

DARREN SEED speaking

*Vice President, Investor Relations and
Communications, Westport*

Thank you and good afternoon everyone.

Welcome to our First Quarter Conference Call for fiscal 2013. 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, and good afternoon everyone.

As expected, our first quarter of 2013 was a transition period with some remnant effects from the soft market conditions at the end of 2012, and the impact on timing and the recognition of service revenue from our development projects and the opportunities in our On-Road Systems business unit. We are expecting a step change in growth over the course of this year and we remain confident the market for natural gas as a fuel in trucking, in particular, is here and now, not five or 10 years down the road. With the launch of so many new truck models with the new Cummins Westport ISX12 G engine, we see strong customer demand going forward, alongside the new Westport LNG Tank System.

At the same time, the change in infrastructure availability year-over-year has been spectacular and more is on the way. The public announcements of stations for trucks now stands at around 560 that will have LNG by the end of 2015, and if we presume a minimum of 40 trucks operating at each station, this would imply over 22,000 LNG trucks on the road in the United States by the end of 2015. Now, typically, these stations could support a hundred trucks each, maybe a bit more, and since we're also expecting a lot of CNG in the trucking business, this should explain our comment on step change in demand.

Our Westport WiNG™ products have also established a market-leading position for performance, quality and value. We're expanding that offering into the larger F-450 and 550 models, and will be producing in Canada for the Canadian market in June.

Internationally, we continue to see excellent growth in China. Our joint venture with Weichai shipped more than 8,500 engines this quarter, which is up over 200% year-over-year. It's important to remember that we're also launching

Westport products directly into the China market this year, and now that there's such a robust market established, we expect that those products are going to find strong demand.

In Sweden, uncertainty about the availability of government incentives slowed sales of our Volvo car business substantially in the quarter, but the recent announcement by the Swedish government that NGV credits will continue for three years has revived sales.

Perhaps the most interesting news this quarter was the very public interest and discussion about the use of LNG in the rail industry. As you know, we've been working with Caterpillar to develop locomotives and mining applications that use our HPDI technology for high performance and fuel economy that matches diesel in these demanding operations. These programs are going well. We've seen high commitment to building out an LNG fuel distribution system that will be dedicated to the rail industry.

So, we're reiterating strong growth for the full year in 2013, based on a strong build in our new products and sales of those new products, particularly in our On-Road Systems business, which will take Westport direct revenue to \$180 million to \$200 million, as we said last quarter.

Each of our joint ventures is also positioned for great growth this year and we're in a position, we think, to capture our share of this emerging opportunity by leveraging our first mover advantage, our technologies, and our asset-light business model. Our balance sheet has enabled us to continuously invest in new products and innovative technologies. We think this will fundamentally transform the transportation sector as we see more and more penetration of natural gas.

We'll be back to questions in a few minutes, of course, but I'll turn it over now to Bill to discuss the financial statements.

BILL LARKIN speaking
Chief Financial Officer, Westport

Thank you, David, and good afternoon everyone. I'll begin with a brief overview of our first quarter results and then the highlights of each of our business units, including our joint ventures.

For the quarter ended March 31st, 2013, under the new financial presentation, we recorded consolidated revenue of \$30.1 million, compared to \$36 million in the prior year period, a decrease of \$5.9 million or 16%. Segment revenue for the quarter was \$23.3 million for Applied Technologies; \$5.8 million for On-Road Systems business; \$1 million for Corporate and Technology Investments and then our joint ventures, \$44.7 million for CWI and \$105.9 million for Weichai Westport.

The decrease in Westport revenue year-over-year is primarily due to timing of a small number of major fleet orders on the Westport 15-liter system and uncertainty around the Swedish government incentives, which impacted the sale of the Westport bi-fuel system for the Volvo V70 cars. As David mentioned, however, we expect a step change in growth in revenue over the course of the year.

Our consolidated gross margins and gross margin percentage for the quarter ended March 31st, 2013 was \$8.1 million and 26.9%, compared with \$8.9 million and 24.7%, respectively, in the prior year period. Gross margin percentage improvement is primarily related to the service revenue recorded during the quarter at a 100% margin and mix of sales.

Research and development expenses were \$20.4 million for the quarter ended March 31st, 2013, an increase of \$6.2 million from \$14.2 million in the same period last year. The increase is primarily due to our investments in new proprietary technologies and long-term product development, in addition to our development agreements with Volvo, Tata, General Motors, and other OEMs, which are recorded in our Corporate and Technology Investment segment.

General and administrative expenses increased by \$200,000 to \$11.7 million for the quarter ended March 31st, 2013. This is compared with \$11.5 million in the prior year period.

As we are closer to launching new products, we are advancing sales and marketing efforts to support our OEM partners. As a result, sales and marketing expenses were \$7.4 million for the quarter ended March 31st, 2013, an increase of \$1.1 million from \$6.3 million in the same period last year.

The combination of lower revenue, higher level of investments and a decrease of Westport's share of equity

income from CWI contributed to the increase of our net loss. For the three months ended March 31st, 2013, our net loss was \$31.8 million or a \$0.57 loss per share. This compared with a net loss of \$22.6 million or a \$0.44 loss per share in the prior year period. Included in our net loss for this year is a \$3 million net foreign exchange gain, mainly attributed to the movement in the Canadian dollar relative to the U.S. dollar, which is unrealized. Excluding this impact, Westport consolidated net loss and net loss per share for the quarter was \$34.8 million and a \$0.63 loss per share, respectively.

Now, I'll walk through each of our business units, starting with the On-Road Systems business unit.

The On-Road Systems business unit revenues were \$5.8 million, compared to \$12.7 million in the prior year period, a decline of \$6.9 million. During the quarter, three Westport 15-liter units were delivered. This reduction in unit deliveries was impacted by the weak demand in North America in the heavy-duty truck market and timing of orders from major fleets. Orders for the Westport bi-fuel system for the Volvo V70 cars were impacted by uncertainty around the Swedish government NGV credits, which caused a pause in orders for our products. Recently, the Swedish government announced NGV credits would continue for three years and we are seeing sales activity pick up in the second quarter. The Ford 250/350 product has been well received with a delivery of over 200 units during the quarter, and we expect to see increased sales in the U.S., from sales in Canada and from the F-450/550 products when launched.

Gross margin and gross margin percentage for the quarter were \$400,000 and 6.9%, compared to \$2.3 million and 18.1% in the prior year period. This decrease in gross margin percentage is due to mix in sales.

We are managing our operating expenses, which declined by \$3.1 million to \$9.5 million in the first quarter of 2013, a 25% decrease, when compared to the prior year period.

We expect sales in the On-Road Systems business unit to improve throughout the year while we manage our operating costs. We have many opportunities that will support our sales growth in the On-Road Systems business unit from the sale of Westport 15-liter Systems, continued increase in WiNGTM Power Systems on Ford

products, as previously discussed, increase in sales of Westport bi-fuel systems for the Volvo V70 cars, now that we have certainty on the NGV credits, and sales of our LNG Tank Systems for natural gas trucks, which are expected to start delivery in the second half of this year.

Now, moving on to the Applied Technologies business unit, the revenue for the quarter ended March 31st, 2013, was \$23.3 million, which is comparable to the same period last year. As discussed on the previous earnings call, the economic conditions in key geographic markets, including the Euro Zone, and a weaker euro-to-U.S. dollar exchange rate, have impacted our revenue growth.

