

DARREN SEED speaking

Vice President, Investor Relations and Communications, Westport

Thank you and good afternoon. Welcome to our Third Quarter Conference Call for Fiscal 2013. It's 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 CEO, David Demers, and Westport's CFO, Bill Larkin. Attendance at this call is open to the public and to media but for the sake of brevity, we're restricting questions to analysts.

You are reminded that certain statements made in this conference call and our responses to various questions, may constitute forward-looking statements within the meaning of US and applicable Canadian securities laws 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. Good afternoon everyone and thank you for your interest and support of Westport. 2013 is an exciting transition year for us as markets for natural gas vehicles are shifting rapidly into a high-growth phase. We're shifting our business focus and our operating portfolio from our proof of concept phase into our OEM model. We're also going to see

the transition from our investment phase into sales and profits. To help you understand our trajectory, I'll run through some of the highlights of our current product scope, our market penetration expectations in key markets, our path to profitability and then targeted investments from our recent financing transaction.

As you can see from the press release, Q3 was a strong quarter with growth in both our joint venture businesses and in the Westport product businesses. We're up over 50% year-over-year in revenue for the quarter for Westport; CWI was up 70%; Weichai Westport was up 95%. Now as we rebalance our product portfolio, Cummins Westport's new ISX12 G is off to a great start this year. With the higher ratings that began to ship in August, we expect very strong growth in CWI and with this new product over the next few years. As more fleets adopt natural gas, this is also going to support rapid investment in refuelling infrastructure.

On the refuelling topic, the launch of our Westport iCE PACK LNG tank system is off to a great start with an order for 900 units over two years from Universal LNG as we announced this morning. I'm sure most of you have figured out that the engine in those vehicles will be a Cummins Westport ISX12 G, so it's an equally positive announcement for us on that front, too.

Whether supplying iCE PACKs to our OEM customers or planning the launch of the 13 litre Volvo product with Westport HPDI for next year, our stated long-term business model is to work with OEMs and their supply chains to deliver Westport content to the market. This gives both Westport and our partners a relatively capital light and low-cost product development path since we share much of the development and production cost over their current diesel product line. The proof of how this model works is clear with our two engine joint ventures. Although the joint venture structure is not an essential thing going forward, you can clearly see that Westport and our partners have been able to launch a series of new products with almost no new capital investment and with relatively low development cost. As the markets for natural gas vehicles are in their infancy today, we expect that many more products are going to be launched over the next decade. This proven model maximizes returns and minimizes risks to the entire value chain.

Now as we said, we're currently working with a number of new OEMs to explore how natural gas versions of their current and future product lines could be of high strategic importance to them. We're moving quickly into specific product development programs with these customers and as we announced last month, we expect to be able to disclose one to three new OEM relationships in the heavy duty space over the next year.

Now, in rebalancing our product portfolio to support this OEM production model, we'll be transitioning our up-fit products to a combination of vertically integrated products with our OEM partners and aftermarket kitting options using proven Westport technology and components. For example, the current generation of HPDI, which is on the Westport 15 litre engine, we still assemble that in Vancouver using an up-fit process. As we shift to OEM HPDI products, we've agreed with Kenworth and Peterbilt that the last day for orders for the 2013 certification of the 15 litre engine is going to be November 15th, 2013. Westport is going to continue to offer an HPDI solution for Australia in concert with Westport's fuelling partners for the foreseeable future.

Westport is obviously going to try and deliver the best customer experience and we're committed to the continuation of class-leading support for all of our customers, so in 2014, we're going to leverage the service and support activities of our US operations to take advantage of logistics and to better support this US base.

We're going to be unveiling what we call HPDI 2.0, the architecture for heavy duty engines over the next few weeks. We've re-engineered the entire system to make it manufacturable, scalable, applicable to a broad variety of engines, and perhaps most important, we expect to see a dramatic decrease in system cost.

Now, as we've seen, there's a consensus developing around the world that natural gas is a desirable fuel for high fuel use applications. Obviously trucking is the first example of that, but rail, marine and mining we've been talking about for the last year or so. In trucking, we're still at the very beginning stages, although it's quite clear that growth is underway. In 2012, we saw less than 1% market penetration for gas - we think it was about 0.75% to be exact - so that's—of the new Class 8 trucks shipped in the US and Canada, under 1% were natural gas last year. We're outlooking about 1.5% this year and of course, Cummins Westport and Westport and are about 100% of the engines in those trucks; Westport and others share the off-engine components. But next year, most people, and we concur, expect that the truck market's going to go to 4% to 5% natural gas on a base of 200,000 new trucks in Canada and the US, that's a significant shift in energy use and over the next five years, industry analysts are calling for 10 to 20% market penetration in North America. Assuming that infrastructure investment keeps up, basic arithmetic tells us that even the low end of those number is going to yield great value for our shareholders. We believe the same pattern's now playing out in Asia and Europe and we're positioning Westport to take advantage of this opportunity and then, of course, we want to replicate that in other markets like rail and mining.

Now, as you saw at the end of the third quarter, Westport strengthened our balance sheet to support specific investment opportunities and to increase our future product portfolio and to maintain key components and equipment within the natural gas supply chain. To support the introduction of HPDI 2.0 components, we have developed relationships with several global supply partners, all of whom are going to be able to deliver us the scalable production we will need as this global market develops. We've allocated \$40 million to \$50 million which will be spent over the next two years to invest in dedicated Westport equipment and tooling to be located within our production partners' facilities. This allows us to control our IP for some of the critical system elements, ensure that we have full understanding and control of critical processes, and of course, this investment will help reduce costs and increase quality.

We've also allocated \$20 million to \$40 million to support specific product development programs with new truck OEMs and this will be spent over the next three years. We don't expect this to increase our burn rate and simply put, we expect programs that are now in the R&D phase will move into commercialization and as these new programs come in to development, we'll be phasing old programs out. So, we expect that the overall cash burn rate isn't going to change significantly.

