

DARREN SEED speaking

VP, Investor Relations and Communications

Welcome to our fourth quarter and year end 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 US 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

Thanks, Darren, and good afternoon, everyone. At the end of a fiscal year, I think it's useful to review the year and our progress against our strategic plans, and 2013 is an especially interesting one as we went through considerable change as we reconfigured our business from its roots as an R&D and market creation venture into what we now believe will be a high growth product phase in our development. So, I wanted to start by reiterating the foundations for our strategic plan.

First, transportation and energy, the world's two largest industries, as we all know, are going through one of those once-a-century disruptions, where fundamental economic forces are driving change. For transport, it's the high price of oil, from which virtually 100% of our transportation fuels are derived, has opened up an opportunity for a new energy source. It's important to understand that this is an economic issue, not regulatory or environmental. Those are important factors affecting the market dynamics but the force driving the change is the quest for a lower cost fuel.

Second, of course, energy's also going through a technology driven disruption in both oil and gas extraction and distribution. Again, here we need to focus on the fact that the oil boom is about being able to extract oil from previously impossible or uneconomic resources. High prices are driving the innovation. With gas, it's the opposite. We've created a breakthrough that's opened up staggering quantities of cheap natural gas. There's a tremendous global investment underway to bring that gas to market and to make it a truly global energy source, like oil, but put the two together, and you have our fundamental thesis, that we're going to see natural gas as a primary fuel for transportation applications.

It's hard to believe, but as recently as 2012, we were still debating this concept. The question now is exactly where and how fast and how much; in other words, where should investors and companies focus for the best returns in what we now all believe is going to be inevitable change. That's a very challenging question, and frankly, it's been the origin of a lot of noise in 2013.

But accepting this foundation thesis at Westport, we focused on where the market's going to be, not where it has been or even where it is today. There are lots of companies doing very well, supplying goods and services to the niche markets that have already embraced fuels like propane and natural gas, and that's great and there's the usual business scrap going on around the world for market share in those traditional segments, but we believe, and you should too, that the real prize is the emerging market, the coming market for fully developed, globally built OEM supply chain based products that are built and distributed to the same high quality that current products are and using the traditional automotive industry channels.

Now again, there's some question. In fact, there's a lot of question about exactly where and how fast the breakthrough products will come. We have a pragmatic strategy. Our plans are based on evidence in the markets that we're targeting, but we believe the market ahead of us is coming quickly.

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We've concluded that the first priority should be markets where customers spend a lot of money on fuel and where regulation or policy are encouraging a change and where there's a full ecosystem of product distribution and service, fuel infrastructure and customer awareness. We all—we have to develop that complete ecosystem before we can really see product sales. Now, at Westport, we've spent over a decade educating and encouraging and demonstrating and proving out the necessary components of that ecosystem in different markets around the world.

Now, at the end of 2013, you know, I think the situation is quite clear. We're able to survey the situation around the world and we can be satisfied with the proof that we're on the right track. Just looking at our JVs alone, the product sales through our two joint ventures, or directly from Westport sales, hit almost \$900 million last year. Growth is obvious all over the world. The open markets, we believe, are everything from passenger cars in Russia or China to locomotives in the US. We have global coverage emerging on the infrastructure side, and we have a small but highly capable and scalable supply chain developing. Infrastructure has hit critical cost and ability breakthroughs in many markets, and the model of investment success in that space is now clear; hence, our talk of 2013 being a transition year for Westport, from market creation and technology demonstration to a more traditional business that's focused on customers and profits. So these are exciting times for us.

If you just turn to the fourth quarter, as you can see, it was a strong quarter, with growth in both of our joint venture businesses, both in China and in North America, and in the Westport product business. Westport revenue was up 30% year-over-year for the quarter and up 5% for the year over last year. For the year, CWI revenue was up 57%, Weichai Westport was up 71%.

Now, we spent the last year reviewing our current product portfolio, all of our alliances on opportunities, and we've made the appropriate shifts in business based on what we think are the most important strategic opportunities and getting an optimum mix of short and long-term products. Furthermore, we believe we have strong leads on competition and that we can foresee considerable flexibility in our plans as the markets mature, in case, you know, things speed up or slow down, anything in particular. So, we're entering 2014 with some clear goals.

Now, we've been talking about this for years, but we look at 2014 as the critical breakthrough year in heavy duty trucks in North America. We expect to see 3% to 5% market penetration in Class 8 trucks for natural gas this

year, which is up from virtually zero in 2011. At that rate, we'd have a total population on the road of about 12,000 trucks over the last couple of years, which consume, on average, about 18,000 gallons of fuel per year each. So, this is becoming a material amount of energy that's being allocated to the Class 8 truck market.

Now, if we're successful in getting that 3% to 5% market penetration, we think that the growth trajectory is pretty clear. That will be up from 1.7% in 2012 and we don't think there's anything to stop it from going much higher. Westport has content in about 100% of those trucks this year, with Cummins Westport engines supplemented by sales of the Westport iCE PACKTM LNG system and, of course, on the CNG side, we have the various specialized components that we manufacture, including tank valves, regulators and so on.

Now, we think 2014's also going to be a breakthrough year in China for us. Our joint venture hit 38,000 engines last year and it will grow again in 2014. Seventy percent or more of those sales are in the trucking application as well. Westport will begin supplying components and HPDI kits to the JV this year, as we shift our strategy from market creation to product sales through the joint venture. Now, this is simply a spectacular opportunity and we're excited at the opportunity to continue to work with Weichai to lead this energy transition in China. I should point out that the JV has announced another capacity expansion so that by the end of the year, we'll be in a position to ship 100,000 natural gas engines annually from the joint venture.

On the automotive side, we've got two paths to market: our ATG business, which is well positioned for growth, as our OEM customers expand their product offerings globally and as sales develop, and through our complete vehicle systems, including our work with Volvo Car and Ford. In both cases, we've taken big steps to position ourselves for profitable growth, even at current sales levels, which are still relatively small. For example, we agreed with our friends at Clean Energy Fuels last year to merge the BAF and Westport WiNGTM divisions last year to create the single largest Ford QVM business. We've consolidated our operations now into the former BAF facility in Dallas. The combined business is the largest Ford QVM, and although this isn't really the long-term strategic and scalable business that we've talked about, we expect to see it develop very well, and we're going to make money this year and as the market develops.

Similarly, with the launch of the new Volvo V60 model in Europe and with the changes we've made to that business, we expect to be in a position for profitable growth in 2014 and beyond.

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We're seeing surprisingly quick enthusiasm in the rail industry, and we're well positioned to sell fuel tenders and engine systems in that market over the next few years. This is brand new. Our first fuel tender shipped right at the end of the year, but this is emerging as a very interesting business for Westport and, of course, you'll see the evidence of this develop in 2014.

I have two comments, that we did stop selling the first generation of Westport HPDI at the end of 2013. Its mission in market creation and development has been accomplished. Our investment was essential in establishing the opportunity for natural gas heavy duty trucks around the world. Now, next-generation HPDI products will be emerging and the business model that we've developed with our OEM partners will be much more scalable and profitable for Westport shareholders. We will continue to support existing customers, of course, and we've allowed for that going forward, with a substantial provision on our balance sheet.