Gross margin and gross margin percentage were \$6.7 million and 28.8% during the quarter, compared to \$6.6 million and 28.3% in the prior year period, respectively.

Operating expenses increased \$1 million to \$4.8 million for the quarter ended March 31st, 2013, compared to the prior year period, which is attributed to new product development programs and the acquisition of facilities and assets for AC in Australia. The team in Perth is supporting new product initiatives for the Applied Technologies business unit.

For the quarter ended March 31st, 2013, Applied Technologies earned positive operating income of \$1.9 million.

The Corporate and Technology Investments business unit earned \$1 million in service revenue related to our development agreements during the quarter.

Operating expenses, which include our investments in new research and development programs, and development programs with our OEM partners, increased \$8.6 million to \$22.5 million, or 62%, compared to the prior year period. Investments in new and existing development programs increased 136%, compared to the prior year period, with corporate-related costs decreasing 10%.

Now, I'll briefly talk about our joint ventures, starting with Cummins Westport.

CWI generated \$44.7 million in revenues and shipped 1,313 units during the quarter, compared to \$52.7 million and 1,943 engines in the prior year period. The decrease in revenues was driven by a 65% decrease in international volumes. In the prior year period,

international sales included a large bus shipment to Yutong. In North America, sales declined 2%.

We continue to see high interest and demand for the ISX12 G engine, which began limited production in April and will ramp up to full production scheduled to start in August.

Operating expenses increased 130% to \$10.8 million, which was driven by research and development expenses related to the ISX12 G, ongoing product and reliability improvements for the ISL G, and the commencement of development of the ISB6.7 G, which was announced in the fourth quarter of 2012.

Our portion of CWI's net income was \$800,000 for the quarter and we expect our portion of income to increase as unit volumes increase and we start seeing improvements in warranty experience.

Weichai Westport realized incredible growth again in the first quarter of 2013. The first quarter sales volume was at the same level as the full year 2011 sales volume. At 8,500 engines, the JV tripled the sales in the first quarter of 2013, compared to the prior year period. Weichai Westport continues to penetrate new markets and build market share aggressively in China, therefore margins still remain in the single digits.

As of March 31st, 2013, our cash, cash equivalents and short-term investments balance was \$173.9 million, compared to \$215.9 million at December 31st 2012.

Cash used in operations was \$33.4 million. During the quarter, we purchased fixed assets for a total of \$8.2 million, primarily for our new facilities in Detroit and Kentucky. During the quarter, we also paid \$3.5 million in debt and interest payments, and we received \$1.5 million dividend payments from our joint ventures.

To wrap up here, we are in position to capture our share of this emerging opportunity. We will leverage our technology, partnerships and market position, and continue to prudently invest in new products and technologies that make sense and provide significant returns. Today, Applied Technologies is generating positive cash flows and we expect the consolidated operating business units to be generating positive cash flows by the end of 2014. We expect the operating business units, plus contributions from our joint venture

interest, to generate sufficient cash flow to cover our corporate and technology investments by the end of 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.

I'll now pass the call back to the Operator to open the call for questions. Thank you.

Operator

The first question is from Laurence Alexander of Jeffries. Please go ahead.

Laurence Alexander – Jeffries & Company

Good afternoon. So, I guess the question I have is about lumpiness. I mean, we've seen in prior years a certain amount of lumpiness around order patterns, and given your cash burn on the quarter was about one-quarter of your total cash remaining, what levers would you plan to pull and what kind of triggers would you have to pull those levers to ratchet down your cash burn if there's any adverse lumpiness this summer that pushes back the ramp that you're expecting?

Bill Larkin – Westport Innovations, CFO

Well, when you look at it -- first of all, just talk about cash flows generated from our sales. We see a lot of opportunities and changes in the market, which we think -- we believe our sales are going to increase throughout the year, which will help provide cash flows through their contribution margins. But now on the expense side, you know, as we mentioned earlier, we're planning to invest roughly about \$60 million in research and development throughout the year, and we've got a process in place in which we review all those investments and we have the ability to dial down those investments, you know, if necessary.

David Demers – Westport Innovations, CEO

Hi, Laurence, I'll take a whack at it, too, just to jump in. I think that when we deconsolidate CWI -- we spent many years building up enough of a broad array of products that would go into revenue, that some of this lumpiness would be muted, and now that we've deconsolidated, unfortunately, we've got very few products, which you're seeing a very disproportionate impact on a few orders or a few customers, until we get that broad portfolio built up again, which is what you're going to see over the course of the year.

I think that the guidance we've given should give you some confidence that we're pretty confident, and a pretty serious ramp, you know, just simple arithmetic says we're going to have to be averaging \$50 million a quarter to hit the low end of that curve going forward. So, we think the cash flow is pretty substantial, but as Bill said, we do have lots of levers to pull.

The other only factor I'd mention is don't forget we do have service contracts for development and we pay those expenses and recover them, so we've got a quarter of expenses built up that we will recover in the future. So, this quarter just happened to be that coalition of a number of different factors that we think is quite obviously going to change over the course of the year, or we wouldn't be saying this. That gives you a sense of where we're going.

Laurence Alexander – Jeffries & Company

And separately, as just a very quick follow-up, I guess one of my bugbears - China. How can we extrapolate from the Weichai report to a picture of your overall sales in China, but you also have like other parts and so forth that you'll be selling into China over time. Now, so if you can just -- if they're similar, then just point us at Weichai, but if they're divergent, can you give us some flavor of what else you're doing in China?

David Demers – Westport Innovations, CEO

Well, let's start with some basics. What Weichai is doing is very similar to what Cummins Westport is doing. They're building natural gas engines and selling them and we participate in the profit. They're growing very

quickly, as you can imagine, and you don't do 200% growth without changes in the plants and equipment and distribution, so they're investing for growth and I think the growth is going to continue.

But, what's happened is we've now created a very substantial market for natural gas trucks in China, and as we start to introduce products like the Westport LNG Tank System in China, as we start to introduce new engine technology, like our HPDI engine that goes into the joint venture, we'll start to see direct Westport revenue, and you'll see that this year hitting our revenue steam. Today, none of that hits our Westport consolidated revenue.

So, the market is now there. We think that there's a good shot at seeing pretty rapid ramping of Westport revenue in China as we introduce these new products.

Laurence Alexander – Jeffries & Company

Thank you.

Operator

The next question is from Vishal Shah at Deutsche Bank.

Susie Min – Deutsche Bank Securities

Hi, this is Susie Min for Vishal Shah. Thanks for taking the question. I wanted to better understand the comment you made on the On-Road Systems and the timing of some of the fleet orders. Is this something where you expected orders in the first quarter and they're getting pushed to the second or third or, you know, is that something we should expect soon? Any color would be helpful, and I have a follow-up question.

David Demers – Westport Innovations, CEO

It looks like Bill's leaning at me. So, okay, I'll take a first crack. I think, obviously, you know, the HD15 order flow has been very lumpy. If you just look back over the last few quarters, you know, this is not a representative quarter, and it's just because there are so few major

orders. We're constraining our sales, don't forget, to pretty large fleets in large numbers. It's hard to get the infrastructure built for these large fleets, unless you see orders of 20 to 50 trucks, so that limits the population, and the 15 is also being directed at fleets that have got very heavy duty cycles, you know, a lot of off-road, high-grade, high-load. So, those aren't the fleets that are going on the truck stops, either. So, this is a coordination effort.

