
Operator

At this time, I would like to turn the conference over to Darren Seed, Vice President of Investor Relations and Communications. Please go ahead, sir.

DARREN SEED speaking VP, Investor Relations and Communications, Westport Innovations Inc.

Thank you and good afternoon. Welcome to our first quarter conference call for Fiscal 2014. 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, and Westport's President, Nancy Gougarty. 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, Westport Innovations Inc.

Thanks, Darren. Good afternoon everyone. Q1 saw excellent progress in our business with some key milestones in both our operational transition and our long-term investment programs. But as I said last quarter, 2013 was a significant transition year as Westport shifted from a focus on market creation to product and profit growth now that OEMs around the world are shifting to include natural gas products in their offerings. We told you that we'd completed our transition work and that we'd laid out three primary goals for 2014. Just let me reiterate those for you and then I'll focus my remarks on those topics before Bill gets into the actual numbers.

So first, we laid out that we would see positive adjusted EBITDA from our operations by Q4 2014, and of course, continued profitable growth in our joint ventures.

Number two, careful management of our investment programs to ensure that operational cash flow from our direct sales from Westport, as well as our JV dividends, will cover investment in 2015 and allow us to achieve overall consolidated positive adjusted EBITDA next year.

Third, we want to deliver, of course, on our contractual commitments to our strategic partners and to our key OEMs. We want to develop attractive new customer relationships and we want to continue remove barriers to rapid adoption of natural gas around the world. But, as you can see on the operational slide, just taking a look at the bar charts on adjusted EBITDA, on our operational side, the work to reset our cost structure and to rebalance the product portfolio has delivered a step change in our current operating performance. As you know, we've consistently seen an adjusted EBITDA loss of around \$9 million per quarter over the last eight quarters, you can see from the bars, and just last quarter I think we were at around \$8.6 million. So, at a \$1.6 million adjusted EBITDA loss from operations in Q1, we're well on our way to achieving the target of breakeven adjusted EBITDA by Q4 of this year.

Let me remind you that our guidance calls for revenue of \$175 million to \$185 million this year, so it will only take an additional \$5 million or \$6 million in quarterly revenue at our current gross margin levels and our current expense run rate to reach this financial goal. We

believe this is a realistic and achievable path, and given that we're forecasting roughly 30% year-over-year growth from our current product portfolio — Q1 of course, we saw 39% year-over-year — we think this business is now set up to deliver first, enough cash from sales to cover expenses, and then second, traditional earnings growth.

New products such as the WP580 engine management system, the iCE PACK LNG systems and the LNG tenders in the rail business are going to deliver platforms for future growth in the operating business starting this year.

Now, looking at the current business, the changes we've made of the past six months have eliminated unnecessary costs and they've allowed individual businesses to emerge successfully. So for example, our Ford truck business, after the acquisition and integration of BAF last year, has been consolidated into the former BAF facility in Dallas. Now we are by far the largest player in the Ford QBM program with over 70% market share, and we have the product portfolio and scale that we need to be able to operate this business profitably. Similarly, the Volvo Car business in Sweden has improved dramatically with commitment from Volvo to work with us to deliver volumes through their traditional dealer channels in Europe. This business is now profitable after three years of investment. Our On-Road business unit revenue was up 277% to \$17.7 million compared to \$4.7 million in the same period last year. This is great and it's a sign of where we believe the market is growing; the majority of revenue comes from the sales growth of our existing products.

The Applied Technologies group continues to see growth in sales to China and Russia, and we continue to diversify our products and markets outside Europe. But revenues are down slightly overall, primarily due to a decrease in sales in Italy with the struggling European economy. With our relationship with Fiat and a broad distribution network in Italy, we believe we're well-positioned to take advantage when the market recovers. Moreover, after officially launching the WP580 system with Tata in February for bus and truck applications, we're now working with Universal LNG to use this controller system for industrial applications such as water pumps. Both of these products and markets provide potential growth and offset for specific markets that are affected by local economic situations.

I believe it's important to note that each of these growth margins are very healthy and therefore as new products and markets emerge, this business should quickly get back on track to positive adjusted EBITDA growth.

Now, turning to our next slide, on Corporate and Strategic Investments, as you know, Westport is co-investing with several OEM partners to develop a portfolio of new natural gas vehicle products and the technologies and related systems and components to do that. Since 2012, we've invested roughly \$215 million into various development programs of this class. There's three major application areas: Global trucking, which I believe is the green wedge you see on the pie chart; Automotive; and third, Off-Road Applications such as rail and large mine trucks. We also have a portion of this investment allocated to Advanced Engineering and capital expenditures, but for the most part, these investments are for specific products with specific partners and they have a three- to five-year development cycle from the start of development to product sales, and we're carefully managing these programs and we allocate capital to products and technologies that we expect can deliver high returns in the future.

Our strategic investments are of course, what we believe are going to be significant game-changing products. From the same segmented reporting, R&D alone in corporate and technology investment was \$14 million this quarter. I hope it's obvious why we can't disclose, you know, exactly what we're up to or much of the detail of these programs, but from previous disclosure we can confirm that the following breakdown, as shown on the slide, is about 35% has gone to HPDI 2.0 programs with various OEMs including Volvo and Weichai and our Delphi alliance, and 10% has been allocated to Off-Road products with Caterpillar and EMD, and 45% represents other product programs in advanced technology. For example, the announcement recently of GEMDi technology with Tata in March, would fall into that last category.

I should point out that not all R&D is considered a strategic investment and the investment programs aren't just categorized as R&D on the financial statements. The operating business needs to develop and support their current product portfolio in their current markets and we need for this R&D to be coming from cash flow from current product sales, so that's the way we are currently structured. The operating business is paying its way; R&D is going to be a critical element in our business going forward. If you look at the statements, you can see it, operating units' reported R&D of around \$5.5 million this quarter which would be about 13% of revenue. We think this is a reasonable ratio and a healthy allocation for a technology leader like Westport. My point here is that we expect current operations to pay for their R&D on an ongoing basis and the teams are already doing that, and our breakeven metric includes a sustainable level of

R&D, which means that these programs, except Advanced Engineering are going to deliver specific products with our specific partners and they—and we also think that these are going to have broad application with other markets and other partners in the future. Westport retains the IP rights typically with some territory or market restrictions to allow our launch partners first commercial opportunities.