Now, all of these products are in the market today and are going to form the basis for our stated goal of reaching operational positive adjusted EBITDA by the end of the year, excluding the income from our joint ventures. This is a big deal for us. Please understand, we're very serious about this goal. The swing from the 2013 number of \$97 million adjusted EBITDA loss to positive adjusted EBITDA on a consolidated basis within the next two years is a real challenge but we believe we have the roadmap in front of us.

Of course, the end game is not just a breakeven business. We are continuing to invest heavily in technology and product development with our partners, and we believe we are developing a sustainable, competitive position. As the market for natural gas vehicles emerges over the next few years, Westport will be the leading partner for OEMs as they launch new products.

So I'm going to close and turn the call over to Bill, but let me just reiterate our goals for 2014. Number one, positive adjusted EBITDA from operations by Q4 and continued profitable growth in our joint ventures. Second, we want to be careful and prudent managers of our investment programs to ensure that we can hit the operational cash flow from Westport direct sales, plus our JV dividends, to cover our business in 2015, as we've said. We want to allow Westport to achieve overall consolidated positive adjusted EBITDA but, at the same time, maintain the right investment and the right priorities to ensure our continued leadership of the industry.

Third, we want to deliver on contractual commitments to our strategic partners and key OEMs. We have several key milestones with those investment programs in 2014. At the same time, we're developing attractive new customer relationships, and we want to continue to help removing barriers to the rapid adoption of natural gas vehicles around the world. So those three dimensions give you some sense of the strategic challenges in front of us, but I think 2014 is going to be a great year for us.

We've laid the trajectory out, we've identified a meaningful scorecard that tracks our path to profitability, the industry is still growing beyond many expectations, and I firmly believe that Westport and our shareholders are in the right place to take advantage of this new opportunity.

So, thanks for your support and interest, and I'll turn the call over to Bill to run through the financial highlights.

Bill Larkin speaking

Westport Innovations, Chief Financial Officer

Thanks, David and good afternoon, everyone. I'll begin with a brief overview of our fourth quarter results. For the quarter ended December 31st, 2013, we recorded consolidated revenue, excluding our revenue from joint ventures, of \$52.6 million compared to \$39.9 million in the prior year period. This is a 32% increase.

The breakdown of revenue by segment is \$24.3 million for Applied Technologies, \$26 million for On-Road Systems, \$500,000 for Off-Road Systems, and \$1.8 million for corporate and technology investments. For the full year, our revenue was \$164 million.

CWI had a record quarter, with revenues of \$110.5 million on the delivery of over 3,800 units, and Weichai Westport (WWI) generated \$93.6 million in revenues on the delivery of over 8,100 units. For 2013, CWI's revenues were \$310.7 million, a 57% year-over-year increase, and delivered over 10,300 engines and WWI revenues were \$466.6 million, a 71% year-over-year increase, and delivered over 38,000 engines.

During the fourth quarter, we made the decision to cease production of our first generation Westport HPDI system. We accrued the estimated costs to fulfill our warranty obligations and our commitments to supporting the first generation HPDI customers. This decision ultimately will save us money, and going forward, we

expect the annual cost savings to be in excess of \$5 million.

Also, US GAAP requires us, at least annually, which is November 30th for us, to review our goodwill for impairments. Based on historical experience, financial forecasts, and industry trends and conditions, we recorded non-cash goodwill impairment charges in the fourth quarter relating to our Volvo Car business and Italian operations. However, you know, our Italian operations are generating positive adjusted EBITDA, and we are still expecting to grow and diversify revenues through expanding sales of our products in other markets, including China.

Finally, we recorded other write-downs, primarily relating to consolidating our four businesses, as David mentioned, into our Dallas facilities, where we expect to realize operational efficiencies beginning in 2014. So during the quarter, total adjustments recorded were \$67.8 million. Of this amount, \$26.3 million was recorded in cost of goods sold.

Our consolidated gross margin and gross margin percentage for the fourth quarter were impacted by the Q4 adjustments. Excluding these adjustments, our gross margin and gross margin percentage for the quarter were \$9.3 million and 17.7%, respectively.

Research and development expenses for the quarter were \$23.3 million, a slight reduction from \$24.4 million in the same period last year. Selling, general and administrative expenses were \$15.9 million for the fourth quarter. This is a reduction of \$9 million from \$24.9 million of prior year period as a result of our efforts to reduce costs.

For the fourth quarter of 2013, our net loss was \$89.5 million, or \$1.42 loss per share, compared with a net loss of \$37.6 million, or a \$0.68 loss per share in the prior year period. Excluding the impact of the adjustments I had discussed – and these are partially reduced by \$10.1 million in unrealized foreign exchange gains – our consolidated net loss and net loss per share for the fourth quarter were \$31.8 million and a \$0.51 loss per share, respectively.

As of December 31st, 2013, our cash, cash equivalents and short-term investments balance was \$210.6 million. Our cash burn is down and during the fourth quarter, we used \$26.9 million in cash, which is a sequential decrease of \$19.1 million. For the fourth quarter, our consolidated adjusted EBITDA loss was \$23.2 million.

We have been describing the Westport financial plan and our path from a 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 communicated specific metrics and milestones so you can measure our progress. The path won't be a straight line, of course, but our progress should be very visible.

To be clear, we have discussed two milestones. First, operating unit adjusted EBITDA, and this will shift from approximately \$9 million negative per quarter in 2013 to breakeven and positive by the end of 2014. We have and we are reducing our operating costs, and we will defer or eliminate product lines where we do not see a clear path to generating profits.

We are also investing in long-term product development at the corporate level, and we have corporate and public company expenses to cover. We report these in the corporate and technology investment segments, and you can watch our progress here too. We had averaged at about \$16 million per quarter adjusted EBITDA loss this year in this segment. We are reviewing every project where we are investing money, and among other things, we have established criteria to rank and evaluate the returns on our projects. Projects that do not make the cut will be deferred. We will continue to evaluate our investment portfolio on an ongoing basis.

By the end of 2015, our corporate investment portfolio and our other expenses, including long-term capital investments, will be covered by three things: one, internal operating income; two, income from our joint ventures; and three, expense recovery from our development partners. Obviously, we expect that our 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 to this goal. Therefore, we expect by the end of 2015, Westport Consolidated will be positive adjusted EBITDA, and we believe the path forward to strong financial returns is clear.

To wrap it up here, we expect our revenue for the year ended December 31st, 2014, to be between \$175 million and \$185 million. We are starting the year in a \$25 million hole without the contributions from the first generation Westport HPDI system. We expect the revenue in our core businesses to increase up to 30% out of this hole, which will deliver a 2014 revenue increase of 7% to 13%; 2014 is going to be an exciting year.

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 phone. You will hear a tone to indicate you're in queue. For participants using a speakerphone, 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 & Company. Please go ahead

Laurence Alexander - Jefferies & Company

Good afternoon.