A big part of what we've done, for example, is work with Fortis in BC on their natural gas trucking program, which we had expected would start shipping fourth quarter last year. We are going to see those shipments. They've been delayed; they're coming. We know that. There are going to be follow-on orders with our existing customers. It's just timing has been unfortunate this quarter and we're as disappointed as everybody in the actual numbers. Don't think it changes the impact on what we're going to see over the course of the year, so it's just lumpiness.

Susie Min – Deutsche Bank Securities

Okay, great. Then, maybe just a broad picture of margins, you know, as we're seeing kind of a degradation of margins in China; Weichai, due to the products there and how you're pricing it, and as you continue to sell more products into China, you know, might see kind of a drag on margins, but kind of offset that with some of the newer better priced products. So, could you just kind of walk us through the margin profile over the next few quarters with the mix?

Bill Larkin – Westport Innovations, CFO

Well as you know, David mentioned, within the current joint venture, it's a very competitive environment over there, and with the significant increase in sales of natural gas vehicles, Weichai has consciously reduced margins, the sales price, to go after and capture that market. Originally, it was go after the bus market and so they continue that because there's a huge opportunity, and if you look at the results of those initiatives, you know, we're seeing just phenomenal growth, over 200% year-over-year in that business, and that's really setting up

nicely for us as we come in and launch our 12-liter product, and we're going to try to defend those margins. It is going to be a premium product compared to the existing SI business and we will try to defend those margins, and then we think there are some other opportunities in selling components, Westport content into the SI market, and we will try to defend those margins, as well. I'm not going to provide any specifics because there's still -- we still have quite a bit of the work to do on that, but we think we will see higher margins as those products start delivering in that market.

Darren Seed – Westport Innovations, VP IR and Communications

I think—Susie, it's Darren; I think, in addition to the Weichai Westport, you mentioned general margins overall, with the Cummins Westport 12-liter engine, naturally, that's going to go out at a fairly conservative gross margin, for the reasons of just warranty accrual making sure we have the appropriate attention to warranty for those engines. So it's going to be, again, as we've all mentioned, a big contributor to gross margin dollars or income dollars, but on a percentage basis, that may have a weighing effect as that product continues to ramp up its production over the course of the year and into early next.

Susie Min – Deutsche Bank Securities

Great. Thank you.

Operator

The next question is from Ann Duignan of JP Morgan. Please go ahead.

Ann Duignan – J.P. Morgan Chase & Co.

Hi, good afternoon. Can you walk us through quarter-by-quarter and segment-by-segment where exactly the increase in sales is going to come from, so we have some kind of assurance?

Bill Larkin - Westport Innovations, CFO

Yes, I think the biggest contributor is going to be from the On-Road business systems. If you look during the quarter, we only sold three Westport 15-liter systems. We think there's -- we will see big growth in that business. Also, too, as we mentioned, there was a pause in orders for Volvo V70 products. You know, now that we have certainty on the NGV credits in Sweden, now we're already seeing initial orders here in the second quarter start to pick up versus the first quarter. Then you look at our existing Ford product, the 250/350; that business has been growing, we expect it to grow, especially when we're in a position to sell products in Canada. Then also, too, later this year, we're going to be shipping 450/550 product, for which we're already taking orders.

Then, in another opportunity, which we're very excited about, is our LNG Tank System. So adds, you know, it doesn't matter what engine platform, it can support a 9-liter or the 12-liter engine platform, but with the demand and interest that we see in the 12-liter, we see significant opportunity for sales for this product.

Ann Duignan - J.P. Morgan Chase & Co.

Yes, but let's take a step back. For Q2, though, on the On-Road side, you'd have to have those orders in hand right now on the 15-liter. Do you have those orders or are these orders you hope to get some time that might get delivered later in the year?

David Demers - Westport Innovations, CEO

I think we can reiterate our guidance for the year, Ann, which should give you some confidence that we think we're confident that those orders are there.

Darren Seed - Westport Innovations, VP IR and Communications

I know, Ann, that we've never given quarter-by-quarter guidance, ever, in our history and so we do try to do our best to say, you know, we are reiterating our guidance for the year of \$180 million to \$200 million, and as David pointed out earlier, that's a definite step change even if you just averaged at, you know, during the quarters, it's obviously a big change from Q1. It's just not a number that we can provide on a quarter-by-quarter basis, other than to say, clearly, On-Road Systems, for all what Bill just ran through, deliver the biggest sales jumps, and as you -- actually, I know you are very aware the 12-liter is not recorded in our sales of the On-Road Systems, but the income dollars towards Westport are expected to be markedly different than the, I think, just under a million dollars we did in Q1. So, that will be a contributing factor on an overall performance basis.

Ann Duignan - J.P. Morgan Chase & Co.

Yes, and the reason for my question by quarter is that we started the year very weak, we've maintained guidance, and yet we're chewing up cash. So, you know, I think investors are going to care and want assurance that these are not stretch goals.

Darren Seed - Westport Innovations, VP IR and Communications

No, I don't believe they're stretch goals. I think, we obviously wouldn't make the comment if we didn't believe in the confidence in the business we expect and have on hand today.

Ann Duignan - J.P. Morgan Chase & Co.

Maybe a different way to ask the question then is how many On-Road 15-liter engines do you anticipate shipping this year then?

David Demers – Westport Innovations, CEO

We haven't broken that down either, Ann. I think that the simple answer to all these questions is, you know, just look at the enthusiasm that we saw at the Mid-America Truck Show. We got, suddenly for the first time, we got every major trucking manufacturer launching natural gas products; they're all out selling natural gas, which, in a soft truck market, I think says something. We're going to see shipments of that engine, that's no surprise, and we're going to see a whole bunch of new customers and they are going to need help and support, and we're going to see a lot of new infrastructure being built, and those companies building that infrastructure are working with us to make the financial pitch for natural gas and make that transition easy. So, you know, these factors are all there, so I think it's pretty straightforward looking. Looking out the next few quarters, we're going to see a lot of product on the road; both trucks and pickup trucks, and passenger cars in Europe. Lots of challenges and obstacles, but we don't think there's much doubt that the market's coming.

Darren Seed – Westport Innovations, VP IR and Communications

I think one point, too, Ann, would be the press releases from other companies and I'm sure you've seen them, where companies like UPS has announced their interest to buy 700/800 over the course of the next 12/18 months. Is that starting in Q2 of this year or Q3 or Q4? Unfortunately, it's not an answer we can get into, but in just trying to answer your question about what level of confidence we have, those orders are starting and expected to deliver this year. Again, this is not Westport announcing those orders; it's other companies. That's just another anecdotal piece of evidence to provide some of that confidence, Ann.

Ann Duignan – J.P. Morgan Chase & Co.

Yes, and I guess what I'm trying to get comfortable with is the 12-liter going to cannibalize both the 15-liter and the 8.9. I understand there's tremendous pent-up

demand, but it could cannibalize some of the demand in these other sectors, also.

David Demers – Westport Innovations, CEO

I don't think "cannibalization" is the right word, Ann. I think, as we've talked about before, neither the 8.9 or the 15 are really the right product for the mass market in on-road trucking, and what we now have is a product that is going to make people a lot happier with mainstream trucking applications. They're going to stop at clean-energy stations on their natural gas highway. Fifteen is not the right product for port haulers in Los Angeles, but they're buying it because that's all they have, and the 8.9 is not the right product for long-haul trucking, but people have been buying it and putting it in service because they're keen to get their hands on natural gas.