Now, we announced a new program a few weeks ago that are targeting automotive OEM partners. We expect a number of automotive OEMs to be interested in this. We're going to develop a direct injection natural gas system that's going to align with the industry's introduction of direct injection gasoline engines. Direct injection of gasoline, of course, is delivering great improvement in performance and fuel economy and we believe this is going to be the future of natural gas as well and direct injection natural gas will offer equivalent benefits.

Finally, we're seeing a lot of interest in the use of LNG as a fuel for marine vessels, so as part of the offering that we did at the end of September, as you can see, we're allocating \$20 million to \$40 million to support product development in this area with our OEM partners.

Now, Bill is going to take you through the numbers and lay out our path to profitability, but as you can see from the press release, I think we've laid out our trajectory quite clearly. We've established a meaningful scorecard that's going to let you track this path to profitability. The industry, I think, is growing beyond many, many people's expectations. I firmly believe that we and our shareholders are on the right place to take advantage of this new opportunity. So, thank you again for your support and interest and I'll turn the call over to Bill.

BILL LARKIN speaking
Chief Financial Officer,
Westport

Thanks David and good afternoon everyone. I'll begin with a brief overview of our third quarter results.

For the quarter ended September 30th, 2013, we recorded consolidated revenue, this is excluding our joint venture revenue, of \$46.5 million compared to \$30.7 million in the prior year period, a 51% increase. Segment revenue for the quarter was \$20.3 million for Applied Technologies, \$17.8 million for on-road systems, \$8.4 million for corporate and technology investments, \$77.5 million for CWI, and \$114.6 million for Weichai Westport, our joint venture.

Our consolidated gross margin and gross margin percentage for the third quarter were \$16 million and 34.4% compared with \$7.8 million and 25.4%, respectively, in the prior year period. The third quarter's gross margin was positively impacted by \$9.9 million in service and other revenue earned at 100% gross margin.

Research and development expenses were \$23.5 million for the third quarter, an increase of \$7.1 million from \$16.4 million in the same period last year. This 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, GM and other OEMs, which are recorded in our corporate and technology investment segments.

Selling, general and administrative expenses increased by \$3.1 million to \$19.4 million for the third quarter compared with \$16.3 million in the prior year period.

For the third quarter of 2013, our net loss was \$30.2 million or a \$0.53 loss per share compared with a net loss of \$32.5 million or a \$0.59 loss per share in the prior year period. Included in the third quarter net loss is \$1.3 million net foreign exchange loss compared to a net foreign exchange loss of \$7.4 million in the prior year period, mainly attributed to the movement of the Canadian dollar relative to the US dollar, which was unrealized. Excluding this impact, our consolidated net loss and net loss per share for the third quarter were \$28.9 million and a \$0.51 loss per share, respectively.

As of September 30th, 2013, our cash, cash equivalents and short-term investments balance was \$89.3 million

compared to \$135.3 million at June 30th, 2013. On October 1st, we closed our offering of 6 million common shares in the United States and Canada, and our cash balance after closing was \$237.5 million.

During the third quarter, we used \$46 million in cash which included \$12.4 million in debt repayments. Excluding these payments, cash used in the third quarter was \$33.6 million. Also for the third quarter, our consolidated Adjusted EBITDA loss was \$19.5 million. I'll come back in a minute to discuss the segment financial performance, but, so let's pause and put this quarter's loss in context of our business and the path to profitability.

We've been describing the Westport financial plan and our path from our current heavy investment phase to overall cash flow and profitability. We believe our business model can and will deliver great value to our shareholders as this market shift plays out. In the near term, we are laying out specific metrics and milestones so you can see a measure of our progress. The path won't be a straight line, of course, but our progress should be very visible.

So to be clear, we're talking about two milestones here. First, operating unit Adjusted EBITDA, which is defined as operating income less non-cash items, and this will shift from approximately \$9 million negative per quarter this year to breakeven and positive by the end of 2014. We also are investing in long-term product development at the corporate level and will have corporate and public company expenses to cover as well. We report these in the corporate and technology investment segments and you can watch our progress here, too. We have averaged about \$16 million per quarter Adjusted EBITDA loss this year in this segment. We are committing to manage the business so that by the end of 2015 our corporate investment portfolio and our other expenses, including long-term capital investments, will be covered by three things: internal operating income, income from joint ventures and expense recovery from our development partners. Obviously, we expect that our current investment portfolio will contribute to our income stream and as these investments roll off into production, we have options on the pace of new investments to ensure we can manage this goal. Therefore, we expect by the end of 2015, Westport will be positive Adjusted EBITDA at the corporate level and we believe the path forward to strong financial returns is clear.

Now I'll walk through each of our business segments, starting with the Applied Technologies business unit. Applied Technologies revenue for the third quarter was

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\$20.3 million compared to \$20.8 million in the prior year period. The \$500,000 decrease is primarily due to lower sales in China and South America, partially offset by stronger sales in Russia and Poland. Gross margin and gross margin percentage were \$6.5 million and 32% during the quarter compared to \$5.2 million and 25% in the prior year period, respectively. Included in the current quarter's revenue is \$969,000 of service revenue which was recorded at 100% gross margin since the related costs were recorded in R&D; therefore, product gross margin for the current quarter was 28.5%. Operating expenses increased \$1.5 million to \$4.9 million for the third quarter compared to the prior year period, which was primarily attributed to a higher research and development cost for new products.

The on-road systems business unit revenues were \$17.8 million compared to \$8.5 million in the prior year period, an increase of \$9.3 million driven by revenue generated from BAF and an increase in sales of HPDI systems. Gross margin and gross margin percent for the quarter were \$1.1 million or 6.2%. Operating expenses for the quarter were \$9 million and this was flat compared to the prior year period.

The corporate and technology investments business unit earned \$8.4 million service revenue related to our development agreements during the quarter. Operating expenses increased by 49%, primarily due to higher investments in research and development activities on new and existing development programs and additional resources to support market development initiatives.