David Demers - Westport, Chief Executive Officer

Hi, Laurence.

Laurence Alexander - Jefferies & Company

So, three questions. First, on the operating efficiencies and the curtailment of the first-gen HPDI, what is the net savings that you've realized on that? And then, do you expect your operating expenses to move, you know, to track down further in 2014?

Bill Larkin - Westport, Chief Financial Officer

Yeah, Laurence, we are going to have realized net savings. You know, I think they'll be in excess of about \$5 million. You know, we do—we have redeployed those individuals to other programs, to focus on those programs, but we will realize those efficiencies and cost reductions on a go-forward basis.

Laurence Alexander - Jefferies & Company

Okay, and then secondly on the cash burn; should the cash burn decline sequentially from here, or if it's going to be lumpy, what are the factors that would drive the lumpiness?

Bill Larkin - Westport, Chief Financial Officer

No, it could be lumpy. It could be driven by top line revenue. We do have debt payments that we make about every six months, so there are many factors that could impact our cash burn. Also, you know, we're making capital investments as well throughout the year, and the timing of those investments could impact our quarterly cash flows.

Laurence Alexander - Jefferies & Company

Then just lastly, do you have any incremental visibility you can give us on when HPDI will start selling in China?

David Demers - Westport, Chief Executive Officer

I'm looking at Darren, and Darren's looking at me. You know, as we've said the—you know, Weichai's got test trucks on the road with customers. There's a stock answer we have to give you, Laurence, on all of these programs, as we've been saying for about a year. So, we've moved into a lot more serious business where people are looking at natural gas as being a serious product and not just an environmental demonstration or some sort of niche product. These are very strategically important issues for our OEM partners and so we can't steal the thunder from our friends at Weichai on what they're up to. What we can say is that there are trucks on the road with customers, and we expect that to grow in 2014.

Darren Seed - Westport, VP, Investor Relations and Communications

I think in our—in accordance with our previous disclosure, Laurence, we've been in just negotiation with Weichai on the supply agreement. I think at this point,

we just say we're confident we'll be able to resolve that supply agreement and get underway at some point this year.

Laurence Alexander - Jeffries & Company

Thanks, I'll hop back in queue.

Operator

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

Rob Brown - Lake Street Capital Markets

Good afternoon. Maybe to follow that up, in general, your guidance for the year, could you give sort of the broad buckets of how that gets built up, or maybe some color on how you kind of get to that number, realizing you're not going to give us the full fine detail?

Bill Larkin - Westport, Chief Financial Officer

Yeah, I think by—go ahead. Well, I think by nature, most of that's going to be in our Applied Technologies group because it is a mature business and we expect, as they execute their strategy and try to diversify geographically and penetrate new markets, that's where we're going to expect growth in our business. Also, this year, we're going to—we plan on delivering tenders within our Off-Road business, and so that's going to drive growth in our business. We—you know, as we launched iCE PACK in the fourth quarter, and we expect to see some nice contributions from that product throughout the year.

David Demers - Westport, Chief Executive Officer

I think—I'll just add to it, Rob. I think the—you know, as I said, the real focus this year for all of us – I assume for you too – is going to be the success of the Cummins Westport 12-liter in trucking which, unfortunately, doesn't count to Westport revenue anymore. We will see an impact. If that is more successful or less successful,

we expect there'll be some direct implication for iCE PACK sales, which will show up as Westport revenue but, of course, that's going to be impacted by the famous CNG/LNG mix question, which we may as well raise now too.

So, I think that we see 2014 as getting to positive cash flow; the real growth will be as our investment programs start to roll off and we see these global programs, and particularly the HPDI 2.0 generation products, hitting the market over the next few years is really what's going to accelerate Westport direct revenue. But for 2014, we think we've got a product mix that is going to make us money and we'll wind through each of these markets and we'll see good growth, but the overall story next year is going to be North American trucks, I think, and growth in China.

Rob Brown - Lake Street Capital Markets

Okay, and then could you update us on the Volvo heavy duty truck engine and product? I think that's coming up, but could you give us some color on when to think about that impacting your business?

David Demers - Westport, Chief Executive Officer

I'm going to repeat my answer to Laurence, Rob. We have to let our OEM partners manage their product introductions. That's been beaten into us, and we will—you know, we just have to defer to them. I think we can say, because it's quite public, there are test trucks in customer hands, and we want to see that product do very well around the world, for obvious reason, but we have to allow Volvo to develop the products to their standards, to their schedules, and they're going to launch and price the product, you know, the way they decide they want to do it. So, we're there to support them, not to try and run the show. So, you're just going to have to wait and see.

Rob Brown - Lake Street Capital Markets

Okay, great. Thank you.

Operator

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

Ann Duignan – JP Morgan Chase & Co.

Hi, guys. Can you hear me?

Darren Seed - Westport, VP, Investor Relations and Communications

Hi, Ann.

Ann Duignan – JP Morgan Chase & Co.

Hi, how are you doing? Can you talk a little bit more about the review you're doing of your projects in terms of ROI and a little bit more about, you know, what return on invested capital you're looking for, what is your threshold, what's your timeframe; and then how confident are you in your forecast, given everything we've seen in the last two or three years, the changes in outlook for penetration in different regions?

Bill Larkin - Westport, Chief Financial Officer

Yes, I can—you know, we have done, as part of our annual review and even before we started to get into that annual review, we took a comprehensive look at our portfolio of projects, and you know—because we have a limited amount of capital, we have a limited amount of resources and we had—we defined very specific criteria in terms of how do we rank our projects, and it's just not financially driven. We have customer commitments; specifically Volvo. We're looking at new opportunities in the markets where we expect to see significant returns. I'm not going to give you specific internal hurdle rates, but we do have those hurdle rates defined internally.

Also, we're looking at time to market; how quickly will that investment project turn into revenues for the business. So, there's many different metrics that we look at when evaluating our projects, and we did a, as I mentioned, we did a comprehensive review of every

project within our Company. So, based on that, we've had to—we're going to have to make tough decisions going forward, and those projects that don't make the cut, they will get deferred going forward.

Ann Duignan – JP Morgan Chase & Co.

Can you give us any confidence in, you know, what's on—what's the underlying analysis? Is it a DCF, is it based on end markets that you're forecasting and then your penetration of those end markets and some kind of growth rate into perpetuity? You know, just some sense of what kind of analysis you're doing?

Bill Larkin - Westport, Chief Financial Officer

I mean, they're basic financial analyses. I'm not going to get into specific details, but we're looking at many different factors. It could be DCF; we could be looking at growth rates. We can be looking at payback periods, so there's many different—we just don't focus in on one financial metric. We're looking at different financial metrics for each and every project.

David Demers - Westport, Chief Executive Officer

Not just—I'll jump in, Ann. It's not just the direct financials, because as you've rightly pointed out, this is really difficult to predict the future. Nobody can predict how this market's going to play out. I think we can all be confident, 10 years from now, there's going to be a lot more gas than there is today, but where and when and how and who's going to have the biggest market share, is impossible to predict.