We disclosed some significant milestones under the investment portfolio this quarter. For example, the joint development relationship with Delphi for HPDI 2.0 fuel injection systems, and the announcement earlier this week that we'd reached agreement with Weichai on both the launch of their 12-litre HPDI engine product this year and a newly announced 10-litre HPDI program.

Just turning back to Delphi. As we disclosed in early March, together we've developed a joint strategy for developing second generation fuel injection components for our HPDI systems. They'll be made in Delphi facilities under an agreement giving Westport control of key production equipment and tooling. This will deliver dramatically lower costs which we expect we'll be able to pass onto our OEM customers, and in turn, this will accelerate the adoption of natural gas trucks around the world. The initial production capacity that we've planned with Delphi is targeting 100,000 injectors per year, so if you think of six injectors per engine per truck, that would imply, you know, a capacity of 16,000 trucks annually. This will be scalable and capital efficient as these markets develop.

With Weichai, we're launching the 12-litre engine product now with 30 customer trucks being built now with the expectation that we'll be in a position to begin volume production of trucks in China in 2015. With the newly announced development of the 10-litre engine platform, we'll be tapping into approximately 75% of the joint venture's current sales volume. HPDI will remain a premium product in China, but the HPDI 2.0 components, the notional price differential should come down dramatically and we'd hope to see strong growth in this market.

So, as I wrap up, 2014 is the beginning of our next phase in the development of our long-term vision of high-performance natural gas vehicles in markets around the world. We've laid out our plan. We believe Q1 demonstrated that the plan is achievable and it will deliver global market leadership of what is emerging as a very large potential business. 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 now to run through the financial highlights.

BILL LARKIN speaking

Chief Financial Officer, Westport Innovations Inc.

Well, thanks, David, and good afternoon everyone. I'll begin with a brief overview of our first quarter results. For the quarter ended March 31st, 2014, we recorded consolidated revenue – this is excluding our joint venture revenue – of \$41.9 million compared to \$30.1 million in the prior year period. This is a 39% increase quarter-over-quarter.

The breakdown of revenue by segment is \$21.9 million for Applied Technologies, \$17.7 million for On-Road Systems, \$1.3 million for Off-Road Systems, and \$1 million for Corporate and Technology Investments.

CWI earned \$80.1 million in revenues, a 79% quarter-over-quarter increase in revenues. This is on the delivery of 2,480 units, which is an 89% increase over the prior year period. Weichai Westport earned \$113.4 million in revenues and this is a 7% quarter-over-quarter increase in revenues, on the delivery of over 9,100 units, which is an 8% increase over the prior year period.

Our consolidated gross margin and gross margin percentage for the first quarter were \$12.3 million and 29.4%, compared to \$8.1 million and 26.9% in the prior year period. This increase in gross margin percentage for the quarter is due primarily to sales of higher margin products such as the Westport WiNG product and service revenue. Research and development expense were \$21 million for the first quarter compared to \$20.4 million in the prior year period. Selling, general and administrative expenses were \$18.3 million for the first quarter compared to \$19.1 million in the prior year period as a result of our cost reduction efforts.

For the first quarter of 2014, our net loss was \$23.9 million or a \$0.38 loss per share compared with a net loss of \$31.8 million or \$0.57 loss per share in the prior year period. Included in our net loss for the first quarter of 2014 is our portion of CWI's net loss of approximately \$800,000. During the first quarter, CWI's operating performance was impacted by \$15 million in warranty-

related adjustments, primarily related to the 8.9-litre ISLG engine, which reduced our overall EPS by \$0.08 per share. Excluding this warranty impact, our portion of CWI's income would have been approximately \$4.1 million.

The ISL G engine has generated good cash flows for the joint venture partners. To put things into perspective, the total contribution margin from sales of the ISL G engine has been approximately \$340 million, of which CWI has spent and accrued warranty-related costs totalling approximately \$165 million. Even with the increase in warranty, this product is still generating cash. We are confident the CWI team will get the warranty-related items fixed, and gross margin and cash flows will improve.

As of March 31st, 2014, our cash, cash equivalents and short-term investments balance was \$183.9 million. During the first quarter, we used \$26.7 million in cash, which includes a one-time payment of \$5 million for a previously announced joint marketing and sales program related to the acquisition of BAF in 2013, and the CWI warranty adjustments recorded in the fourth quarter of 2013 – this is last quarter – reduced the first quarter cash distributions to us by approximately \$7 million.

As noted on slide 3, our adjusted EBITDA loss from operations was \$1.6 million compared to a loss of \$8.6 million in the prior year period, which is an 81% sequential and quarter-over-quarter improvement. This reduction in adjusted EBITDA loss from operations is a direct result of our cost reduction initiatives such as consolidating our Ford QVM program in our Dallas facility and our decision to move to the second generation of Westport HPDI.

Our consolidated adjusted EBITDA loss for the first quarter was \$22.1 million compared to a loss of \$26.3 million in the prior year period.

We've been describing the Westport financial plan and our path from a heavy investment phase to overall cash flow and profitability as the shift from petroleum-based fuels to natural gas continues. In the near term, we have communicated specific metrics and milestones so you can measure our progress on adjusted EBITDA. While the path won't be in a straight line, of course, our progress should be very visible. In that vein, I wanted to walk everyone through the way we are looking at the next two years and these financial milestones and how it impacts our cash. We want to make sure it is very clear how these pieces fit and where we have enough cash now to achieve our goals in the future.

The key pieces are, on slide 3, you can see we are well on our path to a positive adjusted EBITDA through significant organizational efficiencies, product portfolio optimization and cost reductions in our operating businesses, and with an additional \$5 million to \$6 million in revenue with existing margins and costs, we believe we can achieve our stated goal. Also, we have products launching in 2014 and '15, such as Weichai's 12-litre with Westport HPDI, and Tata with the WP580 technology that'll drive new sales and gross margins.

To help the Company drive to its second financial milestone in 2015 with positive consolidated adjusted EBITDA, our corporate investment portfolio and our other expenses including long-term capital investments will be covered by three things: internal operating income; improvements in the cash contribution from our joint ventures; and three, expense recovery from our development partners. Obviously, we expect that our investment portfolio will continue to contribute to our income stream and as these investments roll off into production, we have options on the pace of new investments and I'm sure we can manage to this goal.

As noted on slide 4, we are also investing in new product development at the corporate level and we have corporate and public company expenses to cover. We report these in Corporate and Technology investment segments and you can watch our progress here, too. Westport is co-investing with OEMs to develop a portfolio of new natural gas vehicle technologies and related systems and components. We are carefully managing our investment programs and allocating capital to products and technologies designed to deliver high returns in the future. We are reviewing every project where we are investing money in the mix of short- and long-term product development projects in our portfolio.