So, I think we're going to naturally see the 8.9 revert back to what it did great at, which is trucks, trucks in refuse market and buses, and maybe some regional trucking, but the 12 is going to hit a sweet spot that is much, much bigger and less compromised than either what we've been doing with the 15 or the 8.9 in the past.

Now, the 15 is going to do really well as we start to see infrastructure built up, and as we see more and more of these fleets able to justify the refueling. So, I think that, if anything, the 12 is going to create more demand for the 8.9 and the 15, even if you might say that those customers might have bought something different a year ago, that's true, but that's because they had no choice. So, we really do believe that we're going to see the whole market grow as we see more product availability, and that's what we see happening this year.

Ann Duignan – J.P. Morgan Chase & Co.

Okay. Thank you. I didn't mean to drag on for so long. I appreciate it.

Darren Seed – Westport Innovations, VP IR and Communications

Okay. No problem, Ann.

Operator

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

Eric Stine – Craig-Hallum Capital Group

Hi, everyone. Thanks for taking the questions. I guess you just touched on this a little bit, but I'm just curious, I mean, you think that the 12-liter potentially helps the 15-liter and reason I ask is, you know, it sounds like there are a lot of fleets out there that are interested in natural gas, but they're waiting on that 12-liter before they do anything. Potentially, you know, they get in, start using it and realize they might need some 15-liters, too.

David Demers – Westport Innovations, CEO

Yes, there's just no getting around the fact that the 15's only available in a few truck chassis, meaning that's no secret, in a couple of brands, Kenworth and Peterbilt and as a solution, the way it's priced and the way it's being marketed, it's being targeted at heavy-haul and large fleets and people that we can support in a concentrated way with those Peterbilt and Kenworth dealers. So, is the 12-liter going to help? Of course, because it is being marketed at a very broad array of customers with everybody who has trucks in the market. So, there's going to be a much wider array of customers which will create customer support which will create enabled dealers.

So, no, it's going to enable the market for everything, which is why we've been spending so much time getting ready for it. I think we are seeing that interest in the marketplace. Darren said, you know, we can't give you any definitive customer names or numbers or timings, but certainly we can tell you that there's a very large amount of industry interest in natural gas, which is being driven by the array of product that's coming this year. Obviously, that's not the end. There's Volvo product coming in 2014. There will be other natural gas products coming in the future; guarantee that. So, I think the

market has taken off and we'll see it over the course of this year.

Eric Stine – Craig-Hallum Capital Group

Okay, that is helpful. Maybe just turning to light-duty for my last question. What do you think the mix eventually looks like when you launch the Ford, the 450 and F-550, and also the service up-fit option? You know, just curious. Do you think that those vehicles, that's a bigger opportunity than what your current offering is, or how should we think about that going forward? Thank you.

David Demers – Westport Innovations, CEO

Oh, I think we can pick on the F-250/F-350 -- Bill is going to chime in a minute, I can see him itching. You know, that was really developed for our friends in the oil and gas industry. That product's designed and targeted at the customers that you've heard talking about. Pioneer is a great example. That's who we expected to buy the F-250. Now, the service bodies go into lots of other fleets. These are commercial vehicles. Frankly, I'm a bit surprised. We are seeing consumer orders. That's a big truck. There are consumer orders and people are buying one-off and they're getting their Ford dealer and everybody's excited by it, but we think that this is still a fleet marketplace and that's why our growth has been into the larger platforms. I think there's going to be lots of volume. We want to create this customized solution that gives a combination of performance and value and service ability, and I think that the team has achieved that and that's why we're seeing order growth.

Eric Stine – Craig-Hallum Capital Group

But eventually, I mean, it sounds like you think that those new models or new versions to come, that's a bigger opportunity than where you currently are.

David Demers – Westport Innovations, CEO

I think that we started with a product that we thought was going to sell well, which it is, and now we're expanding into adjacent products as quickly and efficiently as we can. The expansion into Canada is you know, I think a good example of that. We're not doing it just because it's our home. There are lots of customers who want the product in Canada and this is the easiest way to get it to them.

Eric Stine – Craig Hallum Capital Group

Okay. Thank you.

Operator

The next question is from Colin Rusch of Northland Capital Markets. Please go ahead.

Colin Rusch – Northland Capital Markets

Thanks, guys. Can you talk about some of the other longer term opportunities with rail and marine and really, how well positioned, or what the real differentiation is for HPDI in those applications versus a spark-ignited engine?

David Demers – Westport Innovations, CEO

Well, I honestly don't think we're going to see spark in these applications just because you really start to see the challenge in getting the torque, in particular, out of that constant displacement. So, this is going to be a rebuild market, as well. It's going to be pretty hard to take a diesel engine and rebuild as a spark-ignited engine. That's just not going to happen. So, I think HPDI is really well positioned, which is why there's so much enthusiasm. I think what you can see from the rail industry, in particular, they've all been public now that they're looking seriously at gas and because of the way the industry is set up, with so much sharing of equipment, it really needs to be something that the

whole industry adopts and then frankly, that's what we're seeing is, I think, everybody is quite excited about the opportunity to see this lower cost fuel. We're seeing a lot of industry-wide collaboration and cooperation.

To do that, we're going to need to be rebuilding the existing engines, as well as shipping new. That means we're going to have to have diesel cycle. So, you're going to see lots of things like dual-fuel conversions. That product has been out there for years around the world. You're going to see people getting their feet wet with that but ultimately, we're going to need the energy density and the performance and the fuel economy of HPDI, which I think is why our friends at Caterpillar have made that choice, because that's what the industry is going to need to be successful.

So, I think what has been exciting for us is how quickly the idea has taken traction in these markets, and the volume of fuel that we're talking about in these industries is literally billions of gallons a year. So, it's a very powerful economic argument for rapid adoption. I think we're going to see, you know, very fast penetration in these high horsepower applications as we get these products developed and out in the market.

Colin Rusch – Northland Capital Markets

Great, and then just -- I've got a two-part one, which is more of a technical question. How do you treat the Westport sales into the Weichai JV versus the overall JV sales, and how much do you think, you know, out of the second half sales, do you think will come from specifically, from Westport components?

Bill Larkin – Westport Innovations, CFO

Currently, the engines that are sold through the joint venture, we don't recognize any revenue. You know, at the end of the period, we just recognize our 35% of the profits of the joint venture, and that's what you see down below in the bottom line of the P&L. Now, once we start selling products, I -- the HPDI components, that'll be -- that'll hit our top line directly to revenue and

then, you know, fall down through gross margin in our bottom line.

Yes, and then also that'll be captured within our New Markets and Off-Road business units going forward.

Colin Rusch – Northland Capital Markets

Okay, great. I'll just follow up...

Bill Larkin – Westport Innovations, CFO

You know we're -- we won't provide any additional color or guidance on what that's going to look like, at this time.

Colin Rusch – Northland Capital Markets

All right. Thanks, guys.

Bill Larkin – Westport Innovations, CFO

Thank you.

Operator

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

Rob Brown – Lake Street Capital Markets

Good afternoon. I'm wondering if you could give us a little bit more color and help us understand what the LNG tank business could be? I know you won't tell us directly, but maybe a sense on sort of a per unit revenue or maybe, you know, how much of a share do you think you can get, and are you sort of tied in with the trucking companies at this point?