So what we can do is rank things and so we spent most of our time ranking them, things that we are more certain of and less certain of, and apply a factor to the investment risk factor, as you could probably figure out, and put a cutoff and say, "Well, anything below this is too risky." But then we also have to weigh that against the strength of our partnerships and if we have a really enthusiastic partner who is moving the earth to make a successful product, or there's a very strong regulatory driver that we can see, obviously, that's going to apply some weight to this too. So it's not just the financial; it's the likelihood of success, the likelihood of market penetration and so you

can imagine, we're looking for what is the, you know, in the worst case, are we going to get our money back and then have an option on how the market grows, or in the best case, is this something that delivers us real strategic advantage.

So, it's primarily a ranking exercise, is how it's played out and then we can clearly allocate kind of 100% of the resources that are requested to the top priority projects, and then we can go down and do more of a, give people a short-term leash to go and test out certain assumptions on some of the less important projects. As Bill says, we've deferred a few and we'll probably continue to evaluate new ideas with a pretty tough lens.

So, I hope that makes sense, but no, you're absolutely right. We can't even predict in six months which of our products are going to do better or worse. What we're trying to do is position ourselves for upside growth but make money even if markets stay choppy.

Ann Duignan – JP Morgan Chase & Co.

Yes, and I guess that just raises the question of, you know, if you get to a project that you have a strategic partner with somebody like Weichai or even Cummins, are you going to be willing to walk away from projects that do not deliver the returns, even if it's something that you could leave for competitors to step into?

David Demers - Westport, Chief Executive Officer

Yes, of course. Of course, we would. Now, we...

Ann Duignan – JP Morgan Chase & Co.

Okay.

David Demers - Westport, Chief Executive Officer

Obviously, it's in partnership with our partner, but our partners are not shy either. They're going to be looking for evidence that they're going to make a return. Typically, they are not, I won't say—how do we put this?

You know, they're—they are very disciplined investors of their capital and they've got a lot of demands on it. They are not in the natural gas business; they're in an automotive business and there's lots of regulatory challenges over the next few years that are demanding investment and R&D. So, I think it's typically a mutual discussion, and we're all in this looking at where we're going to each get the best return, and of course, we want to be aligned on that. We don't want to have a partner that's highly motivated where we're not, or vice versa. So, this has been a collaborative process with our partners.

Ann Duignan – JP Morgan Chase & Co.

Okay, that's helpful and thankful for that. When you—I think you said during the commentary that core sales are expected to be up 30% in 2014, but I'm assuming that includes BAF. Could you give us the core growth without the incremental BAF sales?

Darren Seed - Westport, VP, Investor Relations and Communications

Yeah, the—that's part of it, Ann. I mean, that's one of the reasons we obviously had to—we incorporated BAF revenue in the 2013 figure. What we've done is basically say, without the first generation of HPDI, which equated to about \$25 million in revenue last year, we're starting a bit sort of behind the eight ball, and to come out of that gap is going to take us to grow at least 30%, just – or even 20% – just to get us back to even, but we're not only doing that. I think we expect to grow, as Bill pointed out earlier, somewhere between 7% and 13% over and above the \$164 we did in calendar '13, and that's inclusive of starting from this gap. But going forward, yes, of course the Ford business all under one roof in Dallas, under the WiNG brand, will be—is expected to make money this year.

Ann Duignan – JP Morgan Chase & Co.

But organic growth, are you going to take a swag at that for—year-over-year?

Darren Seed - Westport, VP, Investor Relations and Communications

We don't give individual, I guess, product guidance, Ann. That's the tough part. We do expect organic growth; maybe that's to answer your question directly, but we don't break down individual units or guidance by sector or segment.

Ann Duignan – JP Morgan Chase & Co.

Okay. I'll leave it there. I'll get back in line. Thanks.

Darren Seed - Westport, VP, Investor Relations & Communications

Thanks, Ann.

Operator

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

Jerry Revich - Goldman Sachs

Good afternoon and good evening. Can you just talk about the outlook for the Ford WiNG business? You mentioned it's going to be profitable for you this year at the EBIT line. Can you just provide some more context around your top line expectations and how that program's tracking, Darren? I know you don't love to give segment color, but since you're looking for profit at the segment, I'm wondering if you could just share with us the underlying assumptions.

Darren Seed - Westport, VP, Investor Relations & Communications

Yes, I think, actually, Jerry, part of it was what we had mentioned in the press release about consolidating under one facility, and calling some obvious points out, there's some cost reduction. I think you've asked a fair question and it's not just a straight line increase of revenue and related sales margin—or gross margin. It's also a function of reducing some expenses on that business by consolidating under one facility and cutting some overhead expenses.

So, there's—it's a bit of a mix between increase, or as Ann had asked, organic growth in addition to reduction in expenses, and I think that's why it's just tough for us to give any more specificity around what numbers that entails, whether—what the number is in reduction or the organic growth percentage. That's as much color as we can provide, specifically on the Ford business.

Jerry Revich - Goldman Sachs

Okay, and in terms of growth outlook by business relative to that 30% number you mentioned, maybe you could just rank order for us which businesses are going to be at the high end of the growth profile. Presumably, that's iCE PACK and CWI, if you want to think about it in that context, but I'm wondering if you could just flesh that out for us from that standpoint.

Darren Seed - Westport, VP, Investor Relations & Communications

Yeah, actually, you got it, Jerry, which really is the—you know, Cummins Westport, of course, now we don't get to recognize the revenue on our P&L, but it's definitely expected to be a big chunk of growth regardless this year. iCE PACK, of course, so that'll be reflected in the On-Road Systems group this year, Jerry, so that's an area of core growth and LNG tender cars; I think, that's—is kind of the surprise. Don't call it the dark horse, but I think this is an area that we've been, as David pointed out, where it's quickly and enthusiastically moving where—while our HPDI commercialization agreement with Caterpillar is not expected to be in full production until roughly 2017 for EMD and locomotives.

Between now and then, we're seeing a number of rail operators run things like dual fuel or other natural gas-related systems, where we're happy to provide the LNG

tender, and with an average selling price of literally \$600,000 to \$1 million per tender, it doesn't take much to move the dial on that. I think that's another area—it's easy to say we can see logarithmic growth because we had very little in that business last year. So, that's an area—another area, Jerry, we expect a lot of growth.

Jerry Revich - Goldman Sachs

Okay, and along your comment of deferring or discontinuing low-ROI investments, can you just talk about the charge in applied technologies? Are you stepping away from any products or regions? Can you give us some more context behind what the write-down represents?

Bill Larkin - Westport, Chief Financial Officer

No, it's—Jerry, that's a strictly goodwill impairment. We've got to go through our annual analysis. It was somewhat of a surprise to us because that business, we had year-over-year growth. It's generating positive adjusted EBITDA. However, when we look at, we look back historically and going forward, now we've got multiple data points and, based on that analysis, we end up writing down a portion of that goodwill.