This is a new path for Westport along very disciplined steps. We believe our business model can and will deliver great value to our shareholders as this market shift plays out and we believe the path forward to strong financial returns is now clear.

I'll 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 touch-tone 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 today is from Laurence Alexander of Jefferies & Company. Please go ahead.

Laurence Alexander - Jefferies & Company

Good afternoon. Two quick ones if I may. First, can you give a little bit more detail on what you did to achieve the cost-cutting results that you've done so far? Then can you also give some perspective on how sustainable that will be and what you can do on the corporate expense line? Then secondly, on CWI, if the warranty accruals do reverse, does that have any impact on your cash flows?

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

So, Nancy, do you want to take on the first question on what we did on adjusted EBITDA?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Sure. In terms of the cost-cutting and on the sustainability of it, Laurence, let me start out by indicating to you I—there's a cute joke going on in the Company the new sheriff's in town and guns are blazing, so understand that we've got the full attention of the organization and we've got the whole organization understanding that calendar year 2014 is critical.

I would say our single focus really is on creation of shareholder value and making sure that we're getting full value out of every dollar that we're spending. So, what are we doing? I would say we're doing lots of different things. Some things that are catching lots of low-hanging fruit, and other things that are really deep-diving, but to give you some idea — and David mentioned this in his opening remarks — for instance, after the acquisition of

BAF, we have done such things as consolidated facilities. So, at this point in time where we had folks that were in Detroit, folks in Louisville and folks that were in Dallas, that now has now been thinned down. So, all in all, between last year and this year, we have now closed five—or we're in the process of closing five different facilities and consolidating that. Now that came out of also a new process that we've put in place that helps us with capacity planning, understanding where we need capacity and how we need to generate that capacity around the world. So that's—so I think in those regards, you can see that kind of savings will have ongoing effect as we move forward.

I would tell you that there are lots of heavy-lifting items such as pricing, policies and programs and making tough decisions with the employees and making sure that we're focused on those events that are going to create value from a shareholder perspective, and satisfy our OEMs' need for the natural gas and their quest to participate in this market.

I would tell you, at this point in time, that we have clear expectations relative to each employee in the Company of how they are contributors to the positive profit of this company, and continuing communication, whether it be through town halls, other events with employees to make sure that everybody is fully focused on creating value and making good decisions and raising decisions so that we can make them in a swift, fast fashion. Okay?

Bill Larkin - Westport Innovations, Chief Financial Officer

I think I'll take on the second part of the question regarding if there is a reversal. The way the warranty process works, it's more of a historical perspective and trying to project forward. If they start seeing improvements in the warranty history, that would naturally result in a lower future projection of our warranty costs and would most likely result in a reversal of a portion of that accrual, and that would ultimately trickle down to the bottom line. Then the way the joint venture agreement's written, the Board looks at declaring, you know, potentially declaring dividends on a quarterly basis, and so that would naturally transition into cash flow to Westport if that was to reverse.

Laurence Alexander -
Jefferies & Company

So just to—can you specify how much potential dividend is currently bottlenecked at the JV level?

Bill Larkin - Westport
Innovations, Chief Financial
Officer

Say again.

Laurence Alexander -
Jefferies & Company

Can you just quantify how much of a...?

Bill Larkin - Westport
Innovations, Chief Financial
Officer

I think we've got about \$90 million.

Laurence Alexander -
Jefferies & Company

Of potential dividends. Okay, thank you.

Bill Larkin - Westport
Innovations, Chief Financial
Officer

Well, that's what's hanging up on the balance sheet.

Laurence Alexander -
Jefferies & Company

Right.

Bill Larkin - Westport
Innovations, Chief Financial
Officer

Right now.

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 my question. I wanted to dig in a little bit on Applied Technologies. I know you had mentioned Italy was weak but this is typically a steadier business so, one, I guess so I wanted you to elaborate little bit more on how you see the year for Applied Technologies and is the lower margins a reflection of the China mix that you talked about? Then I have a follow-up question.

Nancy Gougarty - Westport
Innovations, President and
Chief Operating Officer

Well, let's see. I mean let's talk about ATG. The Automotive component—I mean, as you know, Fiat, if you look at the European market, you'd know that Fiat's had a relatively weak first quarter. One of our biggest customers, obviously being an Italian company, living in Italy and that market is Fiat. As—what we have there is they have gotten a bit cold; we got cold with them. Now, the interesting thing is that we are seeing a real good, sizable uptick in the China market and also in Russia, as David mentioned in his opening comments. I think from the ATG, it's all again about making sure that we're getting new products out. We're serving the market from a global perspective, so we're now reaching into the US and other markets with our components, and we're finding that we're getting success. Now, a lot of that is that we are priming the pump at this point in time and those sales will, you know, be coming down the road, but as we talked about with Tata, we've now got the 580 controller on that; that's a positive step and we're seeing similar steps along the way. But at this point in time, unfortunately we don't have any real giants steps at the

moment but it's a, you know, continuation of real strong small steps and success with multiple OEMs.

Susie Min - Deutsche Bank

Okay, and in terms of China revenue contribution to Applied, can you just maybe give context, whether it be a percentage or how much growth you're seeing, maybe quarter-over-quarter?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I don't know that I have that number. I could tell you that as I look over the Italian operations, year-over-year we're seeing something in plus 50% growth, but I don't have specific numbers that I could give you in terms of where, you know, what it specifically looks like. You know, we have a variety of different customers and certainly China is one of the markets that is fully embraced on this, on natural gas technology, so, you know, but I don't have that number at-hand here.

Susie Min - Deutsche Bank

Okay. I mean, so I just want to make sure, we shouldn't interpret the fact that the margins have declined due to just greater exposure to China and, you know, potentially lower profit margins.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I guess I wouldn't say that. I mean I would say that there's the product mix is changing. As we talked, we got controllers and we got, you know, other components, so with the product portfolio mix I think that that's part of what you're seeing in quarter one, but I wouldn't say it's a regional remix of volumes. In fact, I would say in the China market with the customer base, there is real high focus on high-quality parts and making sure that we have good manufacturing systems and those kinds of things, so the criteria in China actually, as we were working with one of our OEM customers, actually really set a threshold

higher than that that we had for some customers that were in Europe.