During the quarter, CWI earned \$77.5 million in revenues and shipped over 2,400 units compared to \$45.5 million and 1,588 engines in the prior year period. The increase in revenues was led by deliveries of the ISX12 G engine and further increased by shipments to Asia. We continue to see high interest and demand for the ISX12 G engine. Operating income was \$7.9 million or 10.2% of revenues compared to \$7 million or 15.4% of revenues in the prior year period. This decrease in operating income percent was primarily due to operating expenses increasing 53% to \$9.8 million, which was driven by research and development expenses related to the ISX12 G, the development of the ISB6.7 G, and reliability improvements, and \$6.6 million in warranty adjustments for the ISL G recorded during the quarter. Our portion of CWI's net income for the quarter was \$2.5 million. We expect our portion of income to increase as unit volumes increase and we realize improvements in our warranty experience. Also, we expect CWI's revenues to exceed the 2013 baseline revenue target as defined in the amended joint venture agreement where we will

recognize 75% of the profits earned in excess of the baseline revenues, which will show up in the Q4 when we report our share of CWI's income.

Weichai Westport realized significant growth again in the third quarter of 2013. Third quarter sales volume grew to over 9,000 engines, an increase of 88% from 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.

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

Operator

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star and one on your touchtone telephone. You will hear a tone to indicate you're in queue. For participants using a speaker phone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star and two. There will be a brief moment while we poll for questions.

The first question is from Laurence Alexander of Jefferies and Company. Please go ahead.

Laurence Alexander - Jefferies & Company

Good afternoon. I guess two quick questions. One is the wind down of the HPDI 1.0; what will be the run rate savings from doing that?

David Demers - Westport - CEO

Good question, Laurence. I'm not sure we can say. Obviously, we're redeploying a lot of resources and, you know, that was what we were trying to say. We were going to be leveraging a bunch of US production sites. I think it's more accurate to say we're reconfiguring our US sites to support the OEM programs and get ready for, you know, get ready for OEM launch, but it's going to be across the product portfolio, so we want to be kind of un-siloing. As you know, in the past we've done a fair amount of specific work for the products developed with Ford, for example, the products we've done with PACCAR, the work we're doing with Volvo. So, what we're trying to do now is consolidate operations and Nancy Gougarty has joined us. She's working to get

efficiencies and kind of across the company operating synergies so that we can start to make money as opposed to losing money in that division. So, I think it's fair to say you're going to see a lot of product change, a lot of movement of our operations and then overall, that's going to support our path to profitability, but getting into specific product-by-product, you know, what are we doing? I don't think that's really going to be very helpful.

Darren Seed - Westport - VP, IR & Communications

But we'd still—you had a comment Laurence, we do expect to recognize some benefit.

David Demers - Westport - CEO

Yes, of course, it's all part of the path to profitability.

Laurence Alexander - Jeffries & Company

But I guess since it's such a—it's been such a flagship product for you, but also such a low-volume product. Is it fair to say that probably the savings would be at least equivalent to one new incremental program in terms of funding or is it less significant than that?

David Demers - Westport - CEO

Oh, it's—I mean just look at the losses we've racked up. I'm looking at Bill here. But, you know, it's no secret that we've never hit the breakeven point and we've talked about for years on that. Its product is first generation. The price is high and certainly with the introduction of the 12 litre product that is built on the line and with iCE PACKS that are being—that are taking advantage of 2.0, the product is high price. It applies well to high fuel use applications, like we're seeing in Australia. That's where the price point makes some sense, but we just don't see the breakeven point for that specific product. Is there going to be a next generation product coming? That's, you know, obviously that's what we would be pushing for, but in its current state, you know, I think the last time I looked, we're probably putting together an operating loss of certainly tens of thousands per truck, for every truck that we ship, just to build it and support it and have the fixed cost. We're not going to be able to necessarily erase all of that fixed cost and we're probably going to redeploy

a lot of the resources, but it's going to be allocated to places where we're making money. So, I think it's going to have a very significant benefit on us.

Laurence Alexander - Jeffries & Company

And then just very quickly, in terms of lumpiness, you guys, as you think about your cash burn for the next two to three quarters, are there any significant factors that will affect the cash burn, you know, that are not—you're just flowing, not just unit volume projections?

Bill Larkin - Westport - CFO

Yes, I'm not aware of any at this time, Laurence, as we look forward.

Darren Seed - Westport - VP, IR & Communications

I think we're—and it's going to that goal by the end of 2014 for the operating business units, so for, you know, for the quarter ended December 31st, the BUs should be Adjusted EBITDA positive.

Laurence Alexander - Jeffries & Company

Thanks.

Operator

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

Susie Min - Deutsche Bank

Hi, this is Susie Min for Vishal Shah. Thanks for taking the question. I wanted to get some colour on the 15 litre. I know you mentioned some nice orders this quarter. Some of your peers have been talking about a slowdown through the rest of the year and wanted to see, you know, how that jives with what you're seeing, and then two, how that relates to—I guess you're stopping to take orders in a couple of weeks. And then I have a follow-up question.

Darren Seed - Westport - VP, IR & Communications

Well, I mean we've—obviously, Susie, I mean this was a business decision. I think we've got the next generation coming of the HPDI and that's a vertically integrated product, obviously Volvo is launching with it at the end of next year. I think this just came down to moving to the vertically integrated solution. Right now, the first generation product was a—I mean it really was a Westport-branded engine with HPDI and we are just moving to the vertical integrated business model and, you know, in the interim, there will be a 12 litre Cummins Westport engine which will be a great engine, and by the end of next year, should start to see some Volvo 13 litre product on the road with HPDI and I think, again, it was just a business decision. We had some great orders come in. We had a good Q3 in terms of sales for the first generation product and ironically, one of the best things I think we could have maybe done was suggest that we're moving to the next generation product because it sped up a lot of business, which has been very positive for Westport for this quarter and don't mind suggesting even the next quarter.

Susie Min - Deutsche Bank

Okay, great. And then I'm wondering if you guys can give us an update on how your sales agreement with Weichai is going in terms of your June exclusivity agreement ending?