David Demers – Westport Innovations, CEO

Rob, you always ask the good ones, so just to remind everybody, what we've done with the LNG Tank System, which we announced last fall, is to take the LNG Tank and pump system that we developed for our HPDI trucks and adapt that for use with spark-ignited engines for a bunch of reasons, the major one being that we can use cold fuel, reduce the complexity of the station, we can increase the range and the amount of fuel that's going in the tank and improve performance for high fuel use applications like trucking. So, as we launch 12-liter trucks, we expect most of those trucks will be LNG fuel.

There is going to be a lot of CNG fleet for regional people and there is a bit of an anomaly on pricing of CNG versus LNG for various reasons that I'm sure you all understand. So, there are going to be some 12-liter trucks that are operating on CNG but, in general, we think that's going to be a relatively small portion of the market because the penalty in both range and weight is so high to go CNG. So, most of them are going to be LNG and I think most of them are going to want to be able to use cold fuel and, therefore, use the Westport tank and because of our integration with the vehicle and with the OEMs today, we think we're going to see very good market share for that system.

Now, tank is the most expensive part of the truck. It's just inevitable that the fuel system -- we've always said, the most expensive part is not the engine; it's the fuel tanks. So the revenue potential for us is very encouraging. That said, we've also announced and told people we want to bring down the price of natural gas vehicles, and the way to do that is by reducing the cost of components and broadly speaking, our global supply chains on LNG tanks and pumps are allowing us to have a really encouraging cost profile as we see volume from 12-liter applications in North America.

Same sort of approach is what we're talking with the LNG tanks products in China. We want to launch this in parallel with our HPDI products with Weichai and make the tank and pump system available for SI trucks in China, as well. So, again, you can see what we're trying to do is aggregate the volume across many markets and many technologies which will bring down the component cost for everybody and the component cost will bring down the price of the vehicle, the price of

vehicle will increase adoption. So, we're really trying to get going this virtuous circle and the momentum around cost reduction and volume increase.

Does that make sense?

Rob Brown – Lake Street Capital Markets

Yes, thank you. And then just in terms of timing, do you start to see revenue for that product sort of at the same time as the engine ships, or do you sort of -- are you ahead or behind of the interest in terms of the --

David Demers - Westport Innovations, CEO

Pretty much. I mean, let's -- it's not quite, you know, we both ship to the truck OEMs, so CWI will have an engine supply agreement and those engines will arrive and get put into a truck. Then you're going to need a fuel tank to go along with the engine, but I wouldn't say it's one-for-one because they're hitting the line at slightly different times with slightly different inventory policies. But in general, yes, you're going to see one tank system per -- and one engine per truck.

Rob Brown – Lake Street Capital Markets

All right, thank you.

Operator

The next question is from Aditya Satghare of Lazard Capital. Please go ahead.

Aditya Satghare – Lazard Capital Markets

I'm great, thank you. Two questions, please. First one is on Volvo, so you can give us an update on what you are seeing, any kind of initial feedback from the early pilots in shipping these 13-liter engines, and maybe update us again on launch dates and when this product is expected to reach the market?

David Demers – Westport Innovations, CEO

Yes, sorry, can't give you much. The truck was at Mid-America Truck Show, which I know caused some surprise to some people which, you know, I mean the truck is there and people were kicking tires and, yes, customers have had their hands on it, but can't give you much more than that.

Aditya Satghare – Lazard Capital Markets

Got it, and just following up on the earlier question, LNG tanks right? So, the recent order from UPS for 700 incremental trucks, have they finalized the tank solutions provider? And if not, what do you think would be some of the competitive factors going into winning an order like that?

Darren Seed – Westport Innovations, VP IR and Communications

The fuel solution has not been decided yet.

David Demers - Westport Innovations, CEO

Yes well, I was going to even go one step beyond that. I haven't seen an order from UPS, let's be clear. So, that's between UPS and their truck vendor. I'm not sure they've announced that one either, so the way this works is, yes, we are out talking to customers, and yes, we're working to create demand. But really, it ends up going through the OEM distribution channel, and that's when we see finalized decisions on tank and pump.

Now, what is happening is we're seeing a transition from these early markets, as we were working with people to build the 8.9-liter products. Those are specialty products that are pretty much built to the specific fleet specifications. As we get into much more generic product line that's built on the production line, we're going to see much more standardization on the tank package, which is why think it's right time to introduce our LNG system, because it is being fully validated by the

OEMs that are taking it today. They know these components. They know these, you know, how to install them; they've done the quality control. So, I think it's going to be relatively straightforward to see our LNG solutions onto these vehicles. At the same time, we're working with CNG on our Ford products and packaging that in the production line and so, you know, we are working with people to develop standardized CNG packages, which some of you, I know, saw at our Louisville open house.

So, I think what we're going to see over the next year or so is a very rapid increase in standardization and professionalism about producing natural gas trucks in every one of these vendors, and we're going to see all kinds of developments over the next 12 months. So, you know, yes, we're in the middle of those discussions.

Aditya Satghare – Lazard Capital Markets

All right. Thank you and that's all I had.

Operator

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

Rupert Merer – National Bank Financial

Hello, everyone. Thanks for taking the question.

Bill Larkin – Westport Innovations, CFO

Hi, Rupert.

David Demers – Westport Innovations, CEO

Hi, Rupert.

Rupert Merer – National Bank Financial

Looking again at Weichai in China, you talked about the opportunity to sell more Westport product into China going forward, but if we focus on the joint venture alone, can you talk about how transfer pricing's set into the JV and how the business model for the JV can evolve over time, and maybe talk a little about at how margins could evolve in the JV?

David Demers – Westport Innovations, CEO

Well, again, don't forget that the way the HPDI product's going to work – let's just start with that – again, it's an engine company and so we will supply the on-engine components, like fuel injectors and controllers and...

Bill Larkin – Westport Innovations, CFO

Tanks...

David Demers – Westport Innovations, CEO

Some of the specific modules required for the engine will go to the joint venture, and so we'll see revenue from Westport to the joint venture and then, of course, that will have to get managed out into how we share the income from those products. You're going to see a bit of income from the joint venture, and you're going to see revenue and gross margin for the sales to the joint venture. The tank package goes to the truck manufacturer, and so we'll see direct revenue for the tank package and direct gross margin, all of which is going to be in the On-Road Systems business.

Sorry, Darren, did you want to jump in?

Darren Seed – Westport Innovations, VP IR & Communications

I think just the New Markets -- the revenue for HPDI, for the 12-liter HPDI system components will actually be

accounted and reported in the New Markets and Off-Road Systems business.

David Demers – Westport Innovations, CEO

Oh, yes, yes, yes, of course, Weichai is part of the...

Darren Seed – Westport Innovations, VP IR & Communications

Yes, New Markets.

David Demers – Westport Innovations, CEO

The New Markets group, yes. Sorry, my apologies.

Rupert Merer – National Bank Financial

Okay, so...

David Demers – Westport Innovations, CEO

But that model applies to the other businesses as well.

Darren Seed – Westport Innovations, VP IR & Communications

But, maybe Bill, do you want to address Rupert's question on gross margins in the JV on is there an expected evolution?

Bill Larkin – Westport Innovations, CFO

Well, you know, there is a supply arrangement between the joint venture and Weichai since they supply the engines, but as I mentioned before, this is a rapidly growing market, there's significant opportunities, it's extremely competitive, and the joint venture made a conscious decision to go after very specific markets. As you may know, Weichai, they dominate the trucking

market but they're not as strong in the bus segment, and so they made a conscious decision to get aggressive with pricing and go after the bus market and that's why we've seen a degradation of margins over the last, say, 18 months. How long that policy's going to continue, you know, I can't comment on that point in time because we are at the table in discussions with our joint venture partners, you know, what is the strategy for approaching the markets.