Susie Min - Deutsche Bank

Okay, great. Thanks for taking my questions.

Operator

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

Jerry Revich - Goldman Sachs

Good afternoon.

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

Hi Jerry.

Jerry Revich - Goldman Sachs

I'm wondering if you could talk about what proportion of current Weichai Westport sales are for LNG versus CNG applications, and then if you could just help us get a sense for the product that you're launching. Are you going to be using SCR to meet the NS4 standards. Just some more colour there would be helpful.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Oh, I don't know that I can do that NSR4 standards for you, but let me try to see if I can answer the LNG/CNG. As you know, what we're finding in the China market, LNG is really at this point in time on the rise and I think that what you see in major metropolitan areas is still CNG but with the complex rule outlay of within the China market, LNG certainly plays a very, very strong position in that market. So, a lot of the growth that we're seeing in

terms of infrastructure as well as customer demand happens to be on the LNG side. So at this point in time, I would say that the fulcrum on the teeter totter is now leaning a bit towards the LNG side, but in major metropolitan areas, just because of fuelling infrastructure, we're still seeing CNG being the preferred technology. So, on buses and applications like that, it's still on the CNG, but as we get into the trucking out into the, you know, third and fourth tier cities, we're certainly seeing a strong pull for LNG.

Jerry Revich - Goldman Sachs

Okay, and I apologize, the second part of the question, are you going to be SCR systems on the HPDI engines in that market, or are you meeting the regulations?

David Demers - Westport Innovations, Chief Executive Officer

The short answer is no for the Weichai systems. They're certified Euro4 and we don't SCR.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Yes, I think that right now we're—for the HPDI we're going for Euro-5.

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

At China-5 now.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Is it at China-5?

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

Yes, it's China-5.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Okay, and—but—and at this point in time our goal would not to have to use that out of cost and performance, and we think that we can achieve those without that. But we have to get through all the certifications, I think, before we declare victory on that.

Jerry Revich - Goldman Sachs

Okay, and then in On-Road Systems, can you talk about how much of the 900-unit iCE PACK order that you achieved, you shipped in the quarter and just touch on additional order prospects there if you could.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I would say the answer is no, I won't comment on how many. I would tell you that our number of customers is climbing. We're getting quite interesting feedback from the market and we're finding that, you know, quite a bit of interest from a variety of different constituents, truck owners and I'll say fleets, all the way to OEMs. So, we're now not just seeing, you know, individual people buying it but we are seeing a lot of interest from a fleet perspective, and because of that strong fleet perspective, we now have the OEMs asking about how we could create collaboration.

Jerry Revich - Goldman Sachs

Okay, but maybe you could touch on if bookings were in line with shipments this quarter or ahead, below? Just give us a rough sense.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I would say that, you know, I would say for a product that's out of the gate, we're pleased with where we are.

Jerry Revich - Goldman Sachs

All right, thank you.

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

I think from what we'd said in the past, Jerry, is the 900 was split over two years with Universal LNG, so—and it was a pretty even spread. For the 450 this year, I don't think, you know, you get a bumpy shipment level by quarter; it's not a straight line, but it is more or less spread throughout the year.

Jerry Revich - Goldman Sachs

Thanks, Darren.

Operator

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

Eric Stine - Craig-Hallum

Hi everyone. I just wanted to start with Weichai and the commitment to HPDI. Just, you know, thoughts, I guess thoughts on your end but also thoughts, you know, if Weichai has expressed kind of how they see the mix between HPDI and spark as the market develops going forward.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I would say that, you know, it's interesting because you can see based on the volumes that David discussed that obviously the spark-ignited is a big seller in the market and the numbers that—I mean if I talk to many people, people are—continued to be quite surprised with how robust the China market is for this particular product. At this point in time, I mean because we're right now in the initial phases of getting customers into the truck and getting performance characteristics and getting their feedback on, you know, the performance and its—how it performs relative to torque and power compared to diesel and that kind of thing. We're getting, I'll say feedback now that's, you know, indicating that it does have great potential in the market. Giving you an exact split is tough for us at this point in time because we're working with several OEM partners as we move this engine into their fleets and so it would be really inappropriate for me now to, you know, try to delineate what their specific plans are.

Eric Stine - Craig-Hallum

No, understood. I guess it was just looking for your thoughts, but that was helpful. Maybe another way to look at it, just to frame the overall opportunity; can you just remind me of what the diesel sales are of that, of the WP12?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I have the report. Let me—I've got the Weichai, you know, after their earnings call. I don't know that I'd know that right off the top of my head. I can take a look at it but...

Darren Seed - Westport Innovations, VP, IR & Communications

I think, Eric, I know from their past they've sold several hundred thousand, in the neighbourhood of about 400,00 heavy-duty truck engines and I think the data point we've been using is that roughly 70%, 75%...

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

It's not in their disclosure.

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

Of the engine sales of 10- and 12-litre in the joint venture are natural gas in the 10- and 12-litre, which is where HPDI is aimed. So, I think you'd probably—instead of maybe looking at the whole diesel market, you can probably get a way more accurate proxy for natural gas adoption for HPDI on that level given the, again just that 70% of the track record right now running this year on 10- and 12-litre sales are natural gas. It's going to whatever HPDI can add to that.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

In their, you know, in their first quarter announcement, there isn't anything that I could provide further clarity on and that's not a number that I'm normally served with on that side, you know?

Eric Stine - Craig-Hallum

Okay. No, fair enough. Maybe just one last one on Weichai, just to clarify. I mean it sounds like it but the Delphi agreement, you know, with Weichai coming on, going forward, I mean there is—I mean there's a—the agreement's in place that it can be more than a hundred thousand injectors a year.

David Demers - Westport Innovations, Chief Executive Officer

Yes.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Yes.

David Demers - Westport Innovations, Chief Executive Officer

I mean obviously, Eric, we published a number because we're, let's say, reasonably confident that we've got that kind of demand profile and so that's what we plan for, and it's not just Weichai. Obviously, we're launching HPDI engines with Volvo and...

Eric Stine - Craig-Hallum

Right.

David Demers - Westport Innovations, Chief Executive Officer

You know, working with others.

Eric Stine - Craig-Hallum

Well that's my point. I mean that this can—I mean that's a hundred thousand but that's a number that we could see move up and, you know...

David Demers - Westport
Innovations, Chief Executive
Officer

Yes, of course.

Eric Stine - Craig-Hallum

You could do that fairly quickly in response to Volvo, Weichai and other HPDI 2.0.