David Demers - Westport - CEO

I'm looking at Bill here because Bill is flying to China with the—no, I think it's going very well. Let's just start with that. I think the market in China took a bump over the summer. A lot of people recognized that the Chinese government changed the pricing for natural gas for trucks because the volumes were rising so quickly. You know, we're not too sure what exactly is going on with the pricing of diesel fuel and gas in China, because it is controlled by the government, but as people digested that, volumes are back on the rise again. And so, the demand for HPDI is strong. I think the question between us and Weichai is just exactly where it is and how we're going roll it out and what's the price going to be and what's the volume going to be? It's—I think it's a really exciting opportunity for both of our companies.

Susie Min - Deutsche Bank

Okay. And how long does it take typically? I guess what's the lead time that you would need? Is it six to nine months? Is it—I mean should we expect that sooner than later, given the time needed?

David Demers - Westport - CEO

We've got—I mean obviously there's a process going on here, Susie. We're not trying to be cagey. There's a large investment that we're making in key component capacity for HPDI 2.0, which obviously, that's going to support Weichai's roll out. Between the time that that hardware gets on the plant floor, we're using current equipment which we're going to be, you know, effectively renting at a higher price. So, a lot of this is a trade-off between price and scalability and volume. We expect that we will see low volumes, relatively low volumes let's say—I think we're going to see some pretty healthy demand in China—until we get these investments place so we can deliver the price point that we need in China. But this is going to be a global supply chain and we want it to be scaling up to meet the demand that I talked about earlier, so that should give you a sense of where we think this is going over the next couple of years.

Can I give it to you quarter-by-quarter? Not—it's not meaningful. But we can deliver some trucks very quickly and we will be in production soon.

Susie Min - Deutsche Bank

Okay. Thanks, Dave. Thanks guys.

David Demers - Westport - CEO

Okay, Susie.

Operator

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

Ann Duignan - JPMorgan Chase & Co.

Hi. Good evening.

David Demers - Westport - CEO

Hi, Ann.

Bill Larkin - Westport - CFO

Hi Ann.

Ann Duignan - JPMorgan Chase & Co.

Could you give us a little bit more colour on the Universal LNG announcement that you had this morning? I mean I'm just trying to visualize how is that going to work? I mean we looked at their website. It looks like they are based in China. Are these products that are going to get assembled here in the US and shipped to China? Can you just give us a little bit more detail about what exactly?

David Demers - Westport - CEO

No. Universal is another entrant into the US market. You know, there's been a number of specialists in China building LNG and they're moving operations into the US, so this is a US operation. It's for a US customer. This will be a US fleet and of, course, our traditional, you know, iCE PACK production will be here in the US. So, no, it's just Universal, like others, are seeing the opportunity to invest in LNG infrastructure and they're out signing up fleets. Their focus is more the private networks. They're not building a public station network as far as I know, so they're building in-yard re-fuelling for large fleets and obviously doing a good job of it because they're capturing customers.

Darren Seed - Westport - VP, IR & Communications

We've—Ann, it's Darren. We've been precluded from mentioning the customer name and the OEM chassis. We do know the answer, it's just the customers have currently requested anonymity and—but they're household names and in North American soil.

David Demers - Westport - CEO

I mean I'll elaborate a bit, because we have had a lot of questions today. So Ann, since you kicked it off, I can wax upon about this a bit.

We've been seeing for a while that the LNG delivery system is really biased towards cold LNG and so are the fleets. The fleets are going to want to optimize range and performance and so they—you know, the colder the better for that, and so part of what is happening here is that the fuel providers are biasing the OEMs toward a cold LNG solution by offering the hardware. So no, Universal is not buying iCE PACKS. They're on behalf of their customer, they're saying we're going to deliver a cold LNG solution, and to guarantee that these trucks meet our spec, we're going to pay for the fuel tanks and so, this is part of the model that we've been talking about. I think the industry is recognizing the benefit of this and the importance of this technology and I think you'll see more and more of these deals that are being sponsored by the fuel providers.

The OEM, you know, the truck manufacturer doesn't really care what the hardware spec is for interaction with the station, particularly when the station builder is specifying. Does that make sense?

Ann Duignan - JPMorgan Chase & Co.

Yes, that's helpful. I couldn't logistically figure out in my mind why we'd be shipping tanks to China, so that's...

David Demers - Westport - CEO

It's US.

Ann Duignan - JPMorgan Chase & Co.

Okay, and you know, is there any risk on the tank side that we'd get ourselves into the same issue that we had with the HPDI in that you're shipping engines from the OEM to a third-party location and you're putting a HPDI in them; you're shipping them back to the OEM and a lot of the inefficiency and the logistics and the cost is what maybe added to the lack of breakeven in that business? Is there any risk of the same on the tank side? You're just buying the tank; you're putting on all these pumps and hydraulic systems and then shipping it back somewhere. Should we be concerned about the profitability of that business?

David Demers - Westport - CEO

No, obviously this is—you know, as we said, this is an HPDI 2.0 architecture. The idea is to share the volume with our HPDI OEM customers and kind of downsize it for SI with a different drive system, but it's exactly the same components. So we're taking advantage of the supply chain and the engineering cost reductions that we've made on HPI 2.0 to launch this product. So no, we're going to see very healthy, we think, quality improvements, price improvements and we can pass that benefit onto the customer.

Darren Seed - Westport - VP, IR & Communications

And it's integrated, Ann. I think a different model for iCE PACK than say some of the standard solutions today where I think it's effectively almost all external integration. The iCE PACK really is dedicated for online and factory production at the truck plant. So, whether it's a Kenworth, Peterbilt, Freightliner or any other auto car, I mean whoever the OEM is, the iCE PACKs would get delivered to the—the model would be is that the iCE PACK system gets delivered to the OEM plant and integrated on the line.

Ann Duignan - JPMorgan Chase & Co.

And so your value-add in the process is exactly what? Is it the pump design or the hydraulics or the packaging?

Darren Seed - Westport - VP, IR & Communications

I'm sorry, Ann. I don't think I heard your question. Could you repeat it?

Ann Duignan - JPMorgan Chase & Co.

I'm trying to figure out what Westport's value-add is then in the iCE PACK system.

David Demers - Westport - CEO

Well—I mean it's—you know, it is our proprietary tank and pump combination. They're just isn't another automotive-grade pump that, that works, frankly, and it's pretty simple and the tanks are manufactured to our specs as a result. So, it's a proprietary Westport product top to bottom.