But looking at it from our perspective, they're actually doing us a huge favor going forward as we start preparing to launch the HPDI version of the engine because they are building up a market for their products. So I think, you know, at the end of the day, it could help us quite a bit as we launch our product and also sell and integrate our tank packages into the market because, as you know, as we talked about with the low-pressure tank system it's not, you know, very similar to what we see here in North America, the opportunity, over there the joint venture last year, they delivered over 20,000 engines in the first quarter; this year, they did 8,500 engines. Well all those engines, that's an opportunity for us to sell this low-pressure tank package and that's a huge opportunity and I think ultimately, at the end of the day, we have a good opportunity to sell a lot of these packages and generate a lot of revenue and profit for the business.

David Demers – Westport Innovations, CEO

I'll weigh in a bit too. It's great to have this problem but I have to say and I'm sure, you know, any of you that know this automotive business, when you get 200% growth, it's not an efficient system. The supply chain's not geared for that kind of growth. Your own production and distribution channels aren't all that efficient, so cost of goods may not be optimum, let's say, and until things stabilize and get down to a little more manageable system, you're not really going to be able to optimize gross margins. But that's what we want. We want to see this spectacular growth because that gives us the opportunity to generate great margins in the future, and we think we'll see good margins out of the joint venture. We've talked about double digits. China is not going to be a 30% gross margin business for sure.

But, you know, we see a very strong possibility of improving margins in the joint venture and, of course, the Westport proprietary technology, we should be able to get good margins on that even in China, as long as we can get local sourcing and meet the price expectations, which is a challenge.

That's a bit of a hand wave but over the next 12 months, let's say, we should see some of these trends become quite evident and, in any case, we think that the growth is very encouraging.

Rupert Merer – National Bank Financial

Okay, thanks. Second question; if you look at the WiNGTM system, can you talk a little about the competitiveness of the market? You mentioned you have a market leading position. Can you talk about your market share today and where you think that could go?

Darren Seed – Westport Innovations, VP IR & Communications

In China?

Rupert Merer – National Bank Financial

In the WiNGTM system in North America on the Ford.

David Demers – Westport Innovations, CEO

Oh, good question. Well, we haven't disclosed details. We think we're market leader in the F250/F350. There are other QVMs of course, selling other product and you don't need us to tell who they are. But I think the market feedback on the WiNGTM product has been good and we're seeing strong interest in the products we've just announced. So, I think our challenge now is to push ahead on the path that we've talked about, and that means improving quality and dropping price and broadening the product offering with Ford. Pretty straightforward stuff.

Rupert Merer – National Bank Financial

Very good. Thanks.

Operator

Your next question's from John Quealy of Canaccord Genuity. Please go ahead.

Chip Moore – Canaccord Genuity

Thanks. It's Chip Moore for John. Just back to Caterpillar real quick; maybe you can bring up the speed on the latest development efforts there, and then a little more detail on how you're thinking about retrofit opportunities in that marketplace.

David Demers – Westport Innovations, CEO

I'm looking at Darren. I'm not sure we can comment on developments. You know, CAT have been very active in the marketplace over the last few months. Talking to customers, I think that customer reaction has been very good. We're certainly very pleased with the reaction we're seeing and the, let's call it the energy that's being put into it from the LNG industry because, of course, these are very big potential customers who are going to sop up a lot of that excess natural gas. So, I think that it's gone as well as any of us could have hoped. That said, we've got a lot of development work to get a product that is going to be up to the expectations of our customers, so that's obvious, I hope.

That said, I think that the opportunity in rail is very exciting. Rebuilding these engines is not a huge technical challenge. It's a marketing and logistics challenge and a performance challenge, but there's quite a bit of confidence that this is going to be a project that is manageable and makes sense for everyone, particularly in a climate when we're seeing increasing emissions controls being introduced, and this is a way to bring the emissions profile of the whole industry down.

So, I think the plan is doable. The economics justify it and we're all going to make a lot of money.

Darren Seed – Westport Innovations, VP IR & Communications

And Chip, we also did say that we expected to launch a product in the Off-Road Systems this year, so we're keeping our cards a bit close to our chest right now until we announce exactly what that product is.

Chip Moore – Canaccord Genuity

Fair enough. Thanks.

Operator

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

David Galison – CIBC World Markets

Hi, guys. Thanks for taking my question. Just the first one on -- just touch on the guidance. So, you've reiterated guidance for, excluding CWI, but do you have the same level of confidence from the \$430 to \$460 guidance that was provided with CWI?

Darren Seed – Westport Innovations, VP IR & Communications

To do the math; you're quicker than --, I mean, I think clearly, if you're -- because you're just basically asking two different Company questions in terms of Westport and Cummins Westport. Cummins Westport, I think, has got some, you know, frankly, some phenomenally expected growth over the course of this year because, of course, it will recognize the revenue of the 12-liter sales. So, I think there is quite a bit of growth expected on Cummins Westport, and in terms of Westport, we can give you the 180 to 200. I think what's just hard, whether it's just not having a calculator in the room;

Dave is -- exactly what -- and frankly, it's tough for us to give guidance on Cummins Westport as a segment. It's not something we typically do; that's the challenge.

David Demers – Westport Innovations, CEO

Yes, nor have we said much about Weichai Westport. I think that what I hope you've gathered is that we're pretty confident that CWI and Weichai are both going to see very strong growth this year. Now, it's not going to show up in our consolidated revenue, but we get benefit either through participation in the profits or by creation in the market in the market pull for our direct products. But the direct products, you know, 180 to 200, as I said, is something we're pretty confident in for the direct Westport sales.

Bill Larkin – Westport Innovations, CFO

And I think we actually -- and, sorry Dave, just remembering from our last quarterly conference call, I believe we did actually give a sort of Westport plus Cummins Westport outlook, and if we're going to be reiterating guidance, it's -- we just haven't expected any significant change to that, and that's again, why we've reiterated our guidance for the year.

David Galison – CIBC World Markets

Yes, the previous guidance, including CWI, was \$430 to \$460 provided last quarter.

Darren Seed – Westport Innovations, VP IR & Communications

Yes, and we haven't changed anything, but again, I just need you to understand going forward, we won't be in a position to provide segment guidance on CWI, so...

David Demers – Westport Innovations, CEO

You know, that's what it is.

Darren Seed – Westport Innovations, VP IR & Communications

That's what it is; it's a bit awkward Dave, because we just don't give guidance on that business unit anymore, but we do not want to step away from any kind of the expectation that we delivered at the beginning of the year as we've just reiterated our own growth expectation.

David Galison – CIBC World Markets

But you're not seeing anything happening in the market that would suggest that there'd be a major difference from your view provided, you know, when you --

Darren Seed – Westport Innovations, VP IR & Communications

That's a fair assessment.

David Demers – Westport Innovations, CEO

Yes.

Darren Seed – Westport Innovations, VP IR & Communications

That's a fair assessment.

David Galison – CIBC World Markets

Okay. And then just, you know, I'm sure you're probably not going to be able to say much, but just wanted to touch on the two most recent development agreements that were announced in Q4. Can you talk a bit about how they're progressing and, you know, maybe when we might be able to get some further color on those agreements?