David Demers - Westport
Innovations, Chief Executive
Officer

Right. The whole point of the alliance with Delphi is to take advantage of their global scalability and, you know, their ability to deliver those volumes. Obviously we need some notice; it doesn't happen overnight, but this gives you an idea of the scale we're planning. It's sizable. We think it's a material—it's a very interesting number to the industry. It says that natural gas and HPDI in particular, I think is, you know, is coming and there's plans to actually deliver it rather than just do the market demonstration stuff that we've been doing the last few years. So, yes, it's a start. Certainly neither of us, neither Delphi or Westport, you know, want to throttle the market at a hundred thousand injectors a year. As demand rises and as new products hit the market, we'll want to build that supply chain. But we can build it intelligently and, you know, and with some certainty of the volume that we need and with reasonable allocation of capital.

Eric Stine - Craig-Hallum

Mm-hmm. Okay. That's what I was looking for. Thanks a lot.

Operator

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

Rob Brown - Lake Street
Capital Markets

Good afternoon. Could you give us a little more colour on the 12-litre demand ramp? Kind of where you're at, and I know you won't give us units but maybe a sense of how that's ramping relative to sort of when it started last fall and do you see that on track to kind of hit that 4% to 5% penetration rate this year?

David Demers - Westport
Innovations, Chief Executive
Officer

Yes, hi Rob. So, Darren's waving his hands. I think that, you know, it doesn't take a lot of arithmetic to look at CWI's sales performance this quarter. We are, you know, quite happy that the demand is high. A big part of that demand is the growth in the 12-litre. 12-litre demand is right on track for what we've said. We said last year trucking sales were about 1.7% of the market; around 3 to 5 is the—is our expectation for this year. We aren't subscribers to the, you know, some of the crazy numbers we've been hearing from some people, but we think 3%, you know, or on kind of the same scale as last year. We've been looking, say, 6,000 engines between the 9-litre in trucking and the 12-litre. Some 6 to 10 is kind of the, you know, the path we've been suggesting is realistic given the pace of infrastructure, the pace of adoption in fleets, the demand that we're seeing. So, we think that's quite credible and the product is doing quite well.

Rob Brown - Lake Street
Capital Markets

Okay, good. Thank you. On your new development programs that you've sort of been working on but haven't given us colour or announced them, when do you see product sort of entering the market in that group of projects, sort of? What's the next key product launches in that group, roughly?

David Demers - Westport
Innovations, Chief Executive
Officer

Well, as we said, it was a bit of portfolio and we've actually uncovered a lot of this as you've seen. The Weichai 12-litre engine is going to be in production this year; volume's next year. The WP580 automotive product that's started with Tata is in production this year. LNG tenders for the rail business, you know, we're starting to sell those and deliver those now. So a lot of these investments, you know, were early on in 2012. I think as—if we look back the last couple of years, the 2012 announcements started with Volvo and Caterpillar and we have specific dates, you know, for those products hitting the market, and then, you know, a sequence of others. So, I think you're starting to see the product delivery coming out of that heavy investment cycle that we've been under for the last two years. But the bulk of them are going to be '15, '16, '17.

Locomotives, it's gone very well actually. The industry interest has been surprisingly high. The first locomotive though, you know, on test is going to be going to CN this summer, so this is still fairly early stages and I think EMD is still looking at a 2017 launch for that product. But there's still development to be done and a lot of work to deliver. That said, we think it's a very promising opportunity and obviously, a great partner and a financially viable path where a lot of the costs are being paid for by others.

So, you can run through that pie chart and I think come up pretty quickly with how we've allocated these and get a sense of how we expect the returns to play out. But these are large markets with global partners; I think we're going to do quite well.

Darren Seed - Westport Innovations, VP, IR & Communications

I think, Rob, you know, we've taken a lot of heat for—in the end of last year when our HPDI 2.0 release, we've named four of the partners we're working with and three of which were unnamed and I definitely understand people are very interested to find out the names of these parties. But I do want to communicate how important it is that these programs are moving forward through their development process. So despite the fact we—at our—frankly, at our OEM partners' request have not disclosed their name, these programs are moving forward. So, by the time these OEMs are comfortable with disclosing the nature of their development and product, it will be that much closer to what might be an actual product available. So, that just might be one point of clarification around

some of these investments in OEMs programs we're doing.

Rob Brown - Lake Street Capital Markets

Okay, great. That's good colour. Thank you.

Operator

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

Winnie - Piper Jaffray

Hi. This is Winnie asking a question on behalf of Alex. In terms of pricing, how much does the HPDI 2.0 engine cost compared to the other engines in the Weichai and WPRT joint venture? Presumably it's more expensive but we're just interested in the size of the pricing premium for that engine.

David Demers - Westport Innovations, Chief Executive Officer

I'm not sure why you'd say it would be more expensive. Actually we've dropped costs pretty substantially. I think, you know, again for OEM confidentiality purposes, we've never given out prices. What we have said is that ASPs are going to be 20,000 to 40,000 for the HPDI systems and obviously that applies to the HPDI 2.0 systems with, you know, with LNG tanks and pumps and all the on-engine systems. So, the price to the OEM, which is the revenue we would see, is between \$20,000 and \$40,000, and no difference really in the parts that are going to Weichai or Volvo, frankly. There's a very high level of overlap. Some localization may change some pricing and shipping costs and things like that, but in general you should use that 20 to 40 range, which I realize is a big range but we can't disclose exactly what's going on for obvious reasons.

Winnie - Piper Jaffray

Okay, great. Thank you. Just a follow-up. Can you comment on the uptake for the 12-litre engine produced

by the Cummins Westport joint venture? How would you say value is tracking there versus expectation?

David Demers - Westport Innovations, Chief Executive Officer

I think we did just...

Darren Seed - Westport Innovations, VP, IR & Communications

Answered that.

David Demers - Westport Innovations, Chief Executive Officer

Answered that one. The—you know the numbers that we've given out publicly around trucking, we don't break it down by individual engine product, but we have said, in the trucking business it was about 0.7% two years ago; it was 1.7% of the market last year and we're expecting it to be 3 to 5 this year. I think the—you know, the infrastructure development has been very encouraging and the fleet response to the 12-litre has been very good and early customer feedback is good. So we don't see any need to, you know, to change that outlook, at this point.

Darren Seed - Westport Innovations, VP, IR & Communications

I think it's going as we expected, Winnie. I think as David made the opening—or one of the remarks to another analyst that there's been some pretty wild expectations out there, but it's so far going to our expectation.