Of course, the other advantage is that we understand the fuel flow rates that the engine needs and we can match the controls on the fuel system to controls on the engine, so that the engine gets the fuel flow that it needs and so the performance of the entire system is guaranteed by the fact that we know what the system needs. Linkages to the fuel station and cold LNG is, I think, another one of the system benefits we've talked about. So, I think it's really important at the end customer level to, you know, understand that the shift to natural gas is fully engineered from end-to-end and the truck is going to perform and take advantage end-to-end. What people care about is performance and fuel economy and that's what iCE PACK is doing with trucks with the 12 litre engine.

So, so yes, it's proprietary end-to-end.

Ann Duignan - JPMorgan Chase & Co.

Okay, that's helpful. Thanks. I'll get back in line. Appreciate it.

Darren Seed - Westport - VP, IR & Communications

Thanks, Ann.

Operator

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

Rob Brown - Lake Street Capital Markets

Good afternoon. You talked about your HPDI 2.0 rollout and steps coming. Could you give us a sense of what steps are coming and when, sort of, the CapEx?

David Demers - Westport -
CEO

No.

Darren Seed - Westport - VP,
IR & Communications

No, we—I think, and David mentioned in his script, Rob, it is basically being designed for manufacturing high-scale, reliability, lower cost. We're just making changes in our supply chain and design in engineering of HPDI and I guess the finishing note is you may have to just wait a few weeks to see the results.

David Demers - Westport –
CEO

Get some of the details.

Darren Seed - Westport - VP,
IR & Communications

Yes.

Rob Brown - Lake Street
Capital Markets

Okay, but these should be things like manufacturing partners being announced, that kind of thing.

David Demers - Westport -
CEO

Yes.

Darren Seed - Westport – VP,
IR & Communications

Yes, that's fair. Yes, yes.

Rob Brown - Lake Street
Capital Markets

Okay. Okay, good. And then maybe this is another question you won't answer, but could you give us a sense of kind of what the attach rate of the iCE PACKs will be to

the 12 litre sales? What's kind of the unit volume ranges we can kind of think about for this product?

David Demers - Westport -
CEO

I'm looking at Darren. But as you know...

Darren Seed - Westport - VP,
IR & Communications

It's a function of LNG in trucking applications doing maybe more than 200, 250 miles a day. You know, I think there's a lot of discussion, I guess candidly, about how much LNG and trucking is going to be shipped next year versus CNG. As you know, we obviously still ship the Cummins Westport 12 litre engine. It's going to do great. I think in terms of the attachment rate, I'll let you, as the analyst community, investment community, decide what you want to forecast the mix of LNG out of this 4% to 5% market penetration Dave talked about. And then, in terms of our attachment rate of the LNG, are we going to get 100% of the LNG system versus perhaps an industry standard offer? You're probably asking a little subjective question to us, Rob. I think we think we've got the best solution possible for LNG in spark-ignition engines, so I'm—I'll just wave the flag of subjectivity and say I think it'll be a good attachment rate based on how many truck applications will ship with LNG and longer haul.

David Demers - Westport -
CEO

And Rob, you've seen our chart. We're trying to be completely neutral on this. Some of this is physics but there's also a factor of local availability of LNG and fleet preferences and some of it is whether the fleet is, you know, is also running a big CNG operation, in which case they're probably going to be biased towards CNG, but as Darren said, we really see the dividing line of kind of, you know, 200 miles a day. CNG above that point starts to really get some challenges and we would expect the great majority of fleets that have higher mileage than that going LNG.

The overall mix on the 12 litre is anybody's guess, but you know, we hear in the industry these days is talking 50/50. You know, whether it's 60/40 or 40/60, I don't really care. You know, it's our engine. I think LNG is going to be universal in high fuel use applications like marine and, I don't know actually, even maybe not in marine, but you

know, for the most part, you're not going to see LNG mining trucks or CNG mining trucks rather, or CNG for rail doesn't make a lot of sense. So, you kind of have to draw the line based on what you think fleet preference is.

I think how we see adoption of natural gas in the short term? We're going to see lots of CNG because it's those return-to-base fleets and urban fleets that get immediate advantage and the infrastructure barriers are lower. But over the next two or three years, I think you're going to see a lot of LNG. It's just—it's just physics.

Darren Seed - Westport - VP, IR & Communications

Much heavier mix that way, Rob.

Rob Brown - Lake Street Capital Markets

Okay, thank you. I'll turn it over.

Operator

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

Jerry Revich - Goldman Sachs

Good afternoon and good evening.

David Demers - Westport - CEO

Hi, Jerry.

Jerry Revich - Goldman Sachs

Can you talk about the Volvo HPDI timing? You mentioned by year end 2014. I'm wondering if you just clarify is that full scale production rates and just give us some more context about how you expect the ramp to go.

Darren Seed - Westport - VP, IR & Communications

Hi, Jerry. It's Darren. The comment we've been given by Volvo is, and they actually gave at the Mid-America Truck

Show was late 2014. When you get this close to product launch, to be really candid, it's actually Volvo's call. We don't have the exact date from Volvo.

Jerry Revich - Goldman Sachs

Sure. Thanks, Darren. And in terms of the BAF acquisition, how much did it contribute to sales in the quarter and can you share with us the HPDI sales contribution in the quarter as well?

Bill Larkin - Westport - CFO

Yes, I think we talked about this last quarter where, you know, we're not going to break down the individual businesses, so we're not going to be able to provide any colour on that.

Darren Seed - Westport - VP, IR & Communications

In terms of units. Jerry, I don't know, is there any—is there another way we can try and answer the question, Jerry?

Jerry Revich - Goldman Sachs

Yes, Darren. Just can you help us with the organic growth in Applied Technologies in the quarter or—excuse me, in on-road systems in the quarter, backing out the BAF contribution?

Bill Larkin - Westport - CFO

Yes. I think yes. Yes, we got increase in HPDI sales and increase in contributions from BAF. This is the first quarter that we actually start to recognize the revenues related to BAF.