Darren Seed – Westport Innovations, VP IR & Communications

Yes, I think we expect to be able to unveil at least one of them this year, perhaps even both and it's, again, it's actually very candid, Dave; it's really at the OEM's request, so we're a bit beholden to them at the moment. It's not necessarily our say.

David Demers – Westport Innovations, CEO

And I'll jump in again, because I want to make this clear. This is serious, you know, we're not trying to play games here. People now are taking natural gas very seriously and all of our OEM partners are scrambling to build their natural gas strategies. This is just not, you know, this is not puffery. There is going to be a lot of natural gas in the automotive industry and it's just not something we can do to out anybody's product plans until they want to do that. We've got pretty strong insight as to what everyone is up to, but it's critical for us not to give anybody a strategic advantage.

So sorry. You know, I think that this will come out in time but you'll be seeing it from OEMs, not from Westport, probably.

David Galison – CIBC World Markets

All right. Thank you very much.

David Demers – Westport Innovations, CEO

Okay.

Operator

The next question is from Matt Gowing of Mackie Research Capital. Please go ahead.

Matt Gowing – Mackie Research Capital

Hello. Thanks for taking the questions. Wondering if you could provide some background on the 15-liter that you sell. If you had to look at that product and kind of break the value down in rough percentages between the value of the HPDI injector in one bucket and then, in the other bucket, some of the components that David was talking about, the tanks, the modules, the controllers in another bucket, and then any other sort of value that would be in that ASP. I know it's ranged from, say, \$45,000 to \$50,000 per unit, but just wondering if you could provide some background on that.

David Demers – Westport Innovations, CEO

Yes, we've never really broken down the bill materials in detail, for obvious reasons. I think, you know, we are going to be outed as you start to see product revenue from tank systems, but the short answer is, no; don't want to break down bill materials. The clue we gave you though, just to give you something to mess with, is the tank package is the most expensive part on the truck. Now, tank package is not just fuel tanks; it's the tanks, lines, regulators, valves, controls, you know, and any sort of architecture that you're going to need to hang the tanks on the truck. So, the package itself is the most expensive component.

The engine price, being the advice we've given to people if they want to try and model it, is look at the, you know, the revenue in the ASPs for natural gas engines out of our joint ventures. They're not much different than the diesel engine, and that's, you know, and that's true. So typically, the cost of a natural gas engine isn't that far off a diesel engine and as we get them being produced in volume and as tooling gets amortized and supply chains get more mature, you're going to see the cost of natural gas engines migrate down even closer to the price of a diesel engine. So, I think the only answer we can give you is that the tank package is the biggest opportunity for pricing cost reduction, but it's also the biggest revenue opportunity in the near term for Westport.

Matt Gowing – Mackie Research Capital

Great, thanks, and just a quick follow-up one. You mentioned that kind of the growth acceleration in the remainder of the year is going to come from mainly the On-Road business, and then you mentioned a number of the buckets there. Would you agree with the assessment that it really is going to be the LNG tank systems that are kind of the number one driver of the growth in the On-Road business for the rest of the year?

David Demers – Westport Innovations, CEO

It could. You know, we said publically that the Ford ASPs are in \$9,500, \$10,000 range, so these are not insignificant sales either. The Volvo car product ASPs are in that range; they're not quite that high. The volume potential is very high with those products as well, so I think it's going to be very difficult for us to pick one favorite child over the other quite yet. I think the excitement around LNG and trucking is real and this is a market that could move very quickly and is dependent on the development of these LNG refueling infrastructure, which is coming over the next couple of years, but it's going to be paced by the availability of stations and the management of those truck routes, and the stations are going to be opened in conjunction with truck fleets who make these decisions.

So, this is quite a deliberate and long-term play, I think, but we think with lot of momentum and lot of volume. A lot easier these days for people to buy a Ford pickup truck and get CNG at a local refueling station, so potentially the volume growth is not as constrained and the impediments to growth is not as high. And similarly in Europe, as we move the Volvo product out of just being sold in Sweden, which is the only place it's sold today, and as we develop other product, we think that also has potential for a step change in growth. So, long-winded answer that says, I think, we like all of our -- all of the cards that we're playing and they're all going to develop at a different pace, but we think they're all going to have very large potential.

Matt Gowing – Mackie Research Capital

Great. Thanks very much.

Operator

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

Matthew Blair – Macquarie Capital (USA)

Hi, good afternoon. The \$1 million in engineering service revenue; can you say what partner that came from? And then can you also talk about your general expectations in 2013 for engineering service revenue from both Volvo, and if we should expect anything from Caterpillar? Thanks.

David Demers – Westport Innovations, CEO

Well, I think you can expect something from Caterpillar because we have seen revenue from Caterpillar, so -- and you know that we're developing with them but we're not going to break down who and for what. Again, for the obvious strategic reasons.

Darren Seed – Westport Innovations, VP IR & Communications

And in terms of the outlook for the year, what we can say, I guess in general, is as the Volvo product's moving closer and closer to actual commercialization, we probably don't expect as much contribution to service revenue from the Volvo program as we have had in years gone by.

David Demers – Westport Innovations, CEO

I think we want to see, again, rational management of our resources, so there's multiple development programs and we're trying to do our best to make sure the people are not overbooked and then underworked;

you see my drift. So, you're going to see service revenue business in pace by the availability of people and resource. This really is an engineering development project that depends on work and milestones.

So, all of these projects are structured in similar ways. We commit to milestones. We deliver the milestones and we recover our expenses. It's not an hourly billing sort of process. But we are getting lots of work and we're very busy and so you should expect service revenue to be something that's part of the P&L for some time to come anyway.

Matthew Blair – Macquarie Capital (USA)

Sure, okay. That's helpful and then also on the Cummins Westport 11.9; I know that you're going to slowly ramp production in 2013, but how should we think about your production capacity for this engine in 2014 and 2015? I think it's being built at the Cummins Jamestown facility, which has a capacity around 100,000 engines per year, so are you capped out on a certain percentage of that space or could you build all the engines that you get orders for? Can you help us think about your maximum production capacity there? Thanks.

Bill Larkin – Westport Innovations, CFO

Yes, I don't think we're in a position to talk about Cummins production capacity because, in essence, they are the supplier, you know, of the engines and they're supplying the labour to assemble all the parts, test and then ultimately deliver the engines. You know, they have to plan their resources, their production capacities among other engines that are produced within their various facilities and that has to get scheduled out. And so, you know, base -- it goes through the normal Cummins sales process and it's got to get scheduled through their production system and so, you know, it's going to be through that demand. Their production scheduling system will kind of dictate, you know, what their capacity and what resources they're going to allocate to the production of that engine.

David Demers – Westport Innovations, CEO

I'm so happy to hear you ask if we're going to run out of capacity at Cummins, so it does my heart good. I think, to be serious on this, it isn't just engine assembly; it's the whole supply chain, and there aren't all that many different parts on a natural gas engine from a diesel engine. But yes, we do need to go through and make sure that every supplier is coordinated. I mean, that's what the business is all about. We typically are able to rely on the volumes and the experience of our engine production partners, like Cummins and Weichai and going forward, as we launch with Volvo, these businesses are very sophisticated and they manage their supply chains. But that said, they've got to manage the supply chains and we're going to be managing a very high growth product, we all believe, and so that's going to create shortages and problems that people have to jump on and sort out.