Winnie - Piper Jaffray

Okay, great. Thank you.

Operator

The next question is from Carter Driscoll of Ascendant Capital Markets. Please go ahead.

Carter Driscoll - Ascendant Capital Markets

Thanks. Maybe just a follow-up on the ASP question. Could you maybe share with us what you expect maybe percentage-wise to sell into the JV versus outside of it.

Darren Seed - Westport Innovations, VP, IR & Communications

Fair enough, Carter. If you're talking about HPDI with Weichai, the system is basically broken down where a lot of the on-engine system pieces are going to the Weichai Westport joint venture and a number of the off-engine systems, like tanks and some pumps, may go in some cases directly to the truck OEMs. We can't break down because, in essence, the question would be what's the breakdown between on- and off-engine system, and unfortunately today for competitive reasons what we can provide is this \$20,000 to \$40,000 for a one-tank system average, and just unfortunately today what we can say is some is going to the JV and some is going to the truck OEM. That's the answer we have to give you today, Carter. Sorry.

Carter Driscoll - Ascendant Capital Markets

So, fair enough. Can you talk about maybe some of the factors that would push forward or push back the production in 2015, the same types of things you face with 12-litre LNG engine in the US? Maybe just qualify, you know, what move it a quarter forward or backward?

Darren Seed - Westport Innovations, VP, IR & Communications

I think I'll add in one thing and Dave will add in two, Carter. The one thing about China that gives it a tremendous advantage over the North American market is infrastructure. I think right now there's several thousand LNG stations available in China versus a much smaller number in North America. So, the first point being is there's lots of places to fill up and I'll hand it over to Dave for any other challenges or potential impediments we might run into.

David Demers - Westport Innovations, Chief Executive Officer

Yes, I think Darren said it. Remember, we're building on an existing market already. The JV did—I'm looking at Bill—38,000 engines last year? Forty thousand?

Bill Larkin - Westport Innovations, Chief Financial Officer

Yes.

David Demers - Westport Innovations, Chief Executive Officer

Just round it up, and they've just announced — the JV's announced — that they're increasing capacity to 100,000 engines a year. Typically 70% of that is going into the truck business, so, you know, you can get that sense. Last year, you know, there was probably 30,000 natural gas truck engines shipped just out of the JV. So, there's a lot of existing customers. There's a lot of existing infrastructure and the take-up for HPDI, therefore, should be that much easier. The obstacles around building customer satisfaction with, you know, shifting from diesel to gas, all the questions about where we refuel, all of those things are much more straightforward now in China. We want to get the US market and the European market to that same state. That's going to take some time, which is why we're trying to mute, you know, some of the wilder expectations on market adoption. But we do think this is an inevitable trend and growing—you

know, growing the truck business 100% this year is not unrealistic; that's the low end of what we see.

So, over the next few years, this will all develop. We just think that the work that's being done by the JV in China is creating a ready-made market for HPDI and we should see, you know, rapid take-up for that.

Carter Driscoll - Ascendant Capital Markets

Okay. Maybe just, if I could, shifting gears a little bit, the WiNG program. I know you're not going to be giving out units anymore, but is the expectation consistent with what you had hoped into this year? Then, I'm assuming it's still heavily dominated in bi-fuel since that's the majority of the offerings. Is there any uptake for the CNG-only products?

David Demers - Westport Innovations, Chief Executive Officer

Yes, I think, you know, a big part of what we've done is to build that product portfolio and combine the two businesses for the last few months. So, I'd say that's been the overwhelming focus. Volumes are up. The businesses are profitable. The two businesses together are profitable, which is good. I think we just saw an announcement on the F150 availability and certification in California. So, you know, these are new products that I think are going to do well. So, I don't think, again, this is something that we can say is going to be a, you know, billion-dollar business. This is all about building the demand so that we can start to see production on the line with a Ford and others as we see the fleet demand for natural gas develop. So, slow and steady, but the idea is to build a profitable base that we can grow from and I think we've done that.

Darren Seed - Westport Innovations, VP, IR & Communications

I think, Carter, also, next week at the ACT Conference in California, I think there might be something to see there. So, if there's—if you're interested, you should come by the ACT Conference in Long Beach, California next week.

Carter Driscoll - Ascendant Capital Markets

Great. Thanks, Darren. I'll pass it along, guys. Appreciate your time.

Operator

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

Colin Rusch - Northland Capital Markets

Hey, guys. Can you just walk us through the current debt? It looks as if you've got about \$53 million, some of that's a revolver, but your plans for refinancing that and how—when we should expect timing on that.

Bill Larkin - Westport Innovations, Chief Financial Officer

Yes, well, you know, we are thinking about, refinancing the current debentures which are expected—which are slated to mature in mid-September. So, we are in the process of evaluating, you know, our refinancing options.

Darren Seed - Westport Innovations, VP, IR & Communications

I think the remainder of the debt, Colin, is largely at our subsidiary level and—but I think that's just going along and being serviced. It's got a very low interest rate, but it's also an Italian bank's, so I think we're focused, as Bill says, on the refinancing of the current debentures...

Colin Rusch - Northland Capital Markets

All right, so we're just looking at that \$32.5 million is really what you guys are working on right now.

Darren Seed - Westport Innovations, VP, IR & Communications

Actually, it's \$36 million Canadian, which is US, is it 32, Bill?

Bill Larkin - Westport Innovations, Chief Financial Officer

It's about 34, yes, 33.

Colin Rusch - Northland Capital Markets

That we're in the range there. Okay. Then just in terms of cash from operations, it looks like you're mining the balance sheet a little bit in terms of paying down receivables and payables. How much of that can you do, do you think? I mean is there some additional cash that you guys can start pulling out of the balance sheet over the next few quarters?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I would say that, you know, from an operations side, I think it's a large focus and a project that we've kicked off on LEAN manufacturing and, as you know, one of the elements of lean is to look at the material needs and making sure you're ordering what you need and only have on-hand what you need. So I think that, you know, from that perspective, in Italy and elsewhere in our larger operations, you know, LEAN is a focus and it is now formal projects kicked off on that sense. I'll leave it from an operations sense there and hand it to Bill...

Bill Larkin - Westport Innovations, Chief Financial Officer

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No, I think it's just becoming—you know, focusing on more efficient working capital, looking at days sales outstanding for receivables, looking at our payables, and of course as Nancy said, looking at our inventory and more effectively managing that. So, you know, we're focusing on more effectively managing our working capital throughout the entire company.