Jerry Revich - Goldman Sachs

Okay, and lastly, can you just frame out the major improvements in HPDI 2.0 from a reliability standpoint? You mentioned the warranty provisions that you're taking of \$21 million on HPDI 1.0. Can you just talk about the structural improvements that you expect to deliver out of 2.0?

David Demers - Westport, Chief Executive Officer

I mean, I'll do a quick one. I mean, there's a fair amount of detail in the press release, and we're happy to take you through that in more detail if you like, but the simple fact is that every component has been redeveloped and redesigned. We've got new suppliers for every component. They've been developed in conjunction with

partners like Volvo and Delphi, and so there's a completely different profile, both from a cost, scalability, reliability, durability factor, and we think that's why there's been so much interest in the platform.

Jerry Revich - Goldman Sachs

Okay, and David, is it possible to quantify the common components between 1.0 and 2.0, or just frame for us how much the durability or the reliability has improved? Any way to quantify those factors?

Darren Seed - Westport, VP, Investor Relations & Communications

No, it's tough, I think, Jerry, because there's some information we haven't disclosed. We are working with some of the OEM channel to develop some of this new—some of these new components and systems. I think, you know, some of the highlights, of course, in terms of improving the combustion; it's really a comparison versus other technologies out there like spark ignition engines. That's where the combustion efficiency is going to improve.

We've been doing some work in the background, obviously R&D, related to the injector. If you remember, back in September in our use of proceeds from our financing, we had identified some areas of strength to increase and invest in, would be along the injector plant in terms of getting a closer relationship with that channel and developing some new injectors. So, that's one specific area, Jerry, we do see—expect to see some improvements on.

In terms of things like the—I mean, I don't know—again, the press release, Jerry, I'll probably, if you don't mind, just defer everybody, because there's an entire laundry list, on December 10th, the press release, that just goes through every specific feature and detail. But in trying to answer your question directly, again, the combustion, the injector, that work will get done and it's a lot of it to make it sort of more of a cross platform friendly system, as well.

I think the compatibility component will be noticeable and allow us, to be candid, allow us to save some investment dollars, R&D dollars, and have that system applicable to a number of these OEMs we disclosed in the same press release, where we have seven OEMs working

with us today, three of which have not been publicly disclosed as to their name, but they're at various stages, and by focusing a lot on those core injector and components, it allows us, A, to have the system applicable to those other OEMs; and B, save us some R&D bucks.

Jerry Revich - Goldman Sachs

All right, thanks.

Operator

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

Darren Seed - Westport, VP, Investor Relations & Communications

Vish, are you there? Susie?

Operator

Vishal, your line is open.

Vishal Shah - Deutsche Bank

Yes, hi. Can you hear me?

Darren Seed - Westport, VP, Investor Relations & Communications

Sorry, I guess you got us—you had us on mute there.

Vishal Shah - Deutsche Bank

Sorry, yeah. Yes, thanks for taking my question. I just wanted to ask you about your guidance, EBITDA breakeven guidance, or—can you talk about some of the risks or sort of the key puts and takes in achieving that EBITDA breakeven guidance for the year? Then, you know, just give us your thoughts on what your—what the

mix of LNG versus CNG is in the field right now and how you think about the iCE PACK sales this year relative to some of the volume sales?

Bill Larkin - Westport, Chief Financial Officer

Yes. You know, I'll talk about the roadmap to getting to adjusted EBITDA positive. I think David already talked about some of those risks. It's hard to predict the future. So in any plan, there's risks. Of course, we're planning on growing our top line revenue. We're focusing on pulling costs—operating costs out. If you saw in the latest quarter, we reduced our operating cost by about \$10 million.

So, I think those are the two biggest factors, is growing top line, protecting our gross margins and managing our operating costs, which will help drive us to positive adjusted EBITDA in our consolidated operating businesses by the end of '14.

Vishal Shah - Deutsche Bank

Okay, and the mix of LNG with CNG is—how do you think about that this year?

Bill Larkin - Westport, Chief Financial Officer

It could be 50/50, 60/40. I think the market will end up sorting out what that mix is going to be over time.

David Demers - Westport, Chief Executive Officer

Yes, and I'll weigh in on that too. I mean—and you've heard me say this before. It's a question I am really puzzled by, because natural gas is natural gas. The delivery mechanism is irrelevant to the engine. The engine gets gaseous methane, so it's all about what the customer wants and a big part of that customer decision is going to be where they get the fuel. So I'm not sure it's really useful to really look at either what the mix has been up until now or even speculate about what the mix is going forward. Obviously, it's going to impact us. If, you know, and people are buying LNG, we want to sell them an iCE PACK, and if they're buying CNG, we want to

make sure that they get CNG components in our—in the CNG system. Obviously, we don't make CNG tanks.

The—where we come down on this position, we're trying to be a bit agnostic because I realize that people are really getting worked up about this mix question but our view is that long haul is going to be mostly LNG. The CNG obstacles for long haul are likely just going to be too difficult to overcome, but not to say there's not going to be some long haul trucks on some routes where some fleets decide that makes sense. That's likely going to be where they get really cheap CNG for some reason, because they've got a great deal with a supplier or they're in an area like Oklahoma that has lots of really cheap gas. It's—there's always going to be exceptions to a broad rule like that.

Internally, within cities, it's going to be mostly CNG, and whether you're running a Class 8 truck or a bus or a garbage truck, return to base, you're likely going to get fleets going more to CNG. So, it's going to be a mix that's determined by the customers and who goes to gas first and also kind of how the pricing of fuel and the terms around pricing, and long-term pricing in particular, are translated to that fleet. So, it's really hard for me to give you a specific mix vision. Our sense, talking to fleets, frankly, is that in 2014, with the 12-liter in North America, it's likely going to be 60/40, 50/50. It's not going to be 90/10, the way some people are talking.

In China, a lot more LNG and in Europe, we're expecting it's going to be largely LNG, as that market develops. But we'll see how this plays out next year, and honestly, we don't really think it's going to have a huge impact on our results. We're going to do well either way.

Vishal Shah - Deutsche Bank

Okay and just one other question. What—when do you expect to sign an OEM agreement on HPDI 2.0? Is it going to be—is it—how should we think about the timing on that? Is it—it take a couple of quarters for that, or should we assume something soon?

David Demers - Westport, Chief Executive Officer

Sure, we've signed a few; as we've said.

Darren Seed - Westport, VP, Investor Relations & Communications

I think—yes. We've got these three; I guess there's four public, being Weichai, EMD, Caterpillar and Volvo, and so there's three names, I think Vishal, that these parties are—they always want to hold their cards close to their chest. So, what I can assure you is that there's very little interest on their part to disclose their entire development plans. I suspect it's for competitive reasons and that makes a bunch of sense.