Jerry Revich - Goldman Sachs

Right, yes. So, I didn't ask my question well. So if you were to back out BAF, what would the sales growth be in the quarter on a year-over-year basis?

Bill Larkin - Westport - CFO

Sorry. I think it's the same question.

**Darren Seed - Westport - VP,
IR & Communications**

Sorry, Jerry. We'll try. We're trying. We just can't break it out.

**Jerry Revich - Goldman
Sachs**

Okay. And, you know, as we think about your business stepping into next year, what are the major light duty launches you folks have coming up or major product refreshes? Can you just give us a quick update on maybe the two or three biggest programs?

**Darren Seed - Westport - VP,
IR & Communications**

I think there's probably two to start out with, and looking at Dave and Bill for any others. You've got, one is the Ford F-150, which we still expect to launch in Q1 of 2014, and also the Volvo V60 program has started selling and we are looking at an export market for that product over the next 12 months.

I don't know if there are any other. For light duty I think that's what we have on the table right now, Jerry.

**Jerry Revich - Goldman
Sachs**

Okay. Thank you very much.

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. Just, I know you're hesitant on the units. I'm just curious, can you just talk about, you know, maybe the magnitude within CWI of the 12 litre? I mean, last quarter you had a great CWI number and the 12 litre was very small. I mean, should we think about this quarter in a similar way

or just kind of help frame us? You know, and again, I'm trying not to ask about volumes but just kind of help frame our thoughts on that.

**David Demers - Westport -
CEO**

Boy, you really want the unit number, don't you? I'm looking at Bill. How can we give you a hint here?

I mean volumes are going up. We can certainly say that and is it fair to say we doubled quarter-over-quarter? Yes, Bill is nodding. Yes, we could say we had doubled.

Honestly, we're really getting, I think distracted by this. I think the real point is what we—I guess I said it. I'll say it again. You know, that this breakeven—sorry, breaking into a market where we're going to get 4% or 5% market penetration for gas is really what has people excited. So the story is not last quarter or this quarter. It's that I think everyone now believes we're going to see a market for natural gas in 2014 of, you know 8,000, 10,000 trucks, which is a lot of natural gas trucks and that has everybody scrambling to get their product plans together. So the number to look for, I think, is are we going to be able to get that 4% or 5% market penetration in 2014? And then after that, is it going to keep—is it going to keep doubling in the US?

If you do the math and look at China, we think we're getting pretty close to 5% in China, which is a pretty astonishing number in a short time, too. Europe, we're behind but it's not unnoticed that natural gas is moving quickly in North America and that's why we're seeing so much interest in Europe, as well.

So, I think that the critical number is not the ramp. I can tell you the 12 is doing really well and volumes are growing and we're in full production as of August with the high ratings and that product seems to be what people want. So, we're pretty confident we're going to have a strong year ahead with that product and then, than a whole flood of new product is going to hit the market after that. That's, I think, pretty safe to predict.

**Eric Stine - Craig-Hallum
Capital Group**

Okay, fair enough. It was worth a shot there but...

David Demers - Westport - CEO

Well, I gave you a couple of data points to play with. Come on.

Eric Stine - Craig-Hallum Capital Group

No, that was good. I appreciate that. So, maybe just turning to Applied Technologies, something from the release. Just wondering if you can give more clarity? You talk about a new high-pressure natural gas system. I guess it's a valve in a—a tank valve and a filling valve. Just, you know, how we should think about that opportunity maybe in terms of ASP and then, as much as you can share about these two European OEMs launched in Europe. Maybe which markets in Europe, those sorts of things.

David Demers - Westport - CEO

Sorry, the two European OEMs, I'm looking at Darren for that reference. Two European OEMs?

Bill Larkin - Westport – CFO

Yes, so these are the new products that they've been investing in in Applied Technologies.

David Demers - Westport - CEO

Oh, in Applied, okay, in Applied...

Bill Larkin - Westport – CFO

It's just they're rolling out these new products that are OEM quality, meet all the OEM requirements, packaging.

David Demers - Westport - CEO

Yes. The tank valve and filling valve, Eric. I mean I think we do expect Applied Technologies to have some pretty good growth with just new products launching in—at the end—well frankly, some of those like GAZ, the end of this year and some products launching next year we haven't

disclosed yet. I think Applied Technologies has got some good growth in front of it.

Eric Stine - Craig-Hallum Capital Group

Okay, so this is—I mean part of you plan, unseating existing players in the supply chain. This would be just the first of many, is that how we should think about it?

David Demers - Westport - CEO

Yes. I wouldn't necessarily say we're unseating people. I think that the market, the OEM market is just emerging and what we want to be able to do is demonstrate a continuous stream of new products that are higher performance, lower cost, better quality. You know, it's pretty standard automotive business and the Applied Technologies group are focused on that OEM business. We've got, I think, a very good presence with the automotive players that are doing natural gas and we want to expand our content and we want to obviously, expand the model coverage and expand the number of OEMs that we supply, which would lead them directly into a complete system design with our on-road system group. But the Applied Technologies group will sell stuff to anybody.

Eric Stine - Craig-Hallum Capital Group

Okay. This is the last question from me. I know iCE PACK clearly focused on North America, but just any thoughts on timing, potentially spark-ignited opportunity in China?

David Demers - Westport - CEO

Well, there's lot of spark-ignited getting sold in China. I wouldn't say iCE PACK is North America.

Darren Seed - Westport - VP, IR & Communications

Not at this—not at this time. We are looking at possible solutions, Eric, for future product launches and we're looking at partners right now and we'd announce anything of materiality when they're ready to go.

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

Can you guys talk a little bit about the strategy for distribution of the iCE PACK and why you're not selling direct to OEMs at this point?

David Demers - Westport -

CEO

We are selling direct to OEMs.

Darren Seed - Westport - VP,

IR & Communications

We are—we are selling directly to OEMs.

Colin Rusch - Northland

Capital Markets

Okay, and then the ULNG order is just, you know, aid on distribution at this point? Or...

Darren Seed - Westport - VP,

IR & Communications

It's unique. It's a little unique at this moment for that particular order, Colin.