Colin Rusch - Northland Capital Markets

How big an opportunity do you think that is for you guys? Is that a \$10 million opportunity? Twenty? More than that? Once you kind of...

Bill Larkin - Westport Innovations, Chief Financial Officer

You know, I can't quantify that for you right now because, you know, as our business continues to grow, you know, those ratios are going to change.

Colin Rusch - Northland Capital Markets

Okay. Then just one final one. You know, you've set some very clear EBITDA targets and are making, you know, steady progress towards those. How much, you know, off-challenge do you have in terms of gross margin increasing or reducing SG&A relative to sales as, you know, if we see slower or faster adoption on the technologies for reaching those EBITDA targets? Is there much toggling that you can do or should we thinking about a target model all-in as we go forward?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Yes, I would say that certainly, as you know, gross margin and profit is obviously the focus, and as I mentioned earlier, as we look at shareholder value, those are obviously key metrics for us. So I would say, you know, looking all the way through the chain relative to understanding what we need to do from the supply side,

what we need to do from our own manufacturing side, and then, of course, what kind of overhead do we need in order to support the businesses? I think what we are finding is that by using our operations around the world, we're getting some global synergies by breaking down some businesses and allowing those businesses to support other businesses globally. So, I would say that, you know, from my perspective, part of our issue is we introduce some new product. Depending on where they are in their life cycle, some have very high margins than others, so some of what you're seeing I think in some cases on gross margins is a mix issue and those kinds of things. But, I would say, you know, we're working hard at it and our expectation is to make sure that we're getting the best margin out of the business as we possibly can.

Colin Rusch - Northland Capital Markets

Okay. I've got some follow-ups so I'll take them offline. Thanks so much.

Operator

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

Matthew Blair – Macquarie Capital

Hi, good afternoon. I wanted to touch on the very good gross margins of 31% in the On-Road segment. You know, can you walk us through where this uplift is coming from? Also, the wording in the release makes it sound like it's pretty sustainable, so is that a good number to use going forward? Thanks.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I would say that, you know, the gross margins that we have there on the On-Road business, obviously is it—you know, is coming from a combination of a variety of our different business portfolios. I would say that yes, we continue to look at our gross margin and that's one of the areas that we have very, very laser-focused actions on in order for us to maintain and to grow that. I can't at this

point in time, you know, pick out one or two items that I would—I could contribute to it. I think it's a whole bunch of things that we're doing that is contributing on that front.

Darren Seed - Westport Innovations, VP, IR & Communications

I think at least it's reasonable, Matthew, for example on iCE PACK, because it is a new product. As you know, with pretty much every product we ever launch, you do typically take a reasonably conservative warranty accrual margin on the product at launch. So that—what might come into play as that product sells is a simple mix on percentage, right? You're selling more iCE PACKs at a lower percentage. That may have an impact. But otherwise, the other products, the other businesses which are more mature...

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

In 15-litre and...

Darren Seed - Westport Innovations, VP, IR & Communications

Yes, and in 15-litre, there's definitely the first generation of HPDI by frankly not having that in the mix, it allowed...

David Demers - Westport Innovations, Chief Executive Officer

It uncovered...

David Demers - Westport Innovations, Chief Executive Officer

It did. It allows the rest of the business to show a very good gross margin. So, I think other than product mix, Matthew, I think it's—mostly it's product, frankly. I mean between ServoTech, BAF, Volvo, a lot of those are fairly mature products, actually. There's a number of them out there. Just the only possible impediment to sustainability would just be simple mix of newer products with conservative margin, that's all.

Matthew Blair – Macquarie Capital

Okay, great. Thanks. Then I also wanted to clarify something on the HPDI 2.0 systems for Weichai and Volvo. So, the ASPs of \$20,000 to \$40,000, that includes the fuel tanks, right? The off-engine components.

Darren Seed - Westport Innovations, VP, IR & Communications

Yes, it's a one-tank system. One-tank system average.

Matthew Blair – Macquarie Capital

A one-tank. So, if the truck OEM goes through a competitor for the LNG tank system, then the potential revenue and profitability to Westport might be a little bit lower than that 20 to 40 number.

David Demers - Westport Innovations, Chief Executive Officer

You know, honestly, we work with lots of people who manufacture LNG tanks. Let's be clear on that. But it is a Westport system spec and a design that has to take the

LNG pump that we also spec. You know, we'll work with anybody who will manufacture to our spec and clearly we want to localize LNG tanks in China to avoid shipping costs and to take advantage of lower cost, but it's still going to have to be our spec and so how it gets sold and how the margin gets shown, we would expect to be the same no matter where it comes from and no matter who makes it. Whether the OEM has a preference or not in China, you know, again, that's something we're happy to work with. We want to work with a supply chain that can deliver the volume and deliver the quality that we need for the system, but it does have to be an HPDI tank and supply the engine with the fuel flow rate that we need.

So, as it stands, we would expect all the systems in China to be, you know, in that 20 to 40 ASP no matter who the supplier is.

Matthew Blair – Macquarie
Capital

Okay, thanks.

Operator

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

Pavel Molchanov - Raymond
James

Thanks for taking the question, guys. I want to go back to gross margin but in relation to Weichai specifically. So, you're now shipping almost 10,000 units a quarter and yet your gross margin seems stuck in the mid-single digits. Is there anything that realistically that can change that? Because it seems like, you know, you're sort of a profitless prosperity scenario.

David Demers - Westport
Innovations, Chief Executive
Officer

So, over to Bill.

Bill Larkin - Westport
Innovations, Chief Financial
Officer

All right. So, you know, as we all know, China is a very, very competitive market and, you know, a lot of it over pricing and we support Weichai's competitive pricing because we look at the benefits of eventually being a supplier to the joint venture for our technology, whether it's HPDI or being a component supplier to their existing SI systems. So, we don't get overly excited by the low margins because we look at where really the value and the opportunity is for Westport is being a supplier, because they are creating the market and ultimately creating the market for us to be able to sell our technology and components, and that's where we're going to make our returns.

Pavel Molchanov - Raymond
James

Okay. When you guys gave guidance for your consolidated revenue at the beginning of the year, I think you were very prescient in retrospect saying that you don't expect the VTAC to come back at any point, you know, until the end of the year. Has—do you think there is any prospect of it returning period? Twenty-fifteen or beyond?