I think the part we just want to keep reassuring people is that we are developing—we have started work with a large number of these OEMs, three of which have signed up to start initial work on HPDI. So we're not—this is not just sitting on the back of an AutoCAD drawing; there's some actual work underway. I think it's just—it's a function that just seems more pertinent for the industry, Vishal, that these parties will probably announce something and feel more comfortable announcing something when they're much closer to product launch. It just seems to be the trend. Of course, we'll see if they'll be willing to communicate prior to that, but it's—we always want to make sure people understand, we are working with these OEMs and there is progress and work going forward, but in terms of identifying them, that might—it's just tough to say.

David Demers - Westport, Chief Executive Officer

It's up to them. I think the, you know, the reason that we said earlier, that this year is going to be important, right? If we hit the 3% to 5% penetration in North America, there really are a lot of eyes globally on that number as evidence that the market is going to develop. That's going to determine the pace of investment and the urgency, and it's also going to determine the level of customer inquiry that the OEMs are going to see. I mean, it's no question that fleets are talking to their suppliers about the range of natural gas product that they're going to have to choose from, and should they buy now or should they wait. Those are all happening conversations every day. So I think that you will inevitably see more information about product plans coming out over the course of the year, and that should give you some insight as to what's going on.

Vishal Shah - Deutsche Bank

Okay, thank you.

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.

Darren Seed - Westport, VP, Investor Relations & Communications

Hi Eric.

Eric Stine - Craig-Hallum Capital Group

Maybe just, you know, touch in—you touched on the urgency at the OEM level. Just curious, the reaction out there to discontinuation of 1.0, have heard that there were some heavy haul fleets that were pretty disappointed that that engine was discontinued, and just wondering, you know, has that kind of forced the OEM hand a little bit? I mean, have you noticed anything, and maybe you're limited as to what you can say with these three unnamed OEMs, but just curious how that's kind of factoring into the development decision.

David Demers - Westport, Chief Executive Officer

Well, I think you've answered it, Eric. There's nothing like having a customer saying, "We want a product that looks like this," to convince the industry that they need to build a product that looks like what customers want to buy. So I think, you know, we actually haven't had a lot of surprise on the decision. We, you know, had no illusions. We told customers all along, we only work with

Peterbilt and Kenworth on that engine. It was no surprise that we didn't have an ambition to become a full blown engine supplier. That was a demonstration engine – a technology demonstration engine – where we, you know, we did what we had to do to get the product into the market, and people bought it and validated that there was a need for a high performance, high fuel economy natural gas engine. So, I think that's what's given us confidence going forward with HPDI 2.0.

But yes, I think there is room, and the OEMs are keen to develop differentiated products that meet their customers' needs, and there's certainly a trend, as you've heard, to go to higher fuel economy, lower displacement engines, higher power. Those are all factors that support the development of HPDI. So yes, we think having that fleet out there is very encouraging for people to develop high performance natural gas vehicles going forward.

Eric Stine - Craig-Hallum Capital Group

Okay. Maybe, I mean, just sticking with HPDI 2.0 and thinking about Europe, I mean, we—a lot of this has been about North America and China, but just wondering, you know, given that that market is lower displacement engines, that the OEMs are vertically integrated, just how you think Europe develops going forward, in addition to the Volvo engine launch.

David Demers - Westport, Chief Executive Officer

There's two issues. There is—there's certainly a lot different political situation around energy and LNG, in particular, but I think from some of the comments we've been getting in North America, people are underestimating how much LNG is already part of the energy mix in Europe, and the relative pricing between LNG and diesel fuel in Europe is actually better than it is in North America. So, there is a strong economic driver; there's a very dense transportation system, and there's a pent-up demand for LNG trucks to reduce fuel costs.

So, I think that Europe's going to be a very productive market for us as it gets going. That said, we've seen a very weak market in Europe the last couple of years just because of their economic conditions. We've seen a lot of political and energy turbulence in Europe, no surprises there, so—and it's certainly the last market for us to develop on the trucking side. So again, we're trying to

walk a line between recognizing the opportunity and then rushing and being too quick to market.

So, we're letting our partners pace that one and I think it's going to emerge as a really great opportunity for us, but is it 2014 or 2017? You know, kind of really hard to predict when everything's going to be right for LNG trucks in Europe.

Eric Stine - Craig-Hallum Capital Group

Okay, that's helpful. Last thing, maybe just turning to the recent Tata agreement—or announcement; just curious there, are you unseating an existing supplier, or is this Tata realizing it's a big market and they're turning the EMS over to you, you know, given your capabilities?

David Demers - Westport, Chief Executive Officer

This is new product. I think that's the simple answer. I think what we are expecting to see from all of the automotive OEMs, particularly in markets where there's a very clear preference for natural gas, Russia, China, we have government policy triggers making this shift. You're going to see a very broad array of products enter the market.

Right now, we can put dots on the map that there's a product or a vehicle with a partner, but really, we need to see hundreds of different models to give the market the choice it needs. So, I think this is just an example of Tata expanding its product line. We're happy to be the supplier they picked and that we're partnered with and don't think this will be the last new product you're going to see from that market.

Eric Stine - Craig-Hallum Capital Group

Got it, with Tata, and then, I mean this is the same product that is the basis with GAZ Group, right? Any...

Darren Seed - Westport, VP, Investor Relations & Communications

WP580 controller with Tata.

Eric Stine - Craig-Hallum Capital Group

Yes.

Darren Seed - Westport, VP, Investor Relations & Communications

That's part of the whole system with GAZ.

Eric Stine - Craig-Hallum Capital Group

Okay, and timing? I mean, is that something we should look for...

Darren Seed - Westport, VP, Investor Relations & Communications

With Tata, the 3.8-liter, Eric, is expected to launch this year and they're also actually looking to launch, I believe, a 5.7-liter later this year. That's their current plan with our WP580 controller. With GAZ, in Russia, that's a whole system and that'll, at the moment I believe, still be planned for this year...

Eric Stine - Craig-Hallum Capital Group

Okay. Yes, that's what I was looking for.

Darren Seed - Westport, VP, Investor Relations & Communications

...ramping up, Eric.

Eric Stine - Craig-Hallum
Capital Group

Okay. Thanks a lot.

Darren Seed - Westport, VP,
Investor Relations &
Communications

Thanks, Eric.

Operator

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

Aditya Satghare - FBR
Capital Markets

Thank you. I had two questions. The first is, when you go through an internal capital allocation process, how will that translate into, you know, essentially the rationalizing of your R&D expenses and how should we sort of think about R&D efficiency going forward?

Darren Seed - Westport, VP,
Investor Relations &
Communications

Well, I mean, in terms of R&D efficiency, I think the capital rationalization, Aditya, for Westport, we tried to cover, I guess, as best to this earlier, in terms of we have a criteria and the short list on the criteria is economic return, timing in terms of how quick this product would get to market, as well as strategic value to the Company and to the market, but it's...

Bill Larkin - Westport, Chief
Financial Officer

But also, we have limited resources internally that we can allocate to these programs. We have to deliver on our current commitments, and so it's a very comprehensive review and, typically, when we're evaluating a new

program, we're not going to give them a blank check book. It's—we'll give them a little bit of money, go prove out these assumptions and come back and we will discuss it again and take the next steps.

David Demers - Westport,
Chief Executive Officer

I think the main thing we can tell you is that we've, you know, we have obviously new criteria, new management focus on this. A lot of what we were doing a couple of years ago, we were looking for new markets, demonstration of technology, we're looking for support of a partner. There's very different approval protocols around those demonstration projects than if we're investing money for a product that's going to go into serial production. It's just a completely different exercise and analysis.

What we can tell you now is that we have centralized this. We have our operating divisions, the different segments, the global markets, the different joint ventures. There is one central investment bucket now and we make all those decisions here in the corporate strategic group. So, there's no difference of an investment by the group in China or Italy versus a new market opportunity or an advanced technology. We're weighing all of these, tending to be, you know, trying to move with the real time data flow. So, we may accelerate priorities or slow things down, but certainly, all new programs are going through this screening process where we're trying to assess just some sort of absolute return, risk-reward mechanism. I don't know if that's what you're asking, but that's, you know, hopefully...

Aditya Satghare - FBR
Capital Markets

That's helpful. My second question is on the Weichai capacity expansion. Is there—how should we think about the potential for returns to increase in that business? Obviously, volumes—it's a more rapidly growing market, but how does—you know, and how should we think about any potential expense going forward there?

David Demers - Westport,
Chief Executive Officer

Well, you can see margins are creeping up. Some of this is product mix, some of it is competitive pricing and

positioning and some of it, as we've talked about over the year, has just been production inefficiencies as we've seen such a huge growth. I think just because of the scale of the business, growth rates are going to inevitably slow down. It's hard to grow at 150% into—you know, for a decade. So, I think that growth rates are going to moderate slightly over the next few years and that's going to allow much more managed efficiencies and that's going to help margins.

But the second piece, which I think is more important and I think more relevant to what we've been talking to, is we wanted the joint venture to create a strong market for natural gas vehicles in China, and I think that it's succeeded spectacularly at that. Now, as we start to deliver differentiated product on both the spark ignition front and with HPDI, we think we can really start to differentiate the joint venture's products and give them a premium product in this very large market. We also think that's going to help support better margins at the joint venture and at the same time, deliver incremental revenue and margin to Westport as we sell the components to the joint venture. So, I think the story on Weichai Westport is just getting going and, hopefully, you'll start to see the impact of that in 2014.

Aditya Satghare - FBR Capital Markets

Great, thank you. That's all I had.

Darren Seed - Westport, VP, Investor Relations & Communications

Thanks, Aditya.

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 a little bit about the pacing of deals with fleets at this point, if you're seeing that deal flow get any faster, and if you could talk a little bit about

the size? Are folks starting to sign a little bit larger deals, or are you still kind of bumping along at the same level?

David Demers - Westport, Chief Executive Officer

Gee, it's been bumping along pretty well, if you look at CWI's numbers. I think it's no secret that the growth in CWI has been driven by the enthusiasm in the trucking business last year. There were some good international sales, but the delivery of the high horsepower ratings in August is why the Q4 numbers are so strong and honestly, 2014, we don't see any sign that that's going to slow down at all. So, I think you'll see a full year of delivery of the 12. We see lots of demand and lots of interest pretty much across the country too. It's not in pockets. So, I think you're going to see a strong year for natural gas trucks, which is why we said 3% to 5% penetration is realistic.

Colin Rusch - Northland Capital Markets

When do you think we can feel fully confident that the warranty expenses are going to be down and we'd start to see some of them potentially get reversed?

David Demers - Westport, Chief Executive Officer

Oh, jeez, I wish I could tell you. Bill, when are we going to?

Bill Larkin - Westport, Chief Financial Officer

I'm looking at you. You know, it's unfortunate; we took some very large incremental accruals during the quarter. It's a historical looking process and, you know, it's a very mechanical process, and so we hope, or we expect, over time as these fixes roll out and we start seeing improvements in the product reliability, that over time, that estimated warranty on a per-engine basis will start coming down. If that is the case, then you'll start seeing some of that accrual coming back into income but we can't be confident sitting here today in saying, "Yes, that's it."

David Demers - Westport, Chief Executive Officer

Yes, until it's done. I think that we're confident that we've shot bugs. We're confident that we have a much more robust product leaving the plant today, but the cost of the population that's out in the field is what's really hurting us on this, and yes, we've been caught more than we'd like last year on, particularly the 9-liter product in trucking applications. It's been a very visible and painful expense which really dampened the profitability of the joint venture last year.

That said, we learned a lot, and we've gotten a lot of the very direct experience now on the duty cycle for natural gas engines of this class in the trucking industry, and that's why you've seen the warranty accruals jump up so high. But have we nailed it? I sure hope so.

Colin Rusch - Northland Capital Markets

Okay, great. Thanks a lot.

Operator

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

Matthew Blair – Macquarie Capital

Hi. Thanks for taking my question. Just to clarify; does the 2014 revenue guidance of \$175 million to \$185 million include anything for the Chinese HPDI system or the Volvo HPDI system?

David Demers - Westport, Chief Executive Officer

Yes, again, that kind of fits into Darren's can't give you numbers. Of course, there's going to be some revenue. I mean, we see some revenue from the Volvo program, as you've seen, and as we ship hardware to Weichai or to Volvo in those programs, you're going to see some revenue, but...

Darren Seed - Westport, VP, Investor Relations & Communications

I don't expect to put us—I don't expect, at this point, a material addition this year, Matthew.

Matthew Blair – Macquarie Capital

Okay, thanks. Then on CWI, I think the 9-liter was launched in 2007. Is there a refresh coming up soon, and if so, how much would that cost?

David Demers - Westport, Chief Executive Officer

Not planned. The only program that we've approved at CWI is the 6.7-liter, which is launching in 2015.

Matthew Blair – Macquarie Capital

Okay, thanks. Then with your HPDI 2.0, we noticed that it can handle CNG as well as LNG; whereas, I think the first generation could only handle LNG. Could you talk about why you added that capability? Thanks.

David Demers - Westport, Chief Executive Officer

Well, ironically, the very first HPDI engines were in buses and they were CNG, believe it or not. A lot of people—this is really going back into the dark pre-history of Westport, but yes, there's no reason why the technology can't run on CNG tanks. We've just designed what we call now HPDI 1.0. It was going into trucks at the port and we wanted to demonstrate LNG. At the time, LNG was the big hot news, and the first LNG station at the port built by Clean Energy was to support that demonstration of LNG.

So, there's nothing in the technology that says we can't do CNG or LNG. Frankly, we think HPDI is going to be going into high fuel use applications and that are going to be dominated by LNG, but we've had some requests for

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CNG and so the technology is capable of it. If you translate that into, will we see commercial product from any specific OEM, that's where we have to kind of put the lid down and say wait and see.

Matthew Blair – Macquarie Capital

Very helpful. Thanks.

Operator

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

Chip Moore - Canaccord Genuity

Hey, thanks. It's Chip for John. For Off-Road, I know it's still very early, but can you talk a little bit about progress you're seeing for HPDI in locomotive and marine markets, and then how that ties in with some of the new investment criteria you're looking at?

David Demers - Westport, Chief Executive Officer

Yes, a question that I could go on and on, and Darren's already telling me that we're going too long, so I'll try and keep it short. But you'll see a lot more on this, this year. I think that the enthusiasm for natural gas in all of those markets is really sincere and we're going to see this globally. Any high fuel use application has now got it in their head that they could save a lot of money by going to natural gas, and just for packaging reasons, that's likely going to be LNG because they need so much fuel and these are space constrained. Some possible exceptions, just so people don't yell at me, around oil and gas, where you may see some use of well gas and stuff like that, rather than LNG, but there's a lot of enthusiasm.

Now, it depends on your—the specific product that you use in that industry. Big ships, little ships, big locomotives versus mine haul trucks, there's a lot of moving variables and this is a much more kind of high price, low volume business than we're used to on the automotive side. So things are going to move depending

on the enthusiasm of specific customers. I think that what we are seeing is the North American rail business has been very quick off the mark. The marine business, worldwide, is quick off the mark although there's going to be lots of work to get that sorted out from a regulatory viewpoint.

The oil and gas industry, I'd say, is mixed. There's lots of interest but people are moving fast anyway. So, how product gets into the market and exactly where Westport fits into that ecosystem is what you'll see emerge over the next couple of years. But right, now I'd say we've seen the most kind of instant take up in rail and marine worldwide.

Chip Moore - Canaccord Genuity

All right, thanks.

Operator

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

Pavel Molchanov - Raymond James

Thanks for squeezing me in, guys. Does your guidance for consolidated revenue incorporate any particular scenario as far as the fuel tax credit goes in Washington?

David Demers - Westport, Chief Executive Officer

No. I think that you should assume that any time we give guidance, it's based on the current regulatory environment. We can't bet on a change. It would be nice to see a change in fuel credits and incentives and things like that, but this is based on what we think is reasonably likely during the course of the year.

Pavel Molchanov - Raymond James

So just to clarify, you're assuming that the tax credit will not be in place for the entire year?

David Demers - Westport, Chief Executive Officer

If it changes, that should be good; it's upside.

Pavel Molchanov - Raymond James

Okay. Thank you very much.

Operator

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

Jeff Osborne - Stifel Nicolaus

Yes great, thanks. Just two quick ones. It implies that you're taking a hard look at the OpEx. Can you just kind of give us a cadence on when you would expect the trajectory of OpEx or this review process with the kind of unknown variables to play out? Is it more second half weighted, or how should we think about the expense level or trajectory here?

Bill Larkin - Westport, Chief Financial Officer

Oh no; I think fourth quarter is a good example. You know, we pulled out quite a bit of our operating costs in the fourth quarter compared to previous quarters in 2013. We will continue to look at our operating costs going forward.

David Demers - Westport, Chief Executive Officer

Yes, I—if it wasn't clear, we've completed this process, and we've made the changes and that's why you've seen the restructuring charges and the write-downs and things like that. That's because that's the outcome of the process. So we're starting the year with the expense run rate that we think is going to get us to that breakeven point.

Jeff Osborne - Stifel Nicolaus

Gotcha. I was thinking there was an additional step, so I apologize and just a question on the Adjusted EBITDA guidance, kind of a two-parter here. One is, Bill, would you be excluding any additional warranty reserves as it relates to your calculation of hitting that, was kind of part one? Then part two is, is management's compensation aligned with hitting those targets for '14 and '15? If not, if you can just tell us the key variables as the Board looks to determine your bonus for this year.

Bill Larkin - Westport, Chief Financial Officer

Okay, so answer your first question, warranty will not be part of the adjustment to Adjusted EBITDA; and second, yes, our compensation is dependent upon the outcome of achieving those goals.

Jeff Osborne - Stifel Nicolaus

Excellent. Thanks much.

Operator

Next is a follow-up question from Laurence Alexander of Jefferies & Company. Please go ahead.

Laurence Alexander - Jefferies & Company

Hi, there. Just two quick ones; both on Weichai. First, if Weichai doesn't move on the HPDI in—by June, what's your priorities for proceeding in China? Secondly, the capacity expansion that you flagged to about 100,000 units; is that going to be funded just out of ongoing operations, and if so, how does that impact the margin profile for the JV or will there need to be a new capital contribution?

David Demers - Westport, Chief Executive Officer

No, the terms of the JV are much like Cummins Westport, frankly, Laurence. The parent company, Weichai, provides the facilities and the joint venture operates the facilities so the joint venture isn't required to make capital contributions to that new facility. So I think

that's the good news. The bad news, of course, is that they charge us for that use of the facility, so that gets into the negotiation on price and margin and transfer prices. So, I think that we're in a good position to see the expansion and the scalability and what we need to do now, of course, is work on the return to Westport, and that's what we're talking about.

Does that answer the question, or you have another nuance on it?

Laurence Alexander - Jeffries & Company

No, no. So that's the one question and the other one, just quickly, if they don't proceed on the launch by June, I believe you lose exclusivity—they lose exclusivity in there, so what's your priorities for the back half of the year?

David Demers - Westport, Chief Executive Officer

Let's just say you're quite right that they have an incentive to make that clause not get triggered.

Darren Seed - Westport, VP, Investor Relations & Communications

I think, in our business in China, Laurence, there's a lot of different avenues for us to generate revenue in China, things like Applied—our components, for example, from our Applied Technologies group. HPDI is just one of the revenue streams we'd expect to generate on the back of solving the agreements with Weichai, so there's multiple ways for Westport to generate revenue in China. This is clearly the most important, and we're just—again, I think our comment is that we're confident we're going to resolve the supply agreement shortly.

David Demers - Westport, Chief Executive Officer

Yes, I think that, you know, again, to be clear, just so we're not creating undue speculation about creating competition for the joint venture, I think the relationship with Weichai is really good and we have built a great

business, and I think it far has exceeded anybody's expectation, including ours and Weichai. This is now a big business and if we get it to 100,000 engines a year, that's just a spectacular story. So, we're not about to go and idly mess that up. If we can optimize for both of our returns by creating differentiated product in this very competitive Chinese market, that's great.

Now, we do have some exceptions, just for the benefit of people that haven't read the JV agreements in detail. So Volvo could come in with their HPDI product into China through their joint ventures and sell directly. That doesn't breach this exclusivity. It was designed to give Weichai a lead in the market around the Chinese domestic industry with this technology to reward them for taking the early mover risk.

So, I think that things are going really well and all the lights are green to create a very interesting and proprietary product line in this high growth market in China, with the joint venture, and that's what we—what both parent companies want to see.

Laurence Alexander - Jeffries & Company

Thank you.

Operator

There are no more questions at this time. I will now hand the call back over to Mr. Seed for closing comments.

Darren Seed - Westport, VP, Investor Relations & Communications

Thank you very much, everyone, for your attendance on the call, and we look forward to seeing everyone for our first quarter of calendar 2014 conference call, expected to be sometime in early May.

Operator

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