold an incremental 1,300 engines. And this year you obviously have the 12-liter launch; should we think about this 12-liter as being, another 1,000 engines this year, to your existing CWI product line-up? Thanks.

Bill Larkin - Westport Innovations, CFO

Well, we are not going to provide any specific details on the mix of engines in that guidance. I think the year-over-year growth is very good, and I think it is still to be determined. We still have to launch the 12-liter product. And it would be nice to think of the guidance as conservative, but I think time will only tell, as we launch the 12-liter, get through the initial production, and then get geared up for full production. There is a lot of variability in there. If you want to look at it as conservative, I think there is --

David Demers - Westport Innovations, CEO

We all hope you're right. And the other fact, I will rescue you a bit on this one, Bill. We have said commercial production, second half, and again it is no big secret that we are targeting August deliveries for commercial launch. That doesn't give us much of the year to really post spectacular numbers. If we post the numbers that we are talking about, yes CWI is going to have a great year, and that's the plan that we are telling about.

Fiscal 2012 Q4 Financial Results: March 07, 2013

Obviously there's capacity to do more. Obviously if the demand is there, we will be happy to take the orders.

But there is a supply chain, and the supply chain has to be geared up. There is a very significant effort behind getting these trucks and all of the suppliers ready. Let's hope that you are right, and let's hope that we have a fabulous 2014, with that product.

Matthew Blair – Macquarie Research Equities

Okay thanks guys.

Operator

That is all the time we have left 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 everyone for attending, and I will look forward to seeing you in early May for our Q1 of 2013 Conference Call.

Operator

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