David Demers - Westport
Innovations, Chief Executive
Officer

I mean, I could speculate but let me deflect it back and say we've said for years, with all respect to all of our friends and partners that are looking for government programs to accelerate the adoption of gas, those are all good ideas, but we can't let our business model depend on that, because as you just said, it's unreliable. The timing is unreliable. The political will is not always there. We're certainly seeing the advantage of incentives. It's not just a US factor. There are incentives in lots of markets around the world and those are always very helpful, but they're also fickle. So, honestly, we have really downplayed any of these incentives and if anything, they help build infrastructure, they help build partnerships, but the tax credits that we've seen to-date, I

don't think have been what's been driving the interest in the market. The long-term interest is going to come from the fundamental, you know, economic laws of the cost of natural gas versus the cost of oil. So we think we need to build on that, and if and when, you know, we see tax credits come and go, they might give you a temporary bump, but it's not what we would see part of our sustainable business.

So, we really haven't modelled any of it. We don't pay a lot of attention to it and if it comes, it would be a good thing, and if it doesn't come, I think we've got a plan to get around it. So I realize that doesn't give you a direct answer, but honestly, that is how we look at it.

Pavel Molchanov - Raymond James

Okay, fair enough. Appreciate the colour, guys.

Operator

The next question is a follow-up from Jerry Revich of Goldman Sachs. Please go ahead.

Matt - Goldman Sachs

Good afternoon. This is Matt on behalf of Jerry. Going back to Cummins Westport, can you just maybe touch on a little bit of the driver of the sequential decline in shipments so early on in the 12-litre product cycle? Then secondly, maybe from an accounting standpoint, in the quarter it looks like Cummins actually reported a slight positive net income from the JV this quarter, while you're showing a slight loss, and maybe touch on what's driving the disconnect there.

Bill Larkin - Westport Innovations, Chief Financial Officer

First of all, we can't comment on, you know, specific unit volumes for each of the individual products. You know, we're very happy with the uptake in the 12-litre. We're seeing good progress in that and very good feedback. I can answer the question on the difference in what Cummins reported and what we reported. I think we've talked about it before. There's usually about a one-month lag in terms of what's picked up in Cummins financial

statements, their share of income versus ours, which reflects the full quarter.

Matt - Goldman Sachs

Just on the unit comment, not asking to go into details but just in general, the sequential decline, is that a seasonal effect or is that...?

Darren Seed - Westport Innovations, VP, IR & Communications

Actually, Matt, honestly, we don't disclose 12-litre sales and I don't think Cummins does. If the information is available...

David Demers - Westport Innovations, Chief Executive Officer

Just talking about unit shipments Q-to-Q. Don't forget there are multiple engines in that unit count and last quarter there was quite a nice shipment

Darren Seed - Westport Innovations, VP, IR & Communications

The whole international shipment.

David Demers - Westport Innovations, Chief Executive Officer

To—of the International engine, so I mean those kind of bias the numbers. I think a better reflection, frankly, is the year-over-year in this case, because a year ago we didn't have the 12-litre in Q1. This year we did and so you see an 89% increase. That's I think more reflective. We're actually quite happy with shipments of the 12. We really only had one full quarter of shipment of the full 400 horsepower rating last year and so this is really only

the second quarter and shipments are just fine. So, I wouldn't read too much into the unit count; that's just product mix.

Matt - Goldman Sachs

Thank you.

Operator

The next question is another follow-up from Laurence Alexander of Jefferies and Co—Company. Please go ahead.

Laurence Alexander -
Jefferies & Company

Hi there, sorry. Just two more quick ones, if I may. Did you ship the remaining three tender cars in Q4? Sorry, in Q1?

Darren Seed - Westport
Innovations, VP, IR &
Communications

Not yet, Laurence.

Laurence Alexander -
Jefferies & Company

Are they still expected to be shipped?

Nancy Gougarty - Westport
Innovations, President and
Chief Operating Officer

Yes.

Laurence Alexander -
Jefferies & Company

Secondly, you used the word muted a few times this call and so I guess just wanted to check on something. As you

think about your bridge to cash flow-positive over the next few years, you know, in the past you've talked about a, call it a 30% sales CAGR. Would that suffice for you to get to the free cash flow positive or do you need to do better than that?

David Demers - Westport
Innovations, Chief Executive
Officer

No, and that's exactly what we're trying to say, Laurence, is we're very happy with 30% compounded, and yet we find, you know, a few people disappointed that it's not 100% year-over-year growth. So, we're trying to tell people, you know, this is a slow and steady, win the race sort of game. This is going to take some time. People need to build their fleet plans. These are big capital expenditures; they're building infrastructure. Thirty percent a year is actually, you know, pretty hectic growth for this industry. But we have seen people come out and say, "Well, we're really disappointed that you're not at 20% market penetration already." So, that's what I meant by muting expectations. We just need to be—have people be a little more realistic about the pace of change that's required in an industry that's this big and this complex. So yes, I think 30% is realistic. It's what we've traditionally built our business models on and over time that CAGR is going to add up to very big numbers.

Laurence Alexander -
Jefferies & Company

Then lastly, I guess Nancy, you did a rare joke on this call about the guns ablazing and the sheriff in town. What's your read on the cultural change at Westport and how far are we in at? I mean whether like three innings in the nine-inning game, or whatever sports metaphor you prefer to use.

Nancy Gougarty - Westport
Innovations, President and
Chief Operating Officer

Okay, so maybe I'm into knitting or something, I don't know. Sports may be not quite it but I would say that I think that from where we are in terms of the organization, I would think that in the day-to-day

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vocabulary you'll hear a lot of words around execution, responsibility and accountability. So, I would say those are all terms that are now common and in the dialogue. I would say that where we are, I think that we have turned the corner. I keep on telling people that one data point is, you know, we had quarter four. This is another data point and when we get to three data points we can call it a trend. I think that from my perspective, we're well on our way. We still have a lot of heavy lifting to do and—but we have a very engaged and enthusiastic workforce around the world and I see them very much backing what's going on and I see them excited about seeing things that are moving us in a very positive direction to attract new customers and to advance this particular industry.

Laurence Alexander -
Jefferies & Company

Thank you.

Operator

This concludes the time allocated for the question-and-answer session. I will now turn the call back over to Mr. Seed for closing comments.

Darren Seed - Westport
Innovations, VP, IR &
Communications

Thanks everyone for your attendance and we do look forward to seeing everyone; at this point, estimated around late July for what would be the second quarter conference call.

Operator

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