Am I concerned about running out of engine capacity in North America? No, I don't think so. I think that there's lots of capacity in the truck supply channels and from what we've seen from suppliers, people are quite anxious to get a piece of the natural gas business. So, I think we will build that supply capacity as we see the demand.

Matthew Blair – Macquarie Capital (USA)

Okay. Thanks.

Operator

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

Jeff Osborne – Stifel, Nicolaus & Company

Great, good evening and thanks for squeezing me in. Just had a couple of questions here. I know you don't want to get into linearity of guidance, but it was my understanding that the 400 horsepower version of the 12-liter comes out in August – I think that's what you said at your event in Kentucky – and that appeared to be the better seller, at least from our checks on the floor,

versus the 350. So, I guess with that and the infrastructure being built, largely being back-end loaded, which I think was the rationale for the weakness in 15-liter last year, it seems like maybe not using, or kind of divide by three to meet your guidance to get the run rate, but maybe the fourth quarter would really be where everything kind of hinges on.

I guess, maybe, A: if you can just touch on why the 15-liter was so weak last year and why you think it will get a lot better this year? And then also, if you can just touch on the delays of the 400 horsepower and why that's not out yet, and is there any type of pent-up demand, people waiting for that for August?

David Demers – Westport Innovations, CEO

I'll take a crack and then Bill's going to jump in. I have to start by saying I don't think we were disappointed in the 15 last year. We thought we built some good customers. It was a managed launch with some very key customers and we've provided support to those guys and it's built the LNG business and built the LNG infrastructure. So that growth last year was good, lumpy, a few customers, not thousands of customers, but we're going to see continued growth from those customers with that product and that's paved the way for what we think is going to be a very successful product with 12-liter. So...

Jeff Osborne – Stifel, Nicolaus & Company

I thought you had said that you would start the year - starting 2012 - you were expecting 800 units but maybe I'm mistaken and that was a different product, but I thought you were actually well below your...

Darren Seed – Westport Innovations, VP IR & Communications

We never provided that guidance.

No, I'll be very candid, Jeff. That's not a number the Company ever issued, but...

David Demers – Westport Innovations, CEO

It's bit of -- you know, again, it's a bit of like I'm guilty of just now; I just said we're going to see or -- what the industry has announced is 500, 600 LNG stations and that implies there's, you know, going to be 40 to 100 trucks per station. That's a lot of volume but there's a lot of lumpiness between today and the end of 2015 to get to that number. It's just the path of life with low volumes. I wouldn't expect any sort of linear or smooth curve...

Jeff Osborne – Stifel, Nicolaus & Company

Okay.

David Demers – Westport Innovations, CEO

It's out because it's such a -- it's going to be customer-by-customer and region-by-region. We're in the early days; lot's of work, but I think you can say the starting gun's gone off and you're going to see very substantial penetration in these markets.

Darren Seed – Westport Innovations, VP IR & Communications

And you don't -- understand the question, Jeff, on the rating, the 400 horsepower rating on the CWI engine. Again, I don't expect it to be delayed beyond August. I think that's the production schedule.

David Demers – Westport Innovations, CEO

It's just -- yes, I'll step back and say we're sold out between now and August. There's no problem in selling the lower ratings. Yes, going to be lots of demand for the 400 rating. I think there's going to be lots of demand for the other ratings, as well and the reason for having the 400 at August is we want to have a controlled release, a controlled launch, and we want to provide good customer support and that's the plan. I think it's going to go well.

Jeff Osborne – Stifel, Nicolaus & Company

Okay, so there was no compression problems or any other issues that you experienced in the trial with the higher horsepower?

Bill Larkin – Westport Innovations, CFO

No, no, no.

Jeff Osborne – Stifel, Nicolaus & Company

Okay. Thank you.

Operator

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

Alex Potter – Piper Jaffray

Hi, guys. Thanks. I was just wondering; you had mentioned earlier introducing the premium HPDI product into China and, you know, attempting to maintain margins. Certainly, it looks like kind of bloodbath with regard to margins on the existing products. So, I was just wondering what -- I guess some of your strategies will be to try to maintain margins. It seems like expectations are being set at a level where people expect these natural gas trucks to be relatively cheap. So if you come in with a premium product on top of that, are you going to be targeting specific segments of the market or how do you expect to maintain margins? Thanks.

David Demers – Westport Innovations, CFO

Yes, you're quite right. We're obviously going for a premium product. It's a high performance product that is very differentiated, and yes, we fully expect that we're going to see a premium price for these trucks and the

customers that we expect to buy it are going to pay a premium price, there's no doubt. That said, it's not going to be a \$75,000 or \$80,000 premium either, so that also should give you a hint on how this is going to play out.

I think the margin issue in the joint venture, don't forget, is very different than our profile. Joint venture margins are being driven by the engine price and that's a very competitive business and Weichai, like Cummins, sells to people who make their own engines too, so they have to be very competitive. We're going to be selling tank packages, for example. It's a different price point, different margin expectation and as I said, it's proprietary technology. So, we're confident we're going to get good margins on that product. May not be the 30s that we've talked about in North America but pretty good in China.

I think that the challenge in any of these businesses is managing our costs and our supply chains, and we're developing local partners and local suppliers that we think can hit the price points and the quality that we want. But that said, it's much like the automobile market in China. There's a lot of different product between the top end of the market and the bottom end of the market, and we're going to be going for the premium truck fleets that have high fuel consumption and high quality expectations and, as a result, are able to pay for it.

Alex Potter – Piper Jaffray

Okay, great. I was just wondering, just as a follow-on there, if you could give, at least from my understanding, the majority of the trucks being purchased in China are owner-operated, kind of one-off, as opposed to fleets so, I was wondering - you know, bigger fleets with hundreds or thousands of trucks - so, I was just wondering if you have any specific areas of the truck market that you're going to be targeting? Who is that you've identified that's willing to pay that premium? Thanks.

David Demers – Westport Innovations, CEO

Yes, we're talking HPDI here, I'm assuming. Yes, it will be the fleets. Now, when you say that the majority are owner-operators, that's true, but it's a million truck a year market too so there's still a big market for sophisticated fleets and increasingly, we're seeing the truck fleets get organized. So, I think we will see a transition in China to more organized logistics fleets.

The oil and gas industry, the resource industry, these guys are pretty big fleet operators and are keen to reduce their operating cost and that's where we would see a sophisticated lifecycle cost sort of analysis that we can appeal to.

Darren Seed – Westport Innovations, VP IR & Communications

And just wanted to add to that, Alex, is where we're able to travel to -- the first natural gas engine that's able to travel at a high altitude, so that's probably going to give you some of the piece in the puzzle of what kind of trucks are traveling at 15,000 feet in a mountain pass, because if they're going to use natural gas, the only choice is actually HPDI. So, there's a pretty concentrated audience and target group for that one example, Alex, in terms of what resource company or what the names are. It's just not information we have at the moment.

Alex Potter – Piper Jaffray

Okay. Fair enough. Thank you.

Bill Larkin – Westport Innovations, CFO

Thanks.

Operator

There are no more questions at this time. I'll turn the call back over to Mr. Seed for concluding comments.

Darren Seed – Westport Innovations - VP IR & Communications

Thanks, Joe. So thank you very much everyone, for the conference call. We'll look forward to seeing everybody in early August for the second quarter of fiscal 2013 conference call.

Operator

Ladies and gentlemen, this concludes today's conference call. You may disconnect your telephone. Thank you for joining and have a pleasant day. Good-bye.