David Demers - Westport -

CEO

Well it's kind of, as I said to Ann earlier, what you need to think about here is that the fuel provider working with the fleet is spec'ing cold LNG and iCE PACKs, but the iCE PACKs are getting put on the truck chassis, you know, by the truck manufacturer. It's a trucking product, so we're not taking iCE PACKs and shipping them to Universal LNG. This is not what's going on here. It's just that the

fuelling partner is spec'ing it on behalf of the fleet. So, what we're not telling you is the OEM and we're not telling you the fleet, but it will all become clear once you see this rollout.

We do see that continuing. I think that more and more of the LNG providers are going to be very engaged in spec'ing cold LNG and iCE PACK and being able to offer pricing and performance that takes advantage of that technology and so you're going to see that model going forward. But the hardware itself is, you know, it's an OEM product, as Darren said, and it's designed to be installed at the truck factory.

Colin Rusch - Northland

Capital Markets

Okay, perfect. And then with the 15 litre, can you just give us an update on where you're at in terms of discussions on a new partner for funding the next generation of the 15 litre product?

David Demers - Westport -

CEO

I mean, it's HPI product we're talking about. I think; I've got to choose my words carefully here. What we're seeing broadly across the trucking industry is a push towards higher fuel economy and higher fuel economy with lighter weight. It comes with lighter weight. It comes with smaller engine displacements which means higher power density for smaller engines. So, I mean, if you look at the ratings, you're going to see higher power and torque ratings out of smaller and smaller displacements which in, certainly in Europe, we're seeing a real migration in the trucking industry to much smaller engines that have the same performance output.

So, what we're after is not another 15 litre platform. What we're after is a broad range of engines that are suitable for trucking and more than that, I think we are going to have to stop. Let's just say that as you see the trucking portfolio around the world evolve, we want to see HPI offerings in as many of them as we can do.

Darren Seed - Westport - VP,

IR & Communications

And I think, Colin, it was a bit of a misunderstanding by some of the media that, you know, people linked the 15 litre as some inextricable link with HPDI, but HPDI is a technology platform. It's what Caterpillar is working

with, what Volvo is working with. Obviously, we have disclosed publicly there are two OEMs we have been in development with so far on initial phase with just that; HPDI as a technology platform. So, will there be future OEMs with HPDI? Absolutely. I think we're counting on it. Will one of those products—will HPDI be on a 15 litre engine? I think that would be a question for Cummins or for DAF or PACCAR or whoever's the current supply value chain today. But please ask them.

Colin Rusch - Northland Capital Markets

But where you're heading is something that would look more like a JV than it would look like a product that you've just...

David Demers - Westport - CEO

I mean, I'll go on a bit on that one because it's come up a bit. JVs were a great way to get started and minimize risk for those first partners, Cummins and Weichai, because we can kind of—you know, we're isolating the business. We're putting it off in a joint venture, but I think more and more we're going to see the business model like we've done with Caterpillar and Volvo where it's product-by-product and there's a specific product, there's a product development agreement. We agree on cost and performance milestones for a particular product and we expect there will be multiple product development agreements with each of these OEM partners as we go forward. So, the JV structure isn't necessarily what we're going to replicate. I think you're going to see more of these contractual product-by-product deals, which have the same result. It looks—in the end, it looks like the same financial deal; it just gives us a lot more flexibility with our partners, you know, on future, rather than going into our corporate structure like a JV.

Not ruling out JVs. I just think our expectation, talking to our partners, is they want a lot more flexibility.

Colin Rusch - Northland Capital Markets

Perfect. Thanks a lot guys.

Darren Seed - Westport - VP, IR & Communications

Thanks, Colin.

Operator

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

Alex Potter - Piper Jaffray

Hi guys. Just following up on that last question then, with the Weichai joint venture; would you say that that's something that you guys might try to move away from? Potentially restructure that in the same way that you've done with Volvo, or do you think that JV has staying power?

David Demers - Westport - CEO

I think what we've said about Weichai is two factors there. I mean, the joint venture was with the way we got the Chinese market for natural gas, in particular natural gas trucks and LNG got going, and the joint venture was a great way to get some visibility and start on that and obviously, it's done really well. I mean it's got a 30-year term. There's a corporate structure that we are a shareholder in but the primary path to market for Westport and Westport shareholders, the value creation we think is really going to come as we start to deliver HPDI technology to the joint venture or deliver components to the joint venture or develop a Chinese iCE PACK or something that takes advantage of this new market for natural gas products. The joint venture obviously, has a value and obviously, those shares have a value but our business model is to deliver this technology-driven capital light business model to OEMs and that means Weichai Westport is becoming a Westport customer. That's really what we're pushing toward.

Does that make sense?

Alex Potter - Piper Jaffray

Okay. Then I was wondering also just, I guess, one quick question on, again on this ULNG thing. For the 900 units of the iCE PACK, I was wondering if there's a—do you have any sort of take or pay agreement type of a thing there whereby they would get penalized for not ordering?

David Demers - Westport - CEO

Yes.

Darren Seed - Westport - VP, IR & Communications

Yes, there is a—it's a take or pay actually, Alex. Sorry, we didn't put all of that detail in the press release but it is, it is a take or pay with minimum commitments every year to the—till we hit the 900 units. They can obviously speed up the pace of integration but it was also just a function of making sure they had enough time to get the trucks integrated into the customer fleet and the infrastructure there was there. It was just more of a logistics timing than anything.

Alex Potter - Piper Jaffray

Okay, very good. Thanks guys.

Darren Seed - Westport - VP, IR & Communications

Thanks.

Operator

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

Darren Seed - Westport - VP, IR & Communications

Hi Matthew.

Matthew Blair – Macquarie Capital

Hey, good afternoon. When the 350 horsepower version of the 11.9 launched, it seemed like a higher percentage went to CNG. Now that you have the 400 horsepower version out there, what's the breakout between CNG and LNG?

Bill Larkin - Westport - CFO

Sure. I think it's just all applications right now. I think we've touched on it. You know, right now the majority of the engines are going to be CNG today until we get our

iCE PACK out there and start getting them integrated on trucks. So, if you look at probably most of the CWI 12 liter are considered being delivered, whether the 350 or the 400 horsepower, they're going to be CNG today.

Darren Seed - Westport - VP, IR & Communications

It's just it's a function of the shipments this year, Matthew. It's for calendar 2013, it's probably fair to say the first applications going out were more CNG-based, and to David's point earlier, it's their short-haul, return-to-base, you know, refuse fleets, short-haul trucking where, again, every night they can come home and get the efficiencies of having an overnight refuelling or depot-based refuelling solution.

As you get into 2014, I think you start seeing the longer haul application showing up, more than 250 miles a day, and that's obviously what's got us very excited about the iCE PACK sales for next year. But this year, could it be a high mix of CNG? It could be, for sure, but again, I don't think it's an appropriate survey sample being just calendar '13 just because most of these products are just coming off the line.

Matthew Blair – Macquarie Capital

Sure, okay. And then, any thoughts on R&D for 2014? I guess given the recent equity raise, should we assume it's probably going up next year?

Bill Larkin - Westport - CFO

Yes. As we sit here today, we think, you know, our investment research and development is going to be flat year-over-year. You know, as we've talked about quite openly, as we are going to be having products that are coming out of that product development cycle and put into the business units and being commercialized, then we would expect to bring more new development programs into the investment pool next year. So we expect when we look, sit here today, for next year we expect it'll be flat.

Darren Seed - Westport - VP, IR & Communications

I think the other component, Matthew, is you've got our—we've been using that term, sort of gross R&D so the R&D number that we report, don't forget there's obviously a

good portion of service revenue. It's some number, I think it's been in the \$10 million to \$15 million range or so for this year on a run rate. I think next year we'd expect to have some service revenue. So, that'd be something else to consider too is even if the reported R&D number is flattish, hopefully a portion of that is offset by the service revenue.

Matthew Blair – Macquarie Capital

Okay, but you would probably have lower service revenue next year with the rollouts of the Volvo HPDI engine?

Darren Seed - Westport - VP, IR & Communications

I think that would be dependent right now, Matthew, is you're right and as Volvo drops into product sales, that'll come out of R&D but we're, let's just say confident, in that we have two OEMs we've been working with for the better part of a year on HPDI. If we're successful and we can turn them into development agreements, we may see some R&D out of that and I think to your other comments on joint venture structures where those are less likely, not only do you expect them to see more product development-like agreements, but invariably, the customers are less willing to give up a big share of the net income and you're seeing more of a service revenue model where the OEM partners are willing to subsidize or fund some of that R&D development so that they control a greater part of the value chain.

Matthew Blair – Macquarie Capital

Very helpful, thank you.

Operator

The next question is from Pavel Molchanov of Raymond James. Please go ahead.

Pavel Molchanov - Raymond James

Hey guys, thanks for squeezing me in. You mentioned in the press release that gross margin on the new 12 litre was, you know, depressed due to, I guess, lower launch pricing. How long do you think that will last?

Bill Larkin - Westport - CFO

Well it's all—let's be clear. It's all driven by the warranty accrual that we have on the 12 litre. Like with any new product launch, it's heavily burdened with warranty costs, so therefore, it drives down the overall margins and typically it'll take several quarters as we start getting some, you know, performance history on that engine to where we can start accurately predicting what that warranty is going to look like on that product down the foreseeable future. So, it's going to take several quarters for that warranty experience to come in and we would expect that overall warranty accrual to start decreasing over time and margins to improve.

Pavel Molchanov - Raymond James

Okay, so just to clarify, pricing at launch is the same as you plan to keep it?

Bill Larkin - Westport - CFO

Yes.

Pavel Molchanov - Raymond James

That was not the culprit, okay.

Bill Larkin - Westport - CFO

You're seeing it's just change in what that warranty accrual is that's going to drive margins.

Pavel Molchanov - Raymond James

Okay, understood. Appreciate it guys.

Darren Seed - Westport - VP, IR & Communications

Thanks, Pavel.

Operator

The next question is from John Quealy of Canaccord Genuity. Please go ahead.

John Quealy - Canaccord Genuity

Hey, good afternoon guys. So, one question real quick, and I'm sorry if you touched on this earlier. In terms of iCE PACK warranty charges or ramp, how should we expect that to play? Is it going to be similar to the engine launches or less of an impact?

Bill Larkin - Westport - CFO

You know, it's an existing product that's within our technology portfolio and we have a pretty good history on it and so, I wouldn't expect significant warranty accrual on that system once we start launching and delivery. So, you know, I think as David mentioned earlier, you know, we think we're going to make some good money on the sale of this product.

John Quealy - Canaccord Genuity

Okay, and then lastly, another one; apologize if you touched on it, but in terms of the traditional China market for medium and heavy duty diesel trucks, it sounds like that traditional market's slowing down and fairly—operating with fairly good overcapacity. Have you seen any increased competition on the LNG/CNG side at all? Thanks.

David Demers - Westport - CEO

I think—well, you know, I guess that the—what's going on in the China market is not always obvious. From our data, things are roaring again in the truck business, so there might have been some lumpiness, but it's still a very strong market and continuing to grow pretty well, and natural gas continues to grow. Now, there are a number of players in the engine business but Weichai is the dominant player in the truck business and obviously, we dominate in the natural gas truck engine business too, so we don't see any big change in that front. And I think as we launch HPDI, which gives the joint venture an exclusive proprietary product that people can't match, that's just going to help its market share and its reputation.

So, is there going to be more engine competition in China? There's no doubt. You know, it's pretty straightforward these days to take spark ignition conversion kits and put them onto an engine, and so lots

of people are doing that. But, you know, the high performance end and the higher reliability end with people like Weichai, we think we're going to continue to dominate.

John Quealy - Canaccord Genuity

Perfect. Thanks guys.

Operator

This concludes the time allocated for questions. I will now hand the call back over to Darren Seed for closing comments.

Darren Seed - Westport - VP, IR & Communications

Thanks very much everyone for joining the conference call and we'll see everyone in what we'd expect to be February of 2014 for the Q4 and Year End wrap-up.

Operator

